

LAS VEGAS SANDS CORP
Form 10-K
February 22, 2019
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2018

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 001-32373

LAS VEGAS SANDS CORP.

(Exact name of registrant as specified in its charter)

Nevada 27-0099920

(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

3355 Las Vegas Boulevard South 89109
Las Vegas, Nevada

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:
(702) 414-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (\$0.001 par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Emerging growth company

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Non-Accelerated filer Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$27,125,139,905 based on the closing sale price on that date as reported on the New York Stock Exchange.

The Company had 775,051,979 shares of common stock outstanding as of February 19, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

Description of document	Part of the Form 10-K
Portions of the definitive Proxy Statement to be used in connection with the registrant's 2019 Annual Meeting of Stockholders	Part III (Item 10 through Item 14)

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PART I

ITEM 1. — BUSINESS

Our Company

Las Vegas Sands Corp. ("LVSC," or together with its subsidiaries "we" or the "Company") is a Fortune 500 company and the leading global developer of destination properties ("Integrated Resorts") that feature premium accommodations, world-class gaming, entertainment and retail, convention and exhibition facilities, celebrity chef restaurants and other amenities.

We currently own and operate Integrated Resorts in Asia and the United States. We believe our geographic diversity, best-in-class properties and convention-based business model provide us with the best platform in the hospitality and gaming industry to continue generating substantial growth and cash flow while simultaneously pursuing new development opportunities. Our unique convention-based marketing strategy allows us to attract business travelers during the slower mid-week periods while leisure travelers occupy our properties during the weekends. Our convention, trade show and meeting facilities, combined with the on-site amenities offered at our Macao, Singapore and Las Vegas Integrated Resorts, provide flexible and expansive space for conventions, trade shows and other meetings.

We focus on the mass market, which comprises our most profitable gaming segment. We believe the mass market segment will continue to have long-term growth as a result of the introduction of more high-quality gaming facilities and non-gaming amenities into our various markets.

Our properties also cater to VIP and premium players by providing them with luxury amenities and high service levels. The Paiza Club located at our properties is an important part of our VIP gaming marketing strategy. Our Paiza Clubs are exclusive invitation-only clubs available to our premium players that feature high-end services and amenities, including luxury accommodations, restaurants, lounges and private gaming salons. We also offer players club loyalty programs at our properties, which provide access to rewards, privileges and members-only events. Additionally, we believe being in the retail mall business and, specifically, owning some of the largest retail properties in Asia will provide meaningful value for us, particularly as the retail market in Asia continues to grow.

Through our 70.0% ownership of Sands China Ltd. ("SCL"), we own and operate a collection of Integrated Resorts in the Macao Special Administrative Region ("Macao") of the People's Republic of China ("China"). These properties include The Venetian Macao Resort Hotel ("The Venetian Macao"); Sands Cotai Central; The Parisian Macao; The Plaza Macao and Four Seasons Hotel Macao, Cotai Strip (the "Four Seasons Hotel Macao"); and the Sands Macao. In Singapore, we own and operate the iconic Marina Bay Sands, which has become one of Singapore's major tourist, business and retail destinations since its opening in 2010.

Our properties in the United States include The Venetian Resort Las Vegas, a luxury resort on the Las Vegas Strip, and the Sands Expo and Convention Center (the "Sands Expo Center," and together with The Venetian Resort Las Vegas, the "Las Vegas Operating Properties") in Las Vegas, Nevada and the Sands Casino Resort Bethlehem (the "Sands Bethlehem") in Bethlehem, Pennsylvania.

We are dedicated to being a good corporate citizen, anchored by the core values of serving people, planet and communities. We strive to deliver a positive working environment for our team members worldwide and pledge to promote the advancement of aspiring team members through a range of educational partnerships, grants and leadership training. We also drive social impact through the Sands Cares charitable giving and community engagement program, and environmental performance through the award-winning Sands ECO360 global sustainability program. Through our Sands ECO360 global sustainability program, we develop and implement environmental practices to protect natural resources, offer our team members a safe and healthy work environment, and enhance the resort experiences of our guests. We are committed to creating and investing in industry-leading policies and procedures to safeguard our patrons, partners, employees and neighbors. Our industry-leading Integrated Resorts provide substantial contributions to our host communities including growth in leisure and business tourism, sustained job creation and ongoing financial opportunities for local small and medium-sized businesses.

LVSC was incorporated in Nevada in August 2004. Our common stock is traded on the New York Stock Exchange (the "NYSE") under the symbol "LVS." Our principal executive office is located at 3355 Las Vegas Boulevard South,

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Las Vegas, Nevada 89109 and our telephone number at that address is (702) 414-1000. Our website address is www.sands.com. The information on our website is not part of this Annual Report on Form 10-K.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and other Securities and Exchange Commission ("SEC") filings, and any amendments to those reports and any other filings we file with or furnish to the SEC under the Securities Exchange Act of 1934 are made available free of charge on our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC and are also available at the SEC's web site address at www.sec.gov.

Investors and others should note we announce material financial information using our investor relations website (<https://investor.sands.com>), our company website, SEC filings, investor events, news and earnings releases, public conference calls and webcasts. We use these channels to communicate with our investors and the public about our company, our products and services, and other issues.

In addition, we post certain information regarding SCL, a subsidiary of Las Vegas Sands Corp. with ordinary shares listed on The Stock Exchange of Hong Kong Limited, from time to time on our company website and our investor relations website. It is possible the information we post regarding SCL could be deemed to be material information. The contents of these websites are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file or furnish with the SEC, and any reference to these websites are intended to be inactive textual references only.

This Annual Report on Form 10-K contains certain forward-looking statements. See "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Special Note Regarding Forward-Looking Statements."

Our principal operating and developmental activities occur in three geographic areas: Macao, Singapore and the United States. Management reviews the results of operations for each of its operating segments, which generally are our Integrated Resorts. In Macao, our operating segments are: The Venetian Macao; Sands Cotai Central; The Parisian Macao; The Plaza Macao and Four Seasons Hotel Macao; and Sands Macao. In Singapore, our operating segment is Marina Bay Sands. In the United States, our operating segments are the Las Vegas Operating Properties and Sands Bethlehem. We also have ferry operations and various other operations that are ancillary to our Macao properties (collectively, "Ferry Operations and Other") that we present to reconcile to our consolidated statements of operations and financial condition. In addition to our reportable segments noted above, management also reviews construction and development activities for each of our primary projects currently under development, which include the expansion and rebranding of Sands Cotai Central to The Londoner Macao, the Four Seasons Tower Suites Macao, the St. Regis Tower Suites Macao and our Las Vegas condominium project (for which construction currently is suspended) in the United States.

Strengths and Strategies

We believe we have a number of strengths that differentiate our business from our competitors, including: Diversified, high quality Integrated Resort offerings with substantial non-gaming amenities. Our Integrated Resorts feature non-gaming attractions and amenities including world-class entertainment, expansive retail offerings and market-leading meetings, incentives, conventions and exhibitions ("MICE") facilities. These attractions and amenities enhance the appeal of our Integrated Resorts, contributing to visitation, length of stay and customer expenditure at our resorts. The broad appeal of our market-leading Integrated Resort offerings in our various markets enables us to serve the widest array of customer segments in each market.

Substantial and diversified cash flow from existing operations. We generated \$4.70 billion of cash from operations during the year ended December 31, 2018, primarily from gaming and non-gaming sources, including retail, hotel, food and beverage, entertainment and MICE business.

Market leadership in the growing high-margin mass market gaming segment. We focus on the high-margin mass gaming segment. During the year ended December 31, 2018, we had the highest percentage of gaming win from mass tables and slots of the Macao operators, with approximately 30% market share. Management estimates our mass market table revenues typically generate a gross margin that is approximately four times higher than the gross margin

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on our typical VIP table revenues in Macao. During the year ended December 31, 2018, non-rolling gross gaming revenue contributed to over two-thirds of total gross gaming revenue at Marina Bay Sands.

Established brands with broad regional and international market awareness and appeal. Our brands enjoy broad regional and international market awareness and appeal. The Venetian Macao is the most visited Integrated Resort in Macao, and enjoys broad brand awareness both regionally and globally. We estimate that since 2016 The Parisian Macao digital marketing and social media program has reached over 4 billion online impressions, including from platforms within China such as Sina Weibo. Additionally, Marina Bay Sands has become an iconic part of the Singapore skyline and is often featured in movies and other media.

Experienced management team with a proven track record. Mr. Sheldon G. Adelson is our founder, chairman and chief executive officer. Mr. Adelson's business career spans more than seven decades and has included creating and developing to maturity numerous companies. Mr. Adelson created the MICE-based Integrated Resort and pioneered its development in the Las Vegas and Singapore markets, as well as in Macao, where he planned and developed the Cotai Strip. Mr. Robert G. Goldstein, our President and Chief Operating Officer, has been an integral part of the Company's executive team from the very outset - even before The Venetian Resort Las Vegas was a concept. Mr. Goldstein is one of the most respected and knowledgeable hospitality and gaming executives in the industry today, and provides strategic direction to our properties. Mr. Patrick Dumont, our Executive Vice President and Chief Financial Officer, has been with the Company for more than eight years and has prior experience in corporate finance and management. He and the management team are focused on increasing our balance sheet strength, preserving the Company's financial flexibility to pursue development opportunities and continuing to execute our return of excess capital to shareholders.

Unique MICE and entertainment facilities. Our market-leading MICE and entertainment facilities contribute to our markets' diversification and appeal to business and leisure travelers while diversifying our cash flows and increasing revenues and profit. Our 5.2 million square feet of global MICE space is specifically designed to meet the needs of meeting planners and corporate events and trade show organizers from around the world. Our experience and expertise in this industry continues to drive leisure and business tourism to our markets. The live entertainment program at our properties, specifically in Asia, is a key traffic driver and has established us as the leader in the field of tourism and leisure activities.

Building on our key strengths, we seek to enhance our position as the leading developer and operator of Integrated Resorts and casinos by continuing to implement the following business strategies:

Developing and diversifying our Integrated Resort offerings to include a full complement of products and services to cater to different market segments. Our Integrated Resorts include MICE space, additional retail, dining and entertainment facilities and a range of hotel offerings to cater to different segments of our markets, including branded suites and hotel rooms. We are able to leverage the recognition and the sales, marketing and reservation capabilities of premier hotel brands to attract a wide range of customers in different market segments to our properties. We believe our partnerships with renowned hotel management partners, our diverse Integrated Resort offerings and the convenience and accessibility of our properties will continue to increase the appeal of our properties to both the business and leisure customer segments.

Leveraging our scale of operations to create and maintain an absolute cost advantage. Management expects to benefit from lower unit costs due to the economies of scale inherent in our operations. Opportunities for lower unit costs include, but are not limited to, lower utility costs; more efficient staffing of hotel and gaming operations; and centralized laundry, transportation, marketing and sales, and procurement. In addition, our scale allows us to consolidate certain administrative functions and leverage purchasing on a global scale.

Focusing on the high-margin mass market gaming segment, while continuing to provide luxury amenities and high service levels to our VIP and premium players. Our properties cater not only to VIP and premium players, but also to mass market customers, which comprise our most profitable gaming segment. We believe the mass market segment will continue to be a long-term growing segment as a result of the introduction of more high-quality gaming facilities and non-gaming amenities into our markets.

Identifying targeted investment opportunities to drive growth across our portfolio. We plan to continue to invest in the expansion of our facilities and the enhancement of the leisure and business tourism appeal of our property portfolio.

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Asia Operations

Macao

The Venetian Macao is the anchor property of our Cotai Strip development and is conveniently located approximately two miles from the Taipa Ferry Terminal on Macao's Taipa Island and six miles from the bridge linking Hong Kong, Macao and Zhuhai. The Venetian Macao includes approximately 374,000 square feet of gaming space with approximately 710 table games and 1,540 slot machines. The Venetian Macao features a 39-floor luxury hotel tower with over 2,900 elegantly appointed luxury suites and the Shoppes at Venetian, approximately 943,000 square feet of unique retail shopping with more than 350 stores featuring many international brands and home to more than 50 restaurants and food outlets featuring an international assortment of cuisines. In addition, The Venetian Macao has approximately 1.2 million square feet of convention facilities and meeting room space, an 1,800-seat theater, the 15,000-seat CotaiArena that hosts world-class entertainment and sporting events and a Paiza Club.

Sands Cotai Central, which features four hotel towers, is located across the street from The Venetian Macao, The Parisian Macao and The Plaza Macao and Four Seasons Hotel Macao, and is our largest Integrated Resort on the Cotai Strip. Sands Cotai Central opened in phases, beginning in April 2012. The property features four hotel towers: the first hotel tower, which opened in April 2012, consisting of approximately 650 five-star rooms and suites under the Conrad brand and approximately 1,200 four-star rooms and suites under the Holiday Inn brand; the second hotel tower, which opened in September 2012, consisting of approximately 1,800 rooms and suites under the Sheraton brand; the third hotel tower, which opened in January 2013, consisting of approximately 2,100 rooms and suites under the Sheraton brand; and the fourth hotel tower, which opened in December 2015, consisting of approximately 400 rooms and suites under the St. Regis brand. The Integrated Resort includes approximately 367,000 square feet of gaming space with approximately 430 table games and 1,410 slot machines, approximately 369,000 square feet of meeting space, a 1,701-seat theater, approximately 520,000 square feet of retail space with more than 150 stores and home to more than 50 restaurants and food outlets. We previously announced the renovation, expansion and rebranding of Sands Cotai Central into a new destination Integrated Resort, The Londoner Macao, by adding extensive thematic elements both externally and internally. The Londoner Macao will feature new attractions and features from London, including some of London's most recognizable landmarks, and expanded retail and food and beverage venues. We will add approximately 370 luxury suites in the St. Regis Tower Suites Macao. Design work is nearing completion and construction is being initiated and will be phased to minimize disruption during the property's peak periods. We expect the additional St. Regis Tower Suites Macao to be completed in 2020 and The Londoner Macao project to be completed in phases throughout 2020 and 2021.

On September 13, 2016, we opened The Parisian Macao, our newest Integrated Resort on the Cotai Strip, which is connected to The Venetian Macao and The Plaza Macao and Four Seasons Hotel Macao, and includes approximately 253,000 square feet of gaming space with approximately 340 table games and 1,100 slot machines. The Parisian Macao also features approximately 2,500 rooms and suites and the Shoppes at Parisian, approximately 296,000 square feet of unique retail shopping with more than 150 stores featuring many international brands and home to 23 restaurants and food outlets featuring an international assortment of cuisines. Other non-gaming amenities at The Parisian Macao include a meeting room complex of approximately 63,000 square feet and a 1,200-seat theater. Directly in front of The Parisian Macao, and connected via a covered walkway to the main building, is a half-scale authentic re-creation of the Eiffel Tower containing a viewing platform and restaurant.

The Plaza Macao and Four Seasons Hotel Macao, which is located adjacent to The Venetian Macao, has approximately 105,000 square feet of gaming space with approximately 120 table games and 160 slot machines at its Plaza Casino. The Plaza Macao and Four Seasons Hotel Macao also has 360 elegantly appointed rooms and suites managed by Four Seasons Hotels, Inc., several food and beverage offerings, and conference and banquet facilities. The Shoppes at Four Seasons includes approximately 242,000 square feet of retail space and is connected to the Shoppes at Venetian. The Plaza Macao and Four Seasons Hotel Macao also features 19 ultra-exclusive Paiza Mansions, which are individually designed and made available by invitation only. We previously announced the Four Seasons Tower Suites Macao, which will feature approximately 290 additional premium quality suites. We have completed the structural work of the tower and have commenced preliminary build out of the suites. We expect the

project to be completed in the first quarter of 2020.

The Sands Macao, the first U.S. operated Las Vegas-style casino in Macao, is situated near the Macao-Hong Kong Ferry Terminal on a waterfront parcel centrally located between Macao's Gongbei border gate with China and Macao's

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central business district. The Sands Macao includes approximately 213,000 square feet of gaming space with approximately 220 table games and 870 slot machines. The Sands Macao also includes a 289-suite hotel tower, spa facilities, several restaurants and entertainment areas, and a Paiza Club.

We operate the gaming areas within our Macao properties pursuant to a 20-year gaming subconcession that expires in June 2022. See "Regulation and Licensing — Macao Concession and Our Subconcession."

Singapore

Marina Bay Sands features approximately 2,600 rooms and suites located in three 55-story hotel towers. Atop the three towers is the Sands SkyPark, an extensive outdoor recreation area with a 150-meter infinity swimming pool and leading restaurant and nightlife brands. The Integrated Resort offers approximately 160,000 square feet of gaming space with approximately 625 table games and 2,360 slot machines; The Shoppes at Marina Bay Sands, an enclosed retail, dining and entertainment complex with signature restaurants from world-renowned chefs; an event plaza and promenade; and an art/science museum. Marina Bay Sands also includes approximately 1.2 million square feet of meeting and convention space and a state-of-the-art theater for top Broadway shows, concerts and gala events.

We operate the gaming area within our Singapore property pursuant to a 30-year casino concession provided under a development agreement entered into in August 2006. See "Regulation and Licensing — Development Agreement with Singapore Tourism Board."

Asia Markets

Macao

Macao is the largest gaming market in the world and the only market in China to offer legalized casino gaming. According to Macao government statistics issued publicly on a monthly basis by the Gaming Inspection and Coordination Bureau (commonly referred to as the "DICJ"), annual gaming revenues were \$37.7 billion in 2018, a 13.4% increase compared to 2017.

We expect Macao will continue to experience meaningful long-term growth and the approximately 36 million visitors Macao welcomed in 2018 will continue to increase over time. We believe this growth will be driven by a variety of factors, including the movement of Chinese citizens to urban centers in China, continued growth of the Chinese outbound tourism market, the increased utilization of existing transportation infrastructure, the introduction of new transportation infrastructure and the continued increase in hotel room inventory in Macao and neighboring Hengqin Island. There has been significant investment announced and recently completed by concessionaires and subconcessionaires in new resort development projects on Cotai. These new resorts should help increase the critical mass on Cotai and further drive Macao's transformation into a leading business and leisure tourism hub in Asia.

Table games are the dominant form of gaming in Asia, with Baccarat being the most popular game. We continue to experience Macao market-leading visitation and are focused on driving high-margin mass market gaming, while providing luxury amenities and high service levels to our VIP and premium players. We intend to continue to introduce more modern and popular products that appeal to the Asian marketplace and believe our high-quality gaming product has enabled us to capture a meaningful share of the overall Macao gaming market across all types of players.

Proximity to Major Asian Cities

Visitors from Hong Kong, southeast China, Taiwan and other locations in Asia can reach Macao in a relatively short time, using a variety of transportation methods, and visitors from more distant locations in Asia can take advantage of short travel times by air to Zhuhai, Shenzhen, Guangzhou or Hong Kong (followed by a road, ferry or helicopter trip to Macao). In addition, numerous air carriers fly directly into Macao International Airport from many major cities in Asia.

Macao draws a significant number of customers who are visitors or residents of Hong Kong. One of the major methods of transportation to Macao from Hong Kong is the jetfoil ferry service, including our ferry service, CotaiJet. Macao is also accessible from Hong Kong by helicopter. In addition, the bridge linking Hong Kong, Macao and Zhuhai, which opened in 2018, has reduced the travel time between Hong Kong and Macao and the travel time from the Hong Kong International Airport to Macao.

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Competition in Macao

Gaming in Macao is administered by the government through concessions awarded to three different concessionaires and three subconcessionaires, of which we are one. No additional concessions have been granted by the Macao government since 2002; however, if the Macao government were to allow additional gaming operators in Macao through the grant of additional concessions or subconcessions, we would face additional competition.

Sociedade de Jogos de Macau S.A. ("SJM") holds one of the three concessions and currently operates 20 facilities throughout Macao. Historically, SJM was the only gaming operator in Macao. Many of its gaming facilities are relatively small locations that are offered as amenities in hotels; however, some are large operations, including the Hotel Lisboa and The Grand Lisboa. In February 2014, SJM announced the development of Grand Lisboa Palace, a 2,000-room resort on Cotai that is scheduled to open in the second half of 2019.

MGM Grand Paradise Limited, a joint venture between MGM Resorts International and Pansy Ho Chiu-King, obtained a subconcession from SJM in April 2005 (which subconcession expires in March 2020), allowing the joint venture to conduct gaming operations in Macao. The MGM Grand Macau opened in December 2007 and is located on the Macao Peninsula adjacent to the Wynn Macau. In February 2018, MGM Grand Paradise Limited opened MGM Cotai, which includes approximately 1,400 hotel rooms and other non-gaming amenities, and is located behind Sands Cotai Central.

Wynn Resorts (Macao), S.A. ("Wynn Resorts Macau"), a subsidiary of Wynn Resorts Limited, holds a concession and owns and operates the Wynn Macau and Encore at Wynn Macau. In August 2016, Wynn Resorts Macau opened a 1,700-room integrated resort, Wynn Palace, which is located behind the City of Dreams and MGM Cotai.

In 2006, an affiliate of Publishing and Broadcasting Limited ("PBL") purchased the subconcession right under Wynn Resorts Macau's gaming concession, which permitted the PBL affiliate to receive a gaming subconcession from the Macao government. The PBL affiliate, Melco Crown Entertainment Limited ("Melco Crown"), owns and operates Altira and the City of Dreams, an integrated casino resort located adjacent to our Sands Cotai Central, which includes Nuwa, The Countdown Hotel and Grand Hyatt hotels. In October 2015, Melco Crown and its joint venture partners opened Studio City, a 1,600-room casino resort on Cotai. Melco Crown opened its fifth tower at City of Dreams, the 772-room Morpheus Tower, in June 2018.

Galaxy Casino Company Limited ("Galaxy") holds the third concession and has the ability to operate casino properties independent of our subconcession agreement with Galaxy and the Macao government. Galaxy currently operates six casinos in Macao, including StarWorld Hotel and Galaxy Macau, which is located near The Venetian Macao. In May 2015, Galaxy opened the second phase of its Galaxy Macau, which includes approximately 1,250 hotel rooms, as well as additional retail and convention and exhibition facilities.

Our Macao operations also face competition from other gaming and resort destinations, both in Asia and globally. Singapore

Singapore is regarded as having the most developed financial and transportation infrastructure in the Southeast Asia region. Singapore has established itself as a destination for both business and leisure visitors, offering convention and exhibition facilities as well as world-class shopping malls and hotel accommodations. In 2006, after a competitive bid process, the Singapore government awarded two concessions to develop and operate two integrated resorts. We were awarded the concession for the Marina Bay site, which is adjacent to Singapore's central business district, and Genting International was awarded the second site, located on Singapore's Sentosa Island.

Based on figures released by the Singapore Tourism Board (the "STB"), Singapore welcomed over 18 million international visitors in 2018, a 6.2% increase compared to 2017. Tourism receipts are estimated to have reached 26.8 billion Singapore dollars ("SGD," approximately \$19.6 billion at exchange rates in effect on December 31, 2018) in 2017 (the latest information publicly available at the time of filing), a 4.3% increase compared to 2016. The Casino Regulatory Authority (the "CRA"), the gaming regulator in Singapore, does not disclose gaming revenue for the market and thus no official figure exists.

We believe Marina Bay Sands is ideally positioned within Singapore to cater to both business and leisure visitors. The Integrated Resort is centrally located within a 20-minute drive from Singapore's Changi International Airport and near the Marina Bay Cruise Center, a deep-water cruise ship terminal, and Bayfront station, a mass rapid transit station.

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Marina Bay Sands is also located near several entertainment attractions, including the Gardens by the Bay botanical gardens and the Singapore Sports Hub, a sports complex featuring the 55,000-seat National Stadium.

Baccarat is the preferred table game in both VIP and mass gaming. Additionally, contributions from slot machines and from mass gaming, including electronic table games offerings, have enhanced the early growth of the market. As Marina Bay Sands and the Singapore market as a whole continue to mature, we expect to broaden our visitor base to continue to capture visitors from around the world.

Proximity to Major Asian Cities

About 100 airlines operate in Singapore, connecting it to some 400 cities in about 100 countries. In 2018, 66 million passengers passed through Singapore's Changi Airport, a 5.5% decrease as compared to 2017. Based on figures released by the STB, the largest source markets for visitors to Singapore for 2018 were China and Indonesia. The STB's methodology for reporting visitor arrivals does not recognize Malaysian citizens entering Singapore by land, although this method of visitation is generally thought to be substantial.

Competition in Singapore

Gaming in Singapore is administered by the government through the award of licenses to two operators, of which we are one. Pursuant to the request for proposals to develop an integrated resort at Marina Bay, Singapore (the "Request for Proposal"), the CRA was required to ensure there would not be more than two casino licenses during an initial ten-year exclusive period (the "Exclusivity Period"), which expired on February 28, 2017.

Resorts World Sentosa, which is 100% owned by Genting Singapore and located on Sentosa Island, is primarily a family tourist destination connected to Singapore via a 500-meter long vehicular and pedestrian bridge. Apart from the casino, the resort includes six hotels, a Universal Studios theme park, the Marine Life Park, the Maritime Experiential Museum, aquarium, conventions and exhibitions facilities, restaurants, as well as a Malaysian food street, and retail shops.

Our Singapore operations also face competition from other gaming and resort destinations, both in Asia and globally.

U.S. Operations

Las Vegas

Our Las Vegas Operating Properties is an Integrated Resort that includes The Venetian Resort Las Vegas and the Sands Expo Center.

The Venetian Resort Las Vegas features three hotel towers. The Venetian Tower is a 35-story three-winged luxury hotel tower with 3,015 suites rising above the casino. The second tower is an adjoining 1,013-suite, 12-story Venezia Tower. The Palazzo Tower has 3,064 suites situated in a 50-story luxury hotel tower, which features modern European ambience and design, and is directly connected to The Venetian Tower and Sands Expo Center. The Venetian Resort Las Vegas has approximately 225,000 square feet of gaming space and includes approximately 240 table games and 1,870 slot machines. The Venetian Resort Las Vegas features a variety of amenities for its guests, including Paiza Club, several theaters and Canyon Ranch SpaClub.

The Venetian Resort Las Vegas features an enclosed retail, dining and entertainment complex, referred to as the Grand Canal Shoppes. The portion of the complex located within The Venetian Tower (previously known as "The Grand Canal Shoppes") and the portion located within The Palazzo Tower (previously known as "The Shoppes at The Palazzo") were sold to GGP Limited Partnership ("GGP") in 2004 and 2008, respectively.

Sands Expo Center is one of the largest overall trade show and convention facilities in the United States (as measured by net leasable square footage), with approximately 1.2 million gross square feet of exhibit and meeting space. We also own an approximately 1.1 million-gross-square-foot meeting and conference facility that links Sands Expo Center to The Venetian Resort Las Vegas. Together, we offer approximately 2.3 million gross square feet of state-of-the-art exhibition and meeting facilities that can be configured to provide small, mid-size or large meeting rooms and/or accommodate large-scale multi-media events or trade shows.

In May 2016, we announced plans to work with Madison Square Garden Company to bring a 400,000-square-foot venue built specifically for music and entertainment to Las Vegas. In February 2018, Madison Square Garden

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unveiled its plans for MSG Sphere at The Venetian, an 18,000-seat venue, which, subject to regulatory approvals and entitlements, will be located near, and connected directly to, our Las Vegas Operating Properties and is currently expected to open in 2021.

Pennsylvania

We own and operate the Sands Bethlehem, a gaming, hotel, retail and dining complex located on the site of the historic Bethlehem Steel Works in Bethlehem, Pennsylvania. The Sands Bethlehem features approximately 146,000 square feet of gaming space that includes approximately 190 table games and 3,260 slot machines; a hotel tower with 282 rooms; a 150,000-square-foot retail facility ("The Outlets at Sands Bethlehem"); an arts and cultural center; and a 50,000-square-foot multipurpose event center.

We own 86% of the economic interest in the gaming, hotel and entertainment portion of Sands Bethlehem through our ownership interest in Sands Bethworks Gaming LLC ("Sands Bethworks Gaming") and approximately 35% of the economic interest in the retail portion of Sands Bethlehem through our ownership interest in Sands Bethworks Retail LLC ("Sands Bethworks Retail").

On March 8, 2018, the Company entered into a purchase and sale agreement under which PCI Gaming Authority, an unincorporated, chartered instrumentality of the Poarch Band of Creek Indians, will acquire Sands Bethlehem for a total enterprise value of \$1.30 billion. The closing of the transaction is subject to regulatory review and other closing conditions.

Las Vegas Market

The Las Vegas hotel/casino industry is highly competitive. Hotels on the Las Vegas Strip compete with other hotels on and off the Las Vegas Strip, including hotels in downtown Las Vegas. In addition, there are large projects in Las Vegas in the development stage or currently suspended and, if opened, may target the same customers as we do. Based on figures released by the Las Vegas Convention and Visitors Authority (the "LVCVA"), Las Vegas welcomed 42 million visitors during 2018, relatively flat compared to 2017.

We also compete with legalized gaming from casinos located on Native American tribal lands, including those located in California. While the competitive impact on our operations in Las Vegas from the continued growth of Native American gaming establishments in California remains uncertain, the proliferation of gaming in California and other areas located in the same region as our Las Vegas Operating Properties could have an adverse effect on our financial condition, results of operations and cash flows. Our Las Vegas Operating Properties also compete, to some extent, with other hotel/casino facilities in Nevada, with hotel/casino and other resort facilities elsewhere in the country and the world, and with Internet gaming and state lotteries.

In addition, certain states have legalized, and others may legalize, casino gaming in specific areas. The continued proliferation of gaming venues could have a significant and adverse effect on our business. In particular, the legalization of casino gaming in or near major metropolitan areas from which we traditionally attract customers could have a material adverse effect on our business. The current global trend toward liberalization of gaming restrictions and the resulting proliferation of gaming venues could result in a decrease in the number of visitors to our Las Vegas Operating Properties, which could have an adverse effect on our financial condition, results of operations and cash flows. Also, on December 23, 2011, the U.S. Department of Justice (the "DOJ") released an opinion that concluded the Wire Act only related to interstate transmission of wire communications regarding wagers on sporting events or information assisting in the placing of wagers on sporting events (the "2011 Opinion"). In concluding as such, the DOJ reversed earlier opinions that the Wire Act was not limited to only sporting events or contests. On January 14, 2019, the DOJ released a Slip Opinion dated November 2, 2018 that reversed the 2011 Opinion.

Las Vegas generally competes with trade show and convention facilities located in and around major U.S. cities. Within Las Vegas, the Sands Expo Center competes with the Las Vegas Convention Center (the "LVCC"), which currently has approximately 3.2 million gross square feet of convention and exhibit facilities. In addition to the LVCC, some of our Las Vegas competitors have convention and conference facilities that compete with our Las Vegas Operating Properties. Based on figures released by the LVCVA, nearly 7 million convention delegates visited Las Vegas during 2018, a 2.2% decrease compared to 2017.

Competitors of our Las Vegas Operating Properties that can offer a hotel/casino experience that is integrated with substantial trade show and convention, conference and meeting facilities, could have an adverse effect on our competitive

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advantage in attracting trade show and convention, conference and meeting attendees. Major competitors in Las Vegas continue to implement and evaluate opportunities to expand casino, hotel and convention offerings.

Retail Mall Operations

We own and operate retail malls at our Integrated Resorts at The Venetian Macao, Sands Cotai Central, The Parisian Macao, The Plaza Macao and Four Seasons Hotel Macao, Sands Macao, Marina Bay Sands and Sands Bethlehem. Upon completion of all phases of Sands Cotai Central's renovation, rebranding and expansion to The Londoner Macao, we will own approximately 3.0 million square feet of gross retail space. As further described in "Agreements Relating to the Malls in Las Vegas" below, the Grand Canal Shoppes were sold to GGP and are not owned or operated by us. Management believes being in the retail mall business and, specifically, owning some of the largest retail properties in Asia will provide meaningful value for us, particularly as the retail market in Asia continues to grow. Our malls are designed to complement our other unique amenities and service offerings provided by our Integrated Resorts. Our strategy is to seek out desirable tenants that appeal to our customers and provide a wide variety of shopping options. We generate our mall revenue primarily from leases with tenants through base minimum rents, overage rents and reimbursements for common area maintenance ("CAM") and other expenditures. For further information related to the financial performance of our malls, see "Part II — Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations."

The tables below set forth certain information regarding our mall operations on the Cotai Strip and at Marina Bay Sands as of December 31, 2018. These tables do not reflect subsequent activity in 2019.

Mall Name	Total GLA	
Net (decrease) increase in cash and cash equivalents	(14,626)	17,606
Cash and cash equivalents, beginning of period	306,426	105,691
Cash and cash equivalents, end of period	\$ 291,800	\$ 123,297
Cash paid during the period for interest, net of amount capitalized	\$ 47,462	\$ 49,552

See accompanying notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Supplemental disclosures of non-cash investing and financing activities (dollars in thousands):

During the three months ended March 31, 2011:

As described in Note 4, Stockholders' Equity, 88,124 shares of common stock valued at \$10,207 were issued in connection with stock grants; 941 shares valued at \$107 were issued through the Company's dividend reinvestment plan; 38,349 shares valued at \$4,490 were withheld to satisfy employees' tax withholding and other liabilities; 505 shares valued at \$35 were forfeited. In addition, the Company granted 144,827 options for common stock at a value of \$4,258.

7,500 units of limited partnership, valued at \$365, were presented for redemption to the DownREIT partnerships that issued such units and were acquired by the Company in exchange for an equal number of shares of the Company's common stock.

The Company recorded a decrease to prepaid expenses and other assets and a corresponding decrease to other comprehensive income of \$84 and recorded a decrease to prepaid expenses and other assets of \$456, with a corresponding offset to the basis of unsecured notes, net to record the impact of the Company's hedge accounting activity (as described in Note 5, Derivative Instruments and Hedging Activities).

Common dividends declared but not paid totaled \$77,941.

The Company recorded an increase of \$981 in redeemable noncontrolling interests with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units. For further discussion of the nature and valuation of these items, see Note 11, Fair Value.

During the three months ended March 31, 2010:

96,394 shares of common stock valued at \$7,152 were issued in connection with stock grants, 1,998 shares valued at \$159 were issued through the Company's dividend reinvestment plan, 38,960 shares valued at \$3,167 were withheld to satisfy employees' tax withholding and other liabilities, 1,300 shares valued at \$38 were forfeited, and 3,283 shares valued at \$161 were issued to members of the board of directors in fulfillment of deferred stock awards, for a net value of \$4,267. In addition, the Company granted 126,484 options for common stock at a value of \$2,460.

The Company recorded a decrease to other liabilities and a corresponding increase to other comprehensive income of \$542 and recorded an increase to prepaid expenses and other assets of \$1,410, with a corresponding offset to the basis of unsecured notes, net to record the impact of the Company's hedge accounting.

Common dividends declared but not paid totaled \$73,804.

The Company recorded an increase of \$1,145 in redeemable noncontrolling interests with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units.

AVALONBAY COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(Dollars in thousands, except per share data)

1. Organization, Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

AvalonBay Communities, Inc. (the Company, which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its consolidated subsidiaries), is a Maryland corporation that elected to be taxed as a real estate investment trust (REIT) under the Internal Revenue Code of 1986 (the Code). The Company focuses on the development, acquisition, ownership and operation of apartment communities in high barrier to entry markets of the United States. These markets are located in the New England, Metro New York/New Jersey, Mid-Atlantic, Midwest, Pacific Northwest, and Northern and Southern California regions of the country.

At March 31, 2011, the Company owned or held a direct or indirect ownership interest in 176 operating apartment communities containing 52,581 apartment homes in ten states and the District of Columbia, of which nine communities containing 3,348 apartment homes were under reconstruction. In addition, the Company owned or held a direct or indirect ownership interest in 11 communities under construction that are expected to contain an aggregate of 2,446 apartment homes when completed. The Company also owned or held a direct or indirect ownership interest in land or rights to land in which the Company expects to develop an additional 34 communities that, if developed as expected, will contain an estimated 9,424 apartment homes.

The interim unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements required by GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited financial statements should be read in conjunction with the financial statements and notes included in the Company s 2010 Annual Report on Form 10-K. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the operating results for the full year. Management believes the disclosures are adequate to ensure the information presented is not misleading. In the opinion of management, all adjustments and eliminations, consisting only of normal, recurring adjustments necessary for a fair presentation of the financial statements for the interim periods, have been included.

All capitalized terms have the meaning as provided elsewhere in this Form 10-Q.

Earnings per Common Share

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted average number of shares outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common shareholders and, accordingly, are considered participating securities that are included in the two-class method of computing basic earnings per share (EPS). Both the unvested restricted shares and other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis. The Company s earnings per common share are determined as follows:

	For the three months ended	
	3-31-11	3-31-10
<u>Basic and diluted shares outstanding</u>		
Weighted average common shares - basic	86,168,732	81,637,686
Weighted average DownREIT units outstanding	10,291	15,351
Effect of dilutive securities	818,507	657,633
Weighted average common shares - diluted	86,997,530	82,310,670
<u>Calculation of Earnings per Share - basic</u>		
Net income attributable to common stockholders	\$ 30,341	\$ 72,523
Net income allocated to unvested restricted shares	(83)	(230)
Net income attributable to common stockholders, adjusted	\$ 30,258	\$ 72,293
Weighted average common shares - basic	86,168,732	81,637,686
Earnings per common share - basic	\$ 0.35	\$ 0.89
<u>Calculation of Earnings per Share - diluted</u>		
Net income attributable to common stockholders	\$ 30,341	\$ 72,523
Add: noncontrolling interests of DownREIT unitholders in consolidated partnerships, including discontinued operations	7	14
Adjusted net income attributable to common stockholders	\$ 30,348	\$ 72,537
Weighted average common shares - diluted	86,997,530	82,310,670
Earnings per common share - diluted	\$ 0.35	\$ 0.88

Certain options to purchase shares of common stock in the amounts of 469,647 and 1,641,986 were outstanding at March 31, 2011 and 2010, respectively, but were not included in the computation of diluted earnings per share because such options were anti-dilutive.

The Company is required to estimate the forfeiture of stock options and recognize compensation cost net of the estimated forfeitures. The estimated forfeitures included in compensation cost are adjusted to reflect actual forfeitures at the end of the vesting period. The forfeiture rate at March 31, 2011 is based on the average forfeiture activity over a period equal to the estimated life of the stock options, and was 0.9%. The application of estimated forfeitures did not materially impact compensation expense for the three months ended March 31, 2011 or 2010.

Abandoned Pursuit Costs and Impairment of Long-Lived Assets

The Company capitalizes pre-development costs incurred in pursuit of new development opportunities for which the Company currently believes future development is probable (Development Rights). Future development of these Development Rights is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and the availability of capital. Initial pre-development costs incurred for pursuits for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development by the Company no longer probable, any capitalized pre-development costs are written off with a charge to expense. The Company expensed costs related to abandoned pursuits, which includes the abandonment of Development Rights as well as costs incurred in pursuing the disposition of assets for which the disposition did not occur, in the amounts of \$651 and \$505 for the three months ended March 31, 2011 and 2010, respectively. These costs are included in operating expenses, excluding property taxes on the accompanying Condensed Consolidated Statements of Operations and Other Comprehensive Income. Abandoned pursuit costs can vary greatly, and the costs incurred in any given period may be significantly different in future periods.

The Company evaluates its real estate and other long-lived assets for impairment when potential indicators of impairment exist. Such assets are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the Company assesses its recoverability by comparing the carrying amount of the long-lived asset to its estimated undiscounted future cash flows. If the carrying amount exceeds the

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aggregate undiscounted future cash flows, the Company recognizes an impairment loss to the extent the carrying amount exceeds the estimated fair value of the long-lived asset. Based on periodic tests of recoverability of long-lived assets, the Company did not record any impairment losses for the three months ended March 31, 2011 and 2010.

Commitments and Contingencies

During the three months ended March 31, 2011, the Company exercised a termination provision under a ground lease associated with an abandoned development pursuit. The lease required cash payments of \$5,400 in 2011 and between \$8,000 and \$12,000 per year through the expiration date of the lease in 2105. The required cash payments under the ground lease were being offset in their entirety by cash receipts from subleases through termination of the agreement. By exercising its termination option, the Company eliminated all future obligations under the land lease, reducing both future cash payments due under the land lease and offsetting cash receipts under the associated subleases.

Legal and Other Contingencies

The Company accounts for recoveries from legal matters as a reduction in the legal and related costs incurred associated with the matter, with recoveries in excess of these costs reported as a gain or, where appropriate, a reduction in the basis of a community to which the suit related.

The Company is involved in various claims and/or administrative proceedings that arise in the ordinary course of the Company's business. While no assurances can be given, the Company does not believe that any of these outstanding litigation matters, individually or in the aggregate, will have a material adverse effect on the Company's operations.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to amounts in prior period financial statements to conform to current period presentations.

2. Interest Capitalized

The Company capitalizes interest during the development and redevelopment of real estate assets. Capitalized interest associated with the Company's development or redevelopment activities totaled \$6,343 and \$9,836 for the three months ended March 31, 2011 and 2010, respectively.

3. Notes Payable, Unsecured Notes and Credit Facility

The Company's mortgage notes payable, unsecured notes and Credit Facility, as defined below, as of March 31, 2011 and December 31, 2010, are summarized below. The following amounts and discussion do not include the mortgage notes related to the communities classified as held for sale, if any, as of March 31, 2011 and December 31, 2010, as shown in the Condensed Consolidated Balance Sheets (see Note 7, Real Estate Disposition Activities).

	3-31-11	12-31-10
Fixed rate unsecured notes ⁽¹⁾	\$ 1,595,901	\$ 1,595,901
Variable rate unsecured notes ⁽¹⁾	225,000	225,000
Fixed rate mortgage notes payable - conventional and tax-exempt	1,650,201	1,651,135
Variable rate mortgage notes payable -conventional and tax-exempt	567,196	596,381
Total notes payable and unsecured notes	4,038,298	4,068,417
Credit Facility	--	--
Total mortgage notes payable, unsecured notes and Credit Facility	\$ 4,038,298	\$ 4,068,417

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(1) Balances at March 31, 2011 and December 31, 2010 exclude \$2,168 and \$2,269, respectively, of debt discount, and \$1,053 and \$1,509, respectively, for basis adjustments, as reflected in unsecured notes on the Company's Condensed Consolidated Balance Sheets.

The following debt activity occurred during the three months ended March 31, 2011:

In March 2011, the Company repaid a variable rate secured mortgage note in the amount of \$28,785 in accordance with its scheduled maturity date.

In the aggregate, secured notes payable mature at various dates from October 2011 through July 2066, and are secured by certain apartment communities and improved land parcels (with a net carrying value of approximately \$1,686,000 as of March 31, 2011).

As of March 31, 2011, the Company has guaranteed approximately \$274,698 of mortgage notes payable held by wholly owned subsidiaries; all such mortgage notes payable are consolidated for financial reporting purposes. The weighted average interest rate of the Company's fixed rate mortgage notes payable (conventional and tax-exempt) was 5.7% at both March 31, 2011 and December 31, 2010. The weighted average interest rate of the Company's variable rate mortgage notes payable and its Credit Facility, including the effect of certain financing related fees, was 2.2% at both March 31, 2011 and December 31, 2010.

Scheduled payments and maturities of mortgage notes payable and unsecured notes outstanding at March 31, 2011 are as follows:

Year	Secured notes payments ⁽¹⁾	Secured notes maturities	Unsecured notes maturities	Stated interest rate of unsecured notes
2011	\$ 8,163	\$ 7,277	\$ 39,900	6.625%
			150,000	5.714% (2)
2012	14,068	108,101	104,400	5.500%
			201,601	6.125%
			75,000	4.377% (2)
2013	14,910	264,697	100,000	4.950%
2014	15,803	33,100	150,000	5.375%
2015	14,759	365,244		
2016	15,634		250,000	5.750%
2017	16,567	18,300	250,000	5.700%
2018	17,556			
2019	2,588	701,133		
2020	2,761		250,000	6.100%
Thereafter	358,101	238,635	250,000	3.950%
	\$ 480,910	\$ 1,736,487	\$ 1,820,901	

(1) Secured note payments are comprised of the principal pay downs for amortizing mortgage notes.

(2) The weighted average interest rate for the swapped unsecured notes as of March 31, 2011.

The Company has a variable rate unsecured credit facility (the Credit Facility) in the amount of \$1,000,000 with a syndicate of commercial banks, to whom the Company pays an annual facility fee of approximately \$1,250. At March 31, 2011, there were no amounts outstanding under the Credit Facility and \$53,123 outstanding in letters of credit. The Credit Facility bears interest at varying levels based on the London Interbank Offered Rate (LIBOR), rating levels achieved on the Company's unsecured notes and on a maturity schedule selected by the Company. The current stated pricing is LIBOR plus 0.40% per annum (0.64% at March 31, 2011).

The Company expects to refinance the Credit Facility prior to maturity in November 2011. The Company expects the cost of the new facility will increase as compared to its current Credit Facility. While market conditions likely support an ability to retain the Company's current capacity, a reduction in capacity may be appropriate to avoid increased costs to maintain that capacity.

The Company was in compliance at March 31, 2011 with certain customary financial and other covenants under the Credit Facility and the Company's unsecured notes.

4. Stockholders Equity

The following summarizes the changes in stockholders equity for the three months ended March 31, 2011:

	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total AvalonBay stockholders equity	Noncontrolling interests	Total equity
Balance at December 31, 2010	\$ 859	\$ 3,593,677	\$ (282,743)	\$ (1,175)	\$ 3,310,618	\$ 4,973	\$ 3,315,591
Net income attributable to common stockholders			30,341		30,341		30,341
Unrealized loss on cash flow hedges				(84)	(84)		(84)
Change in redemption value of redeemable noncontrolling interest			(981)		(981)		(981)
Noncontrolling interests						(734)	(734)
Dividends declared to common stockholders			(77,929)		(77,929)		(77,929)
Issuance of common stock, net of withholdings	14	147,703	(1,089)		146,628		146,628
Amortization of deferred compensation		7,991			7,991		7,991
Balance at March 31, 2011	\$ 873	\$ 3,749,371	\$ (332,401)	\$ (1,259)	\$ 3,416,584	\$ 4,239	\$ 3,420,823

During the three months ended March 31, 2011, the Company:

- (i) issued 1,247,910 shares of common stock through public offerings;
- (ii) issued 110,557 shares of common stock in connection with stock options exercised;
- (iii) issued 941 common shares through the Company's dividend reinvestment plan;
- (iv) issued 88,124 common shares in connection with stock grants;
- (v) issued 7,500 common shares in exchange for an equal number of DownREIT limited partnership units;
- (vi) withheld 38,349 common shares to satisfy employees' tax withholding and other liabilities; and
- (vii) redeemed 505 shares of restricted common stock upon forfeiture.

In addition, the Company granted 144,827 options for common stock to employees. Any deferred compensation related to the Company's stock option and restricted stock grants during the three months ended March 31, 2011 is not reflected on the Company's Condensed Consolidated Balance Sheet as of March 31, 2011, and will not be reflected until earned as compensation cost.

In November 2010, the Company commenced CEP II, under which the Company may sell up to \$500,000 of its common stock from time to time during a 36-month period. During the three months ended March 31, 2011, the Company sold 1,247,910 shares at an average sales price of \$115.99 per share, for net proceeds of \$142,569. From program inception in November 2010 through the end of the first quarter of 2011, the Company sold 1,680,742 shares at an average price of \$115.07 for net proceeds of \$190,504.

5. Derivative Instruments and Hedging Activities

The Company enters into interest rate swap and interest rate cap agreements (collectively, the Hedging Derivatives) for interest rate risk management purposes and in conjunction with certain variable rate secured debt to satisfy lender requirements. The Company does not enter into derivative transactions for trading or other speculative purposes. The following table summarizes the consolidated Hedging Derivatives at March 31, 2011, excluding derivatives executed to hedge debt on communities classified as held for sale (dollars in thousands):

Non-designated Hedges	Cash Flow Hedges	Fair Value Hedges
Interest Rate Caps	Interest Rate Caps	Interest Rate Swaps

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Notional balance	\$	75,847	\$ 196,097	\$ 225,000
Weighted average interest rate (1)		1.2%	2.5%	5.3%
Weighted average capped interest rate		7.1%	5.3%	N/A
Earliest maturity date		Aug-12	Jun-12	Sep-11
Latest maturity date		Mar-14	Jun-15	Jan-12
Estimated fair value, asset/(liability)	\$	24	\$ 541	\$ 1,053

(1) For interest rate caps, this represents the weighted average interest rate on the debt.

Excluding derivatives executed to hedge debt on communities classified as held for sale, the Company had five derivatives designated as cash flow hedges, three derivatives designated as fair value hedges and four derivatives not designated as hedges at March 31, 2011. Fair value changes for derivatives that are not in qualifying hedge relationships are reported as a component of general and administrative expenses on the accompanying Condensed Consolidated Statements of Operations and Other Comprehensive Income. Fair value changes for derivatives not in qualifying hedge relationships for the three months ended March 31, 2011, were not material. For the derivative positions that the Company has determined qualify as effective cash flow hedges, the Company has recorded the effective portion of cumulative changes in the fair value of the Hedging Derivatives in other comprehensive income. Amounts recorded in other comprehensive income will be reclassified into earnings in the periods in which earnings are affected by the hedged cash flow. To adjust the Hedging Derivatives in qualifying cash flow hedges to their fair value and recognize the impact of hedge accounting, the Company recorded a decrease in other comprehensive income of \$84 during the three months ended March 31, 2011 and an increase of \$542 during the three months ended March 31, 2010. The amount reclassified into earnings for the three months ended March 31, 2011, as well as the estimated amount included in accumulated other comprehensive income as of March 31, 2011, expected to be reclassified into earnings within the next twelve months to offset the variability of cash flows of the hedged items during this period are not material. For the derivative positions that the Company has determined qualify as effective fair value hedges during the three months ended March 31, 2011, the Company has recorded a decrease in the fair value of \$456 with the derivatives fair value reported as a component of prepaid expenses and other assets, with the associated loss as an adjustment to the carrying amount of the corresponding debt being hedged on the accompanying Condensed Consolidated Balance Sheets as of March 31, 2011.

The Company assesses, both at inception and on an on-going basis, the effectiveness of qualifying cash flow and fair value hedges. Hedge ineffectiveness, reported as a component of general and administrative expenses, did not have a material impact on earnings of the Company for any prior period, and the Company does not anticipate that it will have a material effect in the future. The fair values of the Hedging Derivatives and non-designated derivatives that are in an asset position are recorded in prepaid expenses and other assets. The fair value of derivatives that are in a liability position are included in accrued expenses and other liabilities on the accompanying Condensed Consolidated Balance Sheets.

Derivative financial instruments expose the Company to credit risk in the event of nonperformance by the counterparties under the terms of the Hedging Derivatives. The Company minimizes its credit risk on these transactions by dealing with major, creditworthy financial institutions which have an A+ or better credit rating by the Standard & Poor's Ratings Group. As part of its on-going control procedures, the Company monitors the credit ratings of counterparties and the exposure of the Company to any single entity, thus minimizing credit risk concentration. The Company believes the likelihood of realizing losses from counterparty non-performance is remote. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements of its derivative financial instruments. Refer to Note 11, Fair Value, for further discussion.

6. Investments in Real Estate Entities

As of March 31, 2011, the Company had investments in six unconsolidated real estate entities with ownership interest percentages ranging from 15.2% to 50%. The Company accounts for its investments in unconsolidated real estate entities under the equity method of accounting, except as otherwise noted below. The significant accounting policies of the Company's unconsolidated real estate entities are consistent with those of the Company in all material respects.

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During the three months ended March 31, 2011, AvalonBay Value Added Fund II, LP (Fund II) acquired the following apartment community:

Waterstone Carlsbad, a garden-style community consisting of 448 apartment homes located in Carlsbad (San Diego County), CA, was acquired for a purchase price of \$78,100;

There were no other changes in the Company's ownership interest in, or presentation of, its investments in unconsolidated real estate entities during the three months ended March 31, 2011.

Detail of the real estate and associated funding underlying the Company's unconsolidated investments is presented in the following table (unaudited):

Unconsolidated Real Estate Investments	Company Ownership Percentage	# of Apartment Homes	Total Capitalized Cost (1)	Amount (2)	Debt Type	Interest Rate (3)	Maturity Date
Fund I							
1. Avalon at Redondo Beach - Los Angeles, CA		105	\$24,622	\$21,033	Fixed	4.87%	Oct 2011
2. Avalon Lakeside - Chicago, IL		204	18,405	12,056	Fixed	5.74%	Mar 2012
3. Avalon Columbia - Baltimore, MD		170	29,410	22,275	Fixed	5.48%	Apr 2012
4. Avalon Sunset - Los Angeles, CA		82	20,903	12,750	Fixed	5.41%	Mar 2014
5. Avalon at Poplar Creek - Chicago, IL		196	28,097	16,500	Fixed	4.83%	Oct 2012
6. Avalon at Civic Center - Norwalk, CA		192	42,756	27,001	Fixed	5.39%	Aug 2013
7. Avalon Paseo Place - Fremont, CA		134	24,984	11,800	Fixed	5.74%	Nov 2013
8. Avalon at Yerba Buena - San Francisco, CA		160	66,811	41,500	Fixed	5.88%	Mar 2014
9. Avalon at Aberdeen Station - Aberdeen, NJ		290	58,587	39,842	Fixed	5.64%	Sep 2013
10. The Springs - Corona, CA (4)		320	29,897	23,839	Fixed	6.06%	Oct 2014
11. Avalon Lombard - Lombard, IL		256	35,323	17,243	Fixed	5.43%	Jan 2014
12. Avalon Cedar Place - Columbia, MD		156	24,505	12,000	Fixed	5.68%	Feb 2014
13. Avalon Centerpoint - Baltimore, MD (5)		392	80,148	45,000	Fixed	5.74%	Dec 2013
14. Middlesex Crossing - Billerica, MA		252	38,305	24,100	Fixed	5.49%	Dec 2013
15. Avalon Crystal Hill - Ponomo, NY		168	38,645	24,500	Fixed	5.43%	Dec 2013
16. Avalon Skyway - San Jose, CA		348	78,219	37,500	Fixed	6.11%	Mar 2014
17. Avalon Rutherford Station - East Rutherford, NJ		108	36,821	19,707	Fixed	6.13%	Sep 2016
18. South Hills Apartments - West Covina, CA		85	24,756	11,762	Fixed	5.92%	Oct 2014
19. Weymouth Place - Weymouth, MA		211	25,298	13,455	Fixed	5.12%	Mar 2013
Total Fund I	15.2%	3,829	\$726,492	\$433,863		5.6%	
Fund II							
1. Avalon Bellevue Park - Bellevue, WA		220	33,992	21,515	Fixed	5.52%	Jun 2019
2. Avalon Fair Oaks - Fairfax, VA		491	71,893	42,600	Fixed	5.26%	May 2017
3. Avalon Rothbury - Gaithersburg, MD		203	31,481	18,750	Variable	2.83%	Jun 2017
4. Briarwood, an Avalon Community - Owings Mills, MD		348	45,056	26,850	Fixed	3.64%	Nov 2017
5. Grove Park Apts, an AvalonBay Community - Gaithersburg, MD		684	101,371	63,200	Fixed	5.42%	Jan 2017
6. Creekside Meadows - Tustin, CA		628	99,195	59,100	Fixed	3.81%	Oct 2017
7. Canyonwoods - Lake Forest, CA		140	24,741	-	N/A	N/A	N/A
8. Fox Run Apts - Plainsboro, NJ (6)		776	86,486	54,726	Fixed	4.56%	Nov 2014
9. Waterstone Carlsbad - Carlsbad, CA		448	78,200	46,141	Fixed	4.68%	Feb 2018
Fund II corporate debt		N/A	N/A	11,000	Variable	2.74%	Dec 2011

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Total Fund II	31.3%	3,938	\$572,415	\$343,882		4.5%		
Other Operating Joint Ventures								
1. Avalon Chrystie Place I - New York, NY (7)	20.0%	361	135,735	117,000	Variable	0.94%	Nov 2036	
2. Avalon at Mission Bay North II - San Francisco, CA (8)	25.0%	313	124,014	105,000	Fixed	6.02%	Dec 2015	
3. Avalon Del Rey - Los Angeles, CA	30.0%	309	70,037	44,838	Variable	3.60%	Apr 2016	
Other Development Joint Ventures								
1. Aria at Hathorne - Danvers, MA (8) (9)	50.0%	64	N/A	1,860	Variable	7.98%	Jun 2010 (10)	
Total Other Joint Ventures		1,047	\$ 329,786	\$ 268,698		3.4%		
Total Unconsolidated Investments		8,814	\$ 1,628,693	\$ 1,046,443		4.7%		

(1) Represents total capitalized cost as of March 31, 2011.

(2) The Company has not guaranteed the debt of its unconsolidated investees and bears no responsibility for the repayment, other than the construction and completion and related financing guarantee for Avalon Chrystie Place I associated with the construction completion and occupancy certificate.

(3) Represents weighted average rate on outstanding debt as of March 31, 2011.

(4) Beginning in the third quarter of 2010, the Company consolidated the net assets and results of operations of The Springs.

(5) Borrowing on this community is comprised of three mortgage loans.

(6) Borrowing on this community is comprised of two mortgage loans.

(7) After the venture makes certain threshold distributions to the third-party partner, the Company generally receives 50% of all further distributions.

(8) The Company has contributed land, receiving capital credit for the fair value upon contribution, as its only capital contribution to this development.

(9) After the venture makes certain threshold distributions to the Company, the Company receives 50% of all further distributions.

(10) The loan for this venture matured in June 2010. As of March 31, 2011, the amounts under this borrowing have not been repaid, and the venture is negotiating an extension or refinancing of the amounts outstanding. As of March 31, 2011, the lender has declared an event of default with respect to the note and required the venture to pay a default rate of interest, the impact of which is not material to the Company. Although the Company has not guaranteed the debt of Aria at Hathorne nor does it have any obligation to fund the debt should the venture be unable to do so, the Company has the right to cure any event of default by the venture.

The following is a combined summary of the financial position of the entities accounted for using the equity method, as of the dates presented:

	3-31-11 (unaudited)	12-31-10 (unaudited)
Assets:		
Real estate, net	\$ 1,461,589	\$ 1,393,274
Other assets	52,910	67,278
Total assets	\$ 1,514,499	\$ 1,460,552
Liabilities and partners' capital:		
Mortgage notes payable and credit facility	\$ 1,022,603	\$ 965,931
Other liabilities	29,008	24,835
Partners' capital	462,888	469,786
Total liabilities and partners' capital	\$ 1,514,499	\$ 1,460,552

The following is a combined summary of the operating results of the entities accounted for using the equity method, for the periods presented:

	For the three months ended (unaudited)	
	3-31-11	3-31-10
Rental and other income	\$ 37,823	\$ 27,033
Operating and other expenses	(17,554)	(13,428)
Interest expense, net	(12,301)	(9,489)
Depreciation expense	(11,603)	(8,981)
Net loss	\$ (3,635)	\$ (4,865)

In conjunction with the formation of Fund I and Fund II, as well as the acquisition and development of certain other investments in unconsolidated entities, the Company incurred costs in excess of its equity in the underlying net assets of the respective investments. These costs represent \$10,543 at March 31, 2011 and \$10,644 at December 31, 2010 of the respective investment balances.

As part of the formation of Fund I and Fund II, the Company provided separate and distinct guarantees to one of the limited partners in each of the ventures. These guarantees are specific to the respective fund and any impacts or obligation of the Company to perform under one of the guarantees has no impact on the Company's obligations with respect to the other guarantee. The guarantees provide that, if, upon final liquidation of Fund I or Fund II, the total amount of all distributions to the guaranteed partner during the life of the respective fund (whether from operating cash flow or property sales) does not equal the total capital contributions made by that partner, then the Company will pay the guaranteed partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the guaranteed partner (maximum of approximately \$7,500 for Fund I and approximately \$5,843 for Fund II as of March 31, 2011). As of March 31, 2011, the expected realizable values of the real estate assets owned by Fund I and Fund II are considered adequate to cover such potential payments under a liquidation scenario. The estimated fair value of, and the Company's obligation under these guarantees, both at inception and as of March 31, 2011, was not significant and therefore the Company has not recorded any obligation for either of these guarantees as of March 31, 2011.

7. Real Estate Disposition Activities

The Company did not sell any communities during the three months ended March 31, 2011, and had no real estate assets that qualified as held for sale as of March 31, 2011.

The following is a summary of income from discontinued operations for the periods presented:

	For the three months ended	
	3-31-11	3-31-10
Rental income	\$	\$ 3,340
Operating and other expenses		(1,342)
Interest expense, net		
Depreciation expense		(123)
Income from discontinued operations	\$	\$ 1,875

8. Segment Reporting

The Company's reportable operating segments include Established Communities, Other Stabilized Communities, and Development/Redevelopment Communities. Annually as of January 1st, the Company determines which of its communities fall into each of these categories and maintains that classification, unless disposition plans regarding a community change, throughout the year for the purpose of reporting segment operations.

In addition, the Company owns land for future development and has other corporate assets that are not allocated to an operating segment.

The Company's segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing each segment's performance. The Company's chief operating decision maker is comprised of several members of its executive management team who use net operating income (NOI) as the primary financial measure for Established Communities and Other Stabilized Communities. NOI is defined by the Company as total revenue less direct property operating expenses. Although the Company considers NOI a useful measure of a community's or communities' operating performance, NOI should not be considered an alternative to net income or net cash flow from operating activities, as determined in accordance with GAAP. NOI excludes a number of income and expense categories as detailed in the reconciliation of NOI to net income.

A reconciliation of NOI to net income for the three months ended March 31, 2011 and 2010 is as follows:

	For the three months ended	
	3-31-11	3-31-10
Net income	\$ 30,537	\$ 72,366
Indirect operating expenses, net of corporate income	7,027	7,232
Investments and investment management expense	1,191	1,039
Expensed development and other pursuit costs	651	505
Interest expense, net	44,271	42,541
General and administrative expense	7,292	8,895
Equity in income of unconsolidated entities	(503)	(227)
Depreciation expense	61,299	55,972
Gain on sale of real estate assets		(50,291)
(Income) loss from discontinued operations		(1,875)
Net operating income	\$ 151,765	\$ 136,157

The primary performance measure for communities under development or redevelopment depends on the stage of completion. While under development, management monitors actual construction costs against budgeted costs as well as lease-up pace and rent levels compared to budget.

The following table provides details of the Company's segment information as of the dates specified. The segments are classified based on the individual community's status as of the beginning of the given calendar year. Therefore, each year the composition of communities within each business segment is adjusted. Accordingly, the amounts between years are not directly comparable. Segment information for the three months ended March 31, 2011 and 2010 have been adjusted for the communities that were sold from January 1, 2010 through March 31, 2011, or otherwise qualify as discontinued operations as of March 31, 2011, as described in Note 7, Real Estate Disposition Activities.

	Total revenue	For the three months ended NOI	% NOI change from prior year	Gross real estate (1)
For the period ended March 31, 2011				
Established				
New England	\$ 41,027	\$ 25,482	6.7%	\$ 1,293,907
Metro NY/NJ	47,691	31,559	5.5%	1,527,764
Mid-Atlantic/Midwest	30,207	21,643	8.3%	725,124
Pacific Northwest	9,129	6,140	0.8%	361,623
Northern California	24,707	17,386	6.5%	928,925
Southern California	18,394	11,955	1.9%	695,067
Total Established	171,155	114,165	5.8%	5,532,410
Other Stabilized	33,612	18,711	N/A	1,640,776
Development / Redevelopment	28,721	18,889	N/A	1,324,743
Land Held for Future Development	N/A	N/A	N/A	193,593
Non-allocated (2)	2,320	N/A	N/A	79,035
Total	\$ 235,808	\$ 151,765	11.5%	\$ 8,770,557
For the period ended March 31, 2010				
Established				
New England	\$ 35,193	\$ 21,643	(4.6%)	\$ 1,086,197
Metro NY/NJ	44,390	29,507	(3.5%)	1,385,405
Mid-Atlantic/Midwest	29,391	17,546	(5.6%)	750,566
Pacific Northwest	6,617	4,426	(15.0%)	239,683
Northern California	29,416	20,158	(14.5%)	1,108,224
Southern California	14,773	9,707	(9.9%)	467,275
Total Established	159,780	102,987	(7.6%)	5,037,350
Other Stabilized	28,779	16,866	N/A	1,546,664
Development / Redevelopment	25,041	16,304	N/A	1,429,601
Land Held for Future Development	N/A	N/A	N/A	206,713
Non-allocated (2)	1,849	N/A	N/A	96,659
Total	\$ 215,449	\$ 136,157	(0.4%)	\$ 8,316,987

(1) Does not include gross real estate assets held for sale of \$127,699 as of March 31, 2010.

(2) Revenue represents third-party management, asset management and developer fees and miscellaneous income which are not allocated to a reportable segment.

9. Stock-Based Compensation Plans

Information with respect to stock options granted under the Company's 1994 Stock Option and Incentive Plan (the "1994 Plan") and under the AvalonBay Communities, Inc. 2009 Stock Option and Incentive Plan (the "2009 Plan") are as follows:

	2009 Plan shares	Weighted average exercise price per share	1994 Plan shares	Weighted average exercise price per share
Options Outstanding, December 31, 2010	126,484	\$ 74.20	2,072,217	\$ 88.50

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Exercised	(7,604)	74.20	(102,953)	73.77
Granted	144,827	115.83		
Forfeited			(8)	44.58
Options Outstanding, March 31, 2011	263,707	\$ 97.06	1,969,256	\$ 89.27
Options Exercisable March 31, 2011	37,021	\$ 74.20	1,862,293	\$ 91.61

The weighted average fair value of the options granted under the 2009 Plan during the three months ended March 31, 2011 is estimated at \$29.40 per share on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 4.0% over the expected life of the option, volatility of 35.00%, risk-free interest rate of 3.0% and an expected life of approximately seven years.

At March 31, 2011, the Company had 216,326 outstanding unvested shares granted under restricted stock awards. The Company issued 88,124 shares of restricted stock valued at \$10,207 as part of its stock-based compensation plan during the three months ended March 31, 2011. Restricted stock vesting during the three months ended March 31, 2011 totaled 100,414 shares and had fair values at the grant date ranging from \$48.60 to \$147.75 per share. The total grant date fair value of shares vested was \$8,647 and \$8,913 for the three months ended March 31, 2011 and 2010, respectively.

Total employee stock-based compensation cost recognized in income was \$2,834 and \$3,485 for the three months ended March 31, 2011 and 2010, respectively, and total capitalized stock-based compensation cost was \$1,341 and \$1,329 for the three months ended March 31, 2011 and 2010, respectively. At March 31, 2011, there was a total of \$4,473 and \$8,559 in unrecognized compensation cost for unvested stock options and unvested restricted stock, respectively, which does not include estimated forfeitures. The unrecognized compensation cost for unvested stock options and restricted stock is expected to be recognized over a weighted average period of 2.56 years and 2.90 years, respectively.

Deferred Stock Performance Plan

The total cost recognized in earnings in connection with the multi-year performance plan implemented by the Company in 2008 was \$403 and \$427 for the three months ended March 31, 2011 and 2010, respectively, and total capitalized stock-based compensation cost was \$233 for both the three months ended March 31, 2011 and 2010.

10. Related Party Arrangements

Unconsolidated Entities

The Company manages unconsolidated real estate entities for which it receives asset management, property management, development and redevelopment fee revenue. From these entities, the Company received fees of \$2,320 and \$1,849 in the three months ended March 31, 2011 and 2010, respectively. These fees are included in management, development and other fees on the accompanying Condensed Consolidated Statements of Operations and Other Comprehensive Income. In addition, the Company has outstanding receivables associated with its management role of \$4,857 and \$3,803 as of March 31, 2011 and 2010, respectively.

Director Compensation

The Company recorded non-employee director compensation expense relating to the restricted stock grants and deferred stock awards in the amount of \$187 and \$219 for the three months ended March 31, 2011 as a component of general and administrative expense. Deferred compensation relating to these restricted stock grants and deferred stock awards was \$125 and \$146 on March 31, 2011 and December 31, 2010, respectively.

11. Fair Value

Financial Instruments Carried at Fair Value

Derivative Financial Instruments

Currently, the Company uses interest rate swap and interest rate cap agreements to manage its interest rate risk. These instruments are carried at fair value in the Company's financial statements. See Note 5, Derivative Instruments and Hedging Activities, for derivative values at March 31, 2011 and a description of where these amounts are recorded in the financial statements. In adjusting the fair value of its derivative contracts for the effect of counterparty nonperformance risk, the Company has considered the impact of its net position with a given counterparty, as well as any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives use Level 3

inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of March 31, 2011, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined it is not significant. As a result, the Company has determined that its derivative valuations are classified in Level 2 of the fair value hierarchy.

Redeemable Noncontrolling Interests

Puts The Company provided redemption options (the Puts) that allow two of the Company's joint venture partners to require the Company to purchase their interests in the investments at the future fair market value. In March 2011, the Company acquired the noncontrolling interest associated with a consolidated community for \$6,570 satisfying its obligation under one of the Puts. The remaining Put is payable in cash or, at the Company's option, common stock of the Company. The Company determines the fair value of the Put based on unobservable inputs considering the assumptions that market participants would make in pricing the obligations. The Company applies discount factors to the estimated future cash flows of the asset underlying the associated joint venture, which in the case of the Put is the NOI from an apartment community, as well as potential disposition proceeds utilizing market capitalization rates, to derive the fair value of the position. Given the significance of the unobservable inputs, the valuation is classified in Level 3 of the fair value hierarchy. At December 31, 2010, the Puts' aggregate fair value was \$12,106. At March 31, 2011, the aggregate fair value of the remaining outstanding Put was \$5,331.

DownREIT units The Company issued units of limited partnership interest in DownREITs which provide the DownREIT limited partners the ability to present all or some of their units for redemption for a cash amount as determined by the applicable partnership agreement. Under the DownREIT agreements, for each limited partnership unit, the limited partner is entitled to receive cash in the amount equal to the fair value of the Company's common stock on or about the date of redemption. In lieu of cash redemption, the Company may elect to exchange such units for an equal number of shares in the Company's common stock. The limited partnership units in DownREITs are valued using the market price of the Company's common stock, a Level 1 price under the fair value hierarchy. At December 31, 2010, the fair value of the DownREIT units was \$1,721. At March 31, 2011, the fair value of the DownREIT units was \$925.

Financial Instruments Not Carried at Fair Value

Cash and Cash Equivalents

Cash and cash equivalent balances are held with various financial institutions within principal protected accounts. The Company monitors credit ratings of these financial institutions and the concentration of cash and cash equivalent balances with any one financial institution and believes the likelihood of realizing material losses related to cash and cash equivalent balances is remote. Cash and cash equivalents are carried at their face amounts, which reasonably approximate their fair values.

Other Financial Instruments

Rents receivable, accounts and construction payable and accrued expenses and other liabilities are carried at their face amounts, which reasonably approximate their fair values.

The Company values its bond indebtedness, notes payable and outstanding amounts under the Credit Facility using a discounted cash flow analysis on the expected cash flows of each instrument. This analysis reflects the contractual terms of the instrument, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The process also considers credit valuation adjustments to appropriately reflect the Company's nonperformance risk. The Company has concluded that the value of its bond indebtedness and notes payable are Level 2 prices as the majority of the inputs used to value its positions fall within Level 2 of the fair value hierarchy. Bond indebtedness, notes payable and outstanding amounts under the Credit Facility (as applicable) with an aggregate outstanding par amount of approximately \$4,038,298 and \$4,068,417 had an estimated aggregate fair value of \$4,198,020 and \$4,236,216 at March 31, 2011 and December 31, 2010, respectively.

12. Subsequent Events

The Company has evaluated subsequent events through the date on which this Form 10-Q was filed, the date on which these financial statements were issued, and identified the following for disclosure:

In April 2011, the Company purchased Fairfax Towers, located in Falls Church, Virginia. The community contains 415 apartment homes and was acquired for a purchase price of \$89,200. In conjunction with this acquisition, the Company assumed the existing 4.75% fixed-rate mortgage loan of \$44,044 which matures in August 2015.

In April 2011, the Company completed an exchange of assets with UDR, Inc. (UDR). The transaction includes exchanging a portfolio of three existing apartment communities for a portfolio of six UDR apartment communities and \$26,000 in cash. The Company's portfolio includes two properties containing 833 apartment homes and a small land parcel located in metropolitan Boston and one property containing 227 apartment homes located in San Francisco, with net real estate assets at March 31, 2011 of approximately \$164,000. The UDR portfolio consists of 1,418 apartment homes and is located in Southern California (Los Angeles, Orange County and San Diego). As part of the transaction, the Company assumed a \$55,400 fixed-rate mortgage with a 5.24% interest rate and a maturity date of June 2013. In exchange, the Company relinquished a \$55,800 mortgage loan with a fixed rate of 5.86% and a maturity date of May 2019.

Also in April 2011, the Company entered into \$430,000 of forward starting interest rate swaps where the Company has agreed to pay a fixed rate of interest in exchange for a floating rate of interest at a future date. These swaps were transacted to reduce the Company's exposure to rising interest rates on future debt issuances.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help provide an understanding of our business and results of operations. This MD&A should be read in conjunction with our Condensed Consolidated Financial Statements and the accompanying Notes to Condensed Consolidated Financial Statements included elsewhere in this report. This report, including the following MD&A, contains forward-looking statements regarding future events or trends as described more fully under Forward-Looking Statements included in this report. Actual results or developments could differ materially from those projected in such statements as a result of the factors described under Forward-Looking Statements below and the risk factors described in Item 1a, Risk Factors, of our Form 10-K for the year ended December 31, 2010 (our Form 10-K).

All capitalized terms have the meaning as provided elsewhere in this Form 10-Q.

Executive Overview

Business Description

We are primarily engaged in developing, acquiring, owning and operating apartment communities in high barrier to entry markets of the United States. We believe that apartment communities are an attractive long-term investment opportunity compared to other real estate investments because a broad potential resident base should help reduce demand volatility over a real estate cycle. We seek to create long-term shareholder value by accessing capital at cost effective terms; deploying that capital to develop, redevelop and acquire apartment communities in high barrier to entry markets; operating apartment communities; and selling communities when they no longer meet our long-term investment strategy or when pricing is attractive. Barriers to entry in our markets generally include a difficult and lengthy entitlement process with local jurisdictions and dense urban or suburban areas where zoned and entitled land is in limited supply.

We regularly evaluate the allocation of our investments by the amount of invested capital and by product type within our individual markets, which are located in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Midwest, the Pacific Northwest, and the Northern and Southern California regions of the United States. Our strategy is to be leaders in market research and capital allocation, delivering a range of multifamily offerings tailored to serve the needs of the most attractive customer segments in the best-performing submarkets of the United States. Our communities are predominately upscale, which generally command among the highest rents in their markets. However, we also pursue the ownership and operation of apartment communities that target a variety of customer segments and price points, consistent with our goal of offering a broad range of products and services.

First Quarter 2011 Highlights

Net income attributable to common stockholders for the quarter ended March 31, 2011 was \$30,341,000, a decrease of \$42,182,000 or 58.2% from the prior year period. The decrease is attributable primarily to sales of communities and the associated gains in the quarter ended March 31, 2010, which were not present in 2011, offset partially by an increase in NOI from operating communities.

For the quarter ended March 31, 2011, Established Communities NOI increased by 5.8% or \$6,230,000 over the prior year period. This year-over-year increase was driven primarily by an increase in rental revenue of 3.7%, along with a decrease in operating expenses of 0.1%.

Financial Outlook

The economic recovery has continued in 2011 with the positive trend improving at a faster pace than we anticipated when we provided our 2011 outlook in February 2011. We now expect that the midpoint of our full year 2011 FFO per share will meet or exceed the high end of the range provided in our February outlook, and expect to provide revised ranges for our full year expected performance in early June 2011. Our results for the quarter ended March 31, 2011 reflect this ongoing improvement in apartment fundamentals. We experienced an increase in our Established Community revenues in each of our regions, driving the growth in our NOI. Our overall NOI growth was also favorably

impacted by our portfolio growth through new development. The improvement in multifamily fundamentals is due largely to job growth that accelerated during the quarter. This growth was concentrated in the younger age groups, which have a higher propensity to rent. These factors are driving the increase in the rate of new household formation. In addition, apartment fundamentals also continue to benefit from a combination of the continued decline in the homeownership rate and limited supply of new multifamily rental product. We expect further improvement in revenue growth and operating fundamentals will be driven by home ownership trends, demographic trends, as well as the timing and magnitude of employment growth. We believe that the continued improvement in apartment fundamentals, as well as favorable capital markets activity, supports our investment activity as further discussed below.

Throughout the recent recession we maintained a focus on ensuring that our development capabilities were positioned to take advantage of the expected economic recovery. We believe that our investment in development now allows us to deliver new assets in a supply constrained environment. We completed the development of three communities during the quarter ended March 31, 2011 containing an aggregate of 888 apartment homes for a total capitalized cost of \$234,400,000. At March 31, 2011, we had 11 communities under construction with a total projected capitalized cost of approximately \$643,400,000. As of March 31, 2011, approximately \$256,800,000 of the capital for this development activity was invested, with \$386,600,000 remaining to invest. At March 31, 2011 our combined development under way and in planning is \$3,335,400,000.

At March 31, 2011, there were nine communities under redevelopment, with an expected investment of approximately \$112,400,000, excluding costs incurred prior to the start of redevelopment, and \$59,144,000 remaining to be invested. There were no redevelopment completions or starts during the first quarter of 2011. However, we expect to maintain our current level of redevelopment activity through 2011, reinvesting and repositioning our assets to meet the needs of our residents and position our assets to outperform in an improving economic environment.

At present, we believe that cash on hand and available capital from our current credit facility and expected capacity under our refinanced credit facility will be sufficient to provide the capital necessary to fund our development and redevelopment activities for the balance of 2011. We believe that the strength of our balance sheet, as measured by our current level of indebtedness, our current ability to service interest and other fixed charges and our current limited use of financial encumbrances (such as secured financing), provides us with adequate access to liquidity from the capital markets through the issuance of corporate securities (which could include unsecured debt and/or common and preferred equity) and secured debt, as well as other sources of liquidity such as from joint ventures or from our retained cash, to meet any reasonably foreseeable liquidity needs as they arise. See the discussion under *Liquidity and Capital Resources*.

While we continue to grow principally through our demonstrated core competency of developing wholly-owned assets, we are also actively managing the investments in our wholly-owned portfolio. In April 2011, we completed an asset exchange. Through this transaction we exchanged three existing communities and a small land parcel for six operating communities and \$26,000,000 in cash. The communities we exchanged consisted of two properties and a small land parcel located in metropolitan Boston and one property located in San Francisco. In exchange we received six operating communities in Southern California (Los Angeles, Orange County and San Diego). This transaction is consistent with our strategy of increasing our presence in a region that we were under-allocated, providing us with a larger portfolio of assets at multiple price points that we believe will perform better than other US markets over the current operating cycle. As part of the transaction, we assumed a \$55,400,000 fixed-rate mortgage loan with a 5.24% interest rate and a maturity date of June 2013. In exchange, we relinquished a \$55,800,000 mortgage loan with a fixed rate of 5.86% and a maturity date of May 2019.

Also in April 2011, we acquired Fairfax Towers for our wholly-owned portfolio. Fairfax Towers is a high-rise community consisting of 415 apartment homes, located in Falls Church, VA, and was acquired for a purchase price of \$89,200,000. In conjunction with this acquisition, we assumed the existing 4.75% fixed rate mortgage loan for \$44,044,000, which matures in August 2015.

In addition to this activity for our wholly-owned portfolio, we also expect to acquire interests in additional assets, primarily through our investment in two private discretionary investment funds.

We established Fund I and Fund II (collectively the Funds) to engage in acquisition programs through discretionary investment funds. We believe this investment format provides the following attributes: (i) third-party joint venture equity as an additional source of financing to expand and diversify our portfolio; (ii) additional sources of income in the form of property management and asset management fees and, potentially, incentive distributions if the performance of the Funds exceeds certain thresholds; and (iii) visibility into the transactions occurring in multi-family assets that helps us with other investment decisions related to our wholly-owned portfolio.

Fund I has nine institutional investors, including us. One of our wholly-owned subsidiaries is the general partner of Fund I and we have made an equity investment of approximately \$44,000,000 in Fund I (net of distributions and excluding the purchase of a mortgage note secured by a Fund I community), representing a 15.2% combined general partner and limited partner equity interest. Fund I was our principal vehicle for acquiring apartment communities through the close of its investment period in March 2008. Fund I has a term that expires in March 2013, plus two one-year extension options. Subsidiaries of Fund I have 21 loans secured by individual assets with amounts outstanding in the aggregate of \$433,863,000, with varying maturity dates (or dates after which the loans can be prepaid without penalty), ranging from October 2011 to September 2016. The outstanding loans include \$23,839,000 for the mortgage note we purchased during 2010. These mortgage loans are secured by the underlying real estate.

Fund II has six institutional investors, including us. One of our wholly-owned subsidiaries is the general partner of Fund II and we have total equity commitments of \$125,000,000, representing a 31.3% combined general partner and limited partner equity interest. Fund II has invested \$572,415,000 as of March 31, 2011. Fund II has a term that expires in August 2018, plus two one-year extension options. Fund II serves as the exclusive vehicle through which we will acquire investment interests in apartment communities until August 2011 or, if earlier, until 90% of the committed capital of Fund II is invested, subject to certain exceptions. Fund II will not include or involve our development activities. We will receive, in addition to any returns on our invested equity, asset management fees, property management fees and redevelopment fees. We will also receive a promoted interest if certain return thresholds are met. During the three months ended March 31, 2011 a subsidiary of Fund II acquired one community. Waterstone Carlsbad, a garden-style community consisting of 448 apartment homes located in Carlsbad, CA was acquired for a purchase price of \$78,100,000.

Subsidiaries of Fund II have nine loans secured by individual assets with amounts outstanding in the aggregate of \$332,882,000, with varying maturity dates (or dates after which the loans can be prepaid without penalty), ranging from to November 2014 to June 2019. The mortgage loans are secured by the underlying real estate. In addition, Fund II has \$11,000,000 outstanding under a credit facility that matures in December 2011.

Communities Overview

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development (Development Communities) and Development Rights as defined below. Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities and Redevelopment Communities. The following is a description of each category:

Current Communities are categorized as Established, Other Stabilized, Lease-Up, or Redevelopment according to the following attributes:

Established Communities (also known as Same Store Communities) are consolidated communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year. For the period ended March 31, 2011, the Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy and operating expenses as of January 1, 2010, are not conducting or planning to conduct substantial redevelopment activities and are not held for sale or planned for disposition within the current year. A community is considered to have stabilized occupancy at the earlier of (i) attainment of 95% physical occupancy or (ii) the one-year anniversary of completion of development or redevelopment.

Other Stabilized Communities are all other completed communities that we own or have a direct or indirect ownership interest in, and that have stabilized occupancy, as defined above. Other Stabilized Communities do not include communities that are conducting or planning to conduct substantial redevelopment activities within the current year.

Lease-Up Communities are communities where construction has been complete for less than one year and where physical occupancy has not reached 95%.

Redevelopment Communities are communities where substantial redevelopment is in progress or is planned to begin during the current year. Redevelopment is considered substantial when capital invested during the reconstruction effort is expected to exceed either \$5,000,000 or 10% of the community's pre-redevelopment basis and is expected to have a material impact on the operations of the community, including occupancy levels and future rental rates.

Development Communities are communities that are under construction and for which a certificate of occupancy has not been received. These communities may be partially or fully complete and operating.

Development Rights are development opportunities in the early phase of the development process for which we either have an option to acquire land or enter into a leasehold interest, for which we are the buyer under a long-term conditional contract to purchase land or where we control the land through a ground lease or own land to develop a new community. We capitalize related pre-development costs incurred in pursuit of new developments for which we currently believe future development is probable.

We currently lease both our corporate headquarters located in Arlington, Virginia as well as all other regional and administrative offices under operating leases.

As of March 31, 2011, communities that we owned or held a direct or indirect interest in were classified as follows:

	Number of communities	Number of apartment homes
<u>Current Communities</u>		
Established Communities:		
New England	30	7,315
Metro NY/NJ	22	6,981
Mid-Atlantic/Midwest	16	5,950
Pacific Northwest	10	2,533
Northern California	15	4,829
Southern California	15	4,003
Total Established	108	31,611
Other Stabilized Communities:		
New England	6	1,791
Metro NY/NJ	8	2,941
Mid-Atlantic/Midwest	12	3,830
Pacific Northwest	2	431
Northern California	14	3,378
Southern California	13	3,945
Total Other Stabilized	55	16,316
Lease-Up Communities	4	1,306
Redevelopment Communities	9	3,348
Total Current Communities	176	52,581
<u>Development Communities</u>	11	2,446

Development Rights

34

9,424

21

Results of Operations

Our year-over-year operating performance is primarily affected by both overall and individual geographic market conditions and apartment fundamentals and is reflected in changes in NOI of our Established Communities; NOI derived from acquisitions and development completions; the loss of NOI related to disposed communities; and capital market and financing activity. A comparison of our operating results for the three months ended March 31, 2011 and 2010 follows (dollars in thousands):

	3-31-11	For the three months ended 3-31-10	\$ Change	% Change
Revenue:				
Rental and other income	\$233,488	\$ 213,600	\$19,888	9.3%
Management, development and other fees	2,320	1,849	471	25.5%
Total revenue	235,808	215,449	20,359	9.4%
Expenses:				
Direct property operating expenses, excluding property taxes	56,870	54,324	2,546	4.7%
Property taxes	24,850	23,146	1,704	7.4%
Total community operating expenses	81,720	77,470	4,250	5.5%
Corporate-level property management and other indirect operating expenses	9,350	9,054	296	3.3%
Investments and investment management expense	1,191	1,039	152	14.6%
Expensed development and other pursuit costs	651	505	146	28.9%
Interest expense, net	44,271	42,541	1,730	4.1%
Depreciation expense	61,299	55,972	5,327	9.5%
General and administrative expense	7,292	8,895	(1,603)	(18.0%)
Total other expenses	124,054	118,006	6,048	5.1%
Equity in income of unconsolidated entities	503	227	276	121.6%
Income from continuing operations	30,537	20,200	10,337	51.2%
Discontinued operations:				
Income from discontinued operations		1,875	(1,875)	(100.0%)
Gain on sale of communities		50,291	(50,291)	(100.0%)
Total discontinued operations		52,166	(52,166)	(100.0%)
Net income	30,537	72,366	(41,829)	(57.8%)
Net income (loss) attributable to noncontrolling interests	(196)	157	(353)	(224.8%)
Net income attributable to common stockholders	\$30,341	\$ 72,523	\$(42,182)	(58.2%)

Net income attributable to common stockholders decreased \$42,182,000 or 58.2%, to \$30,341,000 for the three months ended March 31, 2011. The decrease for the three months ended March 31, 2011 from the prior year period is due primarily to gains on asset sales during the three months ended March 31, 2010 that were not present in the three months ended March 31, 2011, offset partially by an increase in NOI from existing and newly developed communities.

NOI is considered by management to be an important and appropriate supplemental performance measure to net income because it helps both investors and management to understand the core operations of a community or communities prior to the allocation of any corporate-level or financing-related costs. NOI reflects the operating performance of a community and allows for an easy comparison of the operating performance of individual assets or groups of assets. In addition, because prospective buyers of real estate have different financing and overhead structures, with varying marginal impacts to overhead by acquiring real estate, NOI is considered by many in the real estate industry to be a useful measure for determining the value of a real estate asset or group of assets. We define NOI as total property revenue less direct property operating

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expenses, including property taxes, and excluding corporate-level income (including management, development and other fees), corporate-level property management and other indirect operating expenses, investments and investment management expenses, expensed development and other pursuit costs, net interest expense, gain (loss) on extinguishment of debt, general and administrative expense, joint venture income (loss), depreciation expense, impairment loss on land holdings, gain on sale of real estate assets and income from discontinued operations.

NOI does not represent cash generated from operating activities in accordance with GAAP. Therefore, NOI should not be considered an alternative to net income as an indication of our performance. NOI should also not be considered an alternative to net cash flow from operating activities, as determined by GAAP, as a measure of liquidity, nor is NOI indicative of cash available to fund cash needs. Reconciliations of NOI for the three months ended March 31, 2011 and 2010 to net income for each period are as follows (dollars in thousands):

	For the three months ended	
	3-31-11	3-31-10
Net income	\$ 30,537	\$ 72,366
Indirect operating expenses, net of corporate income	7,027	7,232
Investments and investment management expense	1,191	1,039
Expensed development and other pursuit costs	651	505
Interest expense, net	44,271	42,541
General and administrative expense	7,292	8,895
Equity in income of unconsolidated entities	(503)	(227)
Depreciation expense	61,299	55,972
Gain on sale of real estate assets		(50,291)
Income from discontinued operations		(1,875)
Net operating income	\$ 151,765	\$ 136,157

The NOI changes for the three months ended March 31, 2011, as compared to the prior year period, consist of changes in the following categories (dollars in thousands):

	For the three months ended 3-31-11	
Established Communities	\$	6,230
Other Stabilized Communities		5,808
Development and Redevelopment Communities		3,570
Total	\$	15,608

The increase in our Established Communities NOI for the three months ended March 31, 2011 is due to a combination of increased rental revenues and a small decrease in operating expenses. For the balance of 2011, we expect rental revenue growth will continue to accelerate and further improve over the prior year period due to continued improvement in rental rates while maintaining occupancy near current occupancy levels at our Established Communities.

Rental and other income increased in the three months ended March 31, 2011 as compared to the prior year period due to additional rental income generated from newly developed communities and increases in rental rates at our Established Communities.

Overall Portfolio The weighted average number of occupied apartment homes increased to 41,742 apartment homes for the three months ended March 31, 2011 as compared to 39,777 homes for the prior year period. This increase is primarily due to new homes from increased development activity. The weighted average monthly revenue per occupied apartment home increased to \$1,863 for the three months ended March 31, 2011 as compared to \$1,790 in the prior year period.

Established Communities Rental revenue increased \$6,180,000, or 3.7%, for the three months ended March 31, 2011 from the prior year period. The increase for the three months ended March 31, 2011 is due to an increase in rental rates, with no change in economic occupancy at 96.0%. Economic occupancy takes into account the fact that apartment homes of different sizes and locations within a community have different economic impacts on a community's gross revenue. Economic occupancy is defined as gross potential revenue less vacancy loss, as a percentage of gross potential revenue. Gross potential revenue is determined by valuing occupied homes at leased rates and vacant homes at market rents.

We experienced improved operating results in all markets for our Established Communities during the three months ended March 31, 2011. While East Coast markets continue to show strong improvement, operating performance is accelerating on the West Coast. The shift in momentum is due to improving job growth in several of our West Coast markets. Our first quarter 2011 Established Community results reflect both sequential and year-over-year increases in rental revenue in each of our six regions. Information regarding rental revenue for each of our six regions is discussed in more detail below.

The Metro New York/New Jersey region, which accounted for 27.8% of Established Community rental revenue for the three months ended March 31, 2011, experienced an increase in rental revenue of 4.0% as compared to the prior year period. Average rental rates increased 4.2% to \$2,368, offset partially by a decrease in economic occupancy of 0.2% to 96.0% for the three months ended March 31, 2011. On a sequential basis, Metro New York/New Jersey reported rental revenue growth of 0.3% during the first quarter of 2011. We believe rental revenue growth will continue this positive trend during 2011 at a moderate pace, supported by the ongoing recovery in New York's financial services driven economy.

The New England region accounted for 24.0% of the Established Community rental revenue for the three months ended March 31, 2011 and experienced a rental revenue increase of 4.1% over the prior year period. Average rental rates increased 4.1% to \$1,948, with economic occupancy remaining consistent at 96.0% for the three months ended March 31, 2011, as compared to the prior year period. Sequential revenue growth over the prior quarter was 0.2% during the three months ended March 31, 2011. Growth in this region is supported by an improving high-tech sector and a relatively large share of stable industry sectors in the region's employment base, with Fairfield-New Haven benefiting from improvements in the Metro New York economy.

The Mid-Atlantic/Midwest region, which represented 17.7% of Established Community rental revenue for the three months ended March 31, 2011, experienced an increase in rental revenue of 4.4% over the prior year period, the strongest year-over-year growth for the first quarter of 2011 in our markets. Average rental rates increased by 5.1% to \$1,771, while economic occupancy decreased 0.7% to 95.5% for the three months ended March 31, 2011 as compared to the prior year period. The Mid-Atlantic/Midwest region also experienced sequential quarterly rental revenue growth of 0.5%. Given stronger fundamentals and operating performance in recent years compared to other regions, the level of permits and construction starts is increasing in the DC Metro area. While we expect continued strong operating performance near-term, the impact of reduced federal spending combined with an increase in new rental deliveries may slow growth in rental revenue relative to performance in other regions.

Northern California accounted for 14.4% of the Established Community rental revenue for the three months ended March 31, 2011 and experienced a rental revenue increase of 4.1% over the prior year period. Average rental rates increased 3.9% to \$1,768 and economic occupancy increased 0.2% to 96.4% for the three months ended March 31, 2011 as compared to the prior year period. The Northern California region is seeing some of the strongest sequential revenue growth in our markets, with rental revenue increasing 1.5% over the fourth quarter of 2010, driven by increased hiring in the technology sector. We expect continued improvement in the technology sector to support renter demand in the near-term at a faster pace than our other markets, but the impact is expected to be uneven among the Company's markets in this region.

Southern California accounted for 10.8% of the Established Community rental revenue for the three months ended March 31, 2011 and experienced a rental revenue increase of 1.6% over the prior year period. Average rental rates increased 0.5% to \$1,584, and economic occupancy increased 1.1% to 96.7% for the three months ended March 31, 2011. We expect this region's economy will recover in-line with growth in the national economy but at a somewhat slower pace than our other regions, improving at an increasing rate for the balance of 2011. Consistent with our other West Coast markets, the Southern California region showed strong sequential rental revenue growth, increasing 1.4% over the fourth quarter of 2010.

The Pacific Northwest region accounted for 5.3% of the Established Community rental revenue for the three months ended March 31, 2011 and experienced a rental revenue increase of 2.1% over the prior year period. Average rental rates increased 2.6% to \$1,259, offset somewhat by a decrease in economic occupancy of 0.5% to 95.3% for the three months ended March 31, 2011. The Pacific Northwest showed the strongest sequential quarterly growth of 2.5%, led by an improving employment situation, however the region's improvement in apartment fundamentals remains challenged by the slow absorption of new supply in certain submarkets.

In accordance with GAAP, cash concessions are amortized as an offset to rental revenue over the approximate lease term, which is generally one year. As a supplemental measure, we also present rental revenue with concessions stated on a cash basis to help investors evaluate the impact of both current and historical concessions on GAAP based rental revenue and to more readily enable comparisons to revenue as reported by other companies. Rental revenue with concessions stated on a cash basis also allows investors to understand historical trends in cash concessions, as well as current rental market conditions.

The following table reconciles total rental revenue in conformity with GAAP to total rental revenue adjusted to state concessions on a cash basis for our Established Communities for the three months ended March 31, 2011 and 2010 (dollars in thousands):

	For the three months ended	
	3-31-11	3-31-10
Rental revenue (GAAP basis)	\$ 171,018	\$ 164,838
Concessions amortized	573	2,130
Concessions granted	(129)	(906)
Rental revenue adjusted to state concessions on a cash basis	\$ 171,462	\$ 166,062
Year-over-year % change GAAP revenue		3.7%
Year-over-year % change cash concession based revenue		3.3%

Direct property operating expenses, excluding property taxes increased \$2,546,000, or 4.7% for the three months ended March 31, 2011 as compared to the prior year periods, primarily due to the addition of recently developed apartment homes.

For Established Communities, direct property operating expenses, excluding property taxes, were consistent with the prior year period at \$39,133,000 for the three months ended March 31, 2011. The portfolio experienced a continued reduction in bad debt expense due to the economic improvement and savings in snow removal charges over the prior year period due to the winter storms that occurred in the three months ended March 31, 2010. These decreases were offset somewhat by increased payroll and performance bonuses.

Property taxes increased \$1,704,000, or 7.4% for the three months ended March 31, 2011, due to the addition of newly developed and redeveloped apartment homes. Property tax increases are often impacted by the size and timing of successful tax appeals.

For Established Communities, property taxes decreased by \$60,000, or 0.3% for the three months ended March 31, 2011 from the prior year period. The decrease is due primarily to the impact of a refund from a successful appeal for a community in the New York/New Jersey metro area, partially offset by normal assessment and rate increases. We expect property taxes to increase for the balance of 2011 over 2010. For communities in California, property tax changes are determined by the change in the California Consumer Price Index, with increases limited by law (Proposition 13). We evaluate property tax increases internally and also engage third-party consultants to assist in our evaluations. We appeal property tax increases when appropriate.

Corporate-level property management and other indirect operating expenses increased by \$296,000, or 3.3% for the three months ended March 31, 2011 over the prior year period. The increase is due primarily to increases in compensation costs.

Expensed development and other pursuit costs primarily reflect the costs incurred for abandoned pursuit costs, which include costs incurred for development pursuits not yet considered probable for development, as well as the abandonment of Development Rights and disposition pursuits. These costs can be volatile, particularly in periods of economic downturn or when there is limited access to capital, and the costs may vary significantly from period to period.

Interest expense, net increased \$1,730,000, or 4.1% for the three months ended March 31, 2011 over the prior year period. This category includes interest costs offset by interest capitalized and interest income. The increase for the three months ended March 31, 2011 is due primarily to a decrease in the amount of interest cost allocated to capitalized interest in 2011, as well as interest expense from additional debt outstanding, as compared to the prior year period. The year-over-year increase was offset somewhat by an increase in interest income associated with escrow accounts for certain tax exempt secured borrowings.

Depreciation expense increased \$5,327,000 or 9.5% in the three months ended March 31, 2011 primarily due to the net increase in assets from the completion of development and redevelopment activities.

General and administrative expense (G&A) decreased \$1,603,000, or 18.0%, for the three months ended March 31, 2011 as compared to the prior year period. The decrease is due primarily to a decrease in legal and professional fees and lower equity compensation expense for retirement eligible executive officers.

Equity in income of unconsolidated entities for the three months ended March 31, 2011 increased \$276,000, or 121.6% from the prior year period due primarily to additional income from Fund II.

Income from discontinued operations represents the net income generated by communities sold or qualifying as discontinued operations during the period from January 1, 2010 through March 31, 2011. This income decreased for the three months ended March 31, 2011 as we did not have any communities classified as held for sale as of March 31, 2011.

Gain on sale of communities decreased for the three months ended March 31, 2011 due to the community sales during the prior year period, with no comparable activity in the three months ended March 31, 2011. The amount of gain realized upon disposition of a community depends on many factors, including the number of communities sold, the size and carrying value of those communities and the market conditions in the local area.

Net income (loss) attributable to noncontrolling interests for the three months ended March 31, 2011 resulted in an allocation of income of \$196,000 compared to an allocation of a loss of \$157,000 for the three months ended March 31, 2010. The change for the quarter ended March 31, 2011 is due to allocating the proportionate share of the results of operations from a consolidated subsidiary of Fund I to our joint venture partners.

Funds from Operations Attributable to Common Stockholders (FFO)

FFO is considered by management to be an appropriate supplemental measure of our operating and financial performance. In calculating FFO, we exclude gains or losses related to dispositions of previously depreciated property and exclude real estate depreciation, which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates. FFO can help one compare the operating performance of a real estate company between periods or as compared to different companies. We believe that in order to understand our operating results, FFO should be examined with net income as presented in our Condensed Consolidated Financial Statements included elsewhere in this report.

Consistent with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts® (NAREIT), we calculate FFO as net income or loss computed in accordance with GAAP, adjusted for:

gains or losses on sales of previously depreciated operating communities;

extraordinary gains or losses (as defined by GAAP);

depreciation of real estate assets; and

adjustments for unconsolidated partnerships and joint ventures.

FFO does not represent net income attributable to common stockholders of the Company in accordance with GAAP, and therefore it should not be considered an alternative to net income, which remains the primary measure of performance. In addition, FFO as calculated by other REITs may not be comparable to our calculation of FFO.

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The following is a reconciliation of net income attributable to the Company to FFO (dollars in thousands, except per share data):

	For the three months ended	
	3-31-11	3-31-10
Net income attributable to common stockholders	\$ 30,341	\$ 72,523
Depreciation real estate assets, including discontinued operations and joint venture adjustments	63,194	57,011
Distributions to noncontrolling interests, including discontinued operations	7	14
Gain on sale of operating communities		(50,291)
FFO attributable to common stockholders	\$ 93,542	\$ 79,257
Weighted average common shares outstanding diluted	86,997,530	82,310,670
EPS per common share diluted	\$ 0.35	\$ 0.88
FFO per common share diluted	\$ 1.08	\$ 0.96

FFO also does not represent cash generated from operating activities in accordance with GAAP, and therefore should not be considered an alternative to net cash flows from operating activities, as determined by GAAP, as a measure of liquidity. Additionally, it is not necessarily indicative of cash available to fund cash needs.

A presentation of GAAP based cash flow metrics is as follows (dollars in thousands) and a discussion of Liquidity and Capital Resources can be found later in this report:

	For the three months ended	
	3-31-11	3-31-10
Net cash provided by operating activities	\$ 73,215	\$ 68,883
Net cash used in investing activities	\$ (124,683)	\$ (36,043)
Net cash provided (used in) by financing activities	\$ 36,842	\$ (15,234)

Liquidity and Capital Resources

We believe our principal short-term liquidity needs are to fund:

development and redevelopment activity in which we are currently engaged;

the minimum dividend payments on our common stock required to maintain our REIT qualification under the Code;

debt service and principal payments either at maturity or opportunistic pre-payments;

normal recurring operating expenses; and

capital calls for Fund II, as required.

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Factors affecting our liquidity and capital resources are our cash flows from operations, financing activities and investing activities (including dispositions) as well as general economic and market conditions. Operating cash flow has historically been determined by: (i) the number of apartment homes currently owned, (ii) rental rates, (iii) occupancy levels and (iv) operating expenses with respect to apartment homes. The timing and type of capital markets activity in which we engage, as well as our plans for development, redevelopment, acquisition and disposition activity, are affected by changes in the capital markets environment, such as changes in interest rates or the availability of cost-effective capital. We regularly review our liquidity needs, the adequacy of cash flows from operations and other expected liquidity sources to meet these needs.

For the balance of 2011, we expect to meet our liquidity needs from a variety of internal and external sources, which may include cash balances on hand, borrowing capacity under our Credit Facility (as defined elsewhere in this Form 10-Q), secured and unsecured debt financings, and other public or private sources of liquidity including common and preferred equity, amounts issued under the CEP II discussed below, as well as from our operating activities. Our ability to obtain additional financing will depend on a variety of factors such as market conditions, the general

availability of credit, the overall availability of credit to the real estate industry, our credit ratings and credit capacity, as well as the perception of lenders regarding our long or short-term financial prospects.

At March 31, 2011, we have unrestricted cash, cash equivalents and cash in escrow of \$476,932,000 available for both current liquidity needs as well as development activities, of which \$93,440,000 relates to a Development Right for which we have not begun construction.

Unrestricted cash and cash equivalents totaled \$291,800,000 at March 31, 2011, a decrease of \$14,626,000 from \$306,426,000 at December 31, 2010. The following discussion relates to changes in cash due to operating, investing and financing activities, which are presented in our Condensed Consolidated Statements of Cash Flows included elsewhere in this report.

Operating Activities Net cash provided by operating activities increased to \$73,215,000 for the three months ended March 31, 2011 from \$68,883,000 for the three months ended March 31, 2010. The change was driven primarily by increased NOI from our communities.

Investing Activities Net cash used in investing activities of \$124,683,000 for the three months ended March 31, 2011 related to investments in assets primarily through development and redevelopment. During the three months ended March 31, 2011, we invested \$116,600,000 in the development of the following real estate and capital expenditures:

We invested approximately \$110,644,000 in the development of communities.

We had capital expenditures of \$5,956,000 for real estate and non-real estate assets.

Financing Activities Net cash provided by financing activities totaled \$36,842,000 for the three months ended March 31, 2011. The net cash provided is due to \$150,157,000 received from the issuance of common stock, primarily through the CEP II we initiated in November 2010, partially offset by the payment of cash dividends in the amount of \$76,557,000 and \$30,119,000 for the repayment of secured notes.

Variable Rate Unsecured Credit Facility

We currently have a \$1,000,000,000 revolving variable rate Credit Facility with a syndicate of commercial banks that matures in November 2011. We pay an annual facility fee of approximately \$1,250,000. The Credit Facility bears interest at varying levels based on LIBOR, our credit rating and on a maturity schedule selected by us. The current stated pricing is LIBOR plus 0.40% per annum (0.61% on April 30, 2011). At April 30, 2011, there were no amounts outstanding on the Credit Facility, \$53,823,000 was used to provide letters of credit, and \$946,177,000 was available for borrowing under the Credit Facility.

We expect to refinance the Credit Facility prior to maturity in November 2011. We expect the cost of the new facility will increase as compared to our current Credit Facility. While market conditions likely support an ability to retain our current capacity, a reduction in capacity may be appropriate to avoid increased costs to maintain that capacity.

Financial Covenants

We are subject to financial and other covenants contained in the Credit Facility and the indenture under which our unsecured notes were issued. The financial covenants include the following:

- limitations on the amount of total and secured debt in relation to our overall capital structure;
- limitations on the amount of our unsecured debt relative to the undepreciated basis of real estate assets that are not encumbered by property-specific financing; and
- minimum levels of debt service coverage.

We were in compliance with these covenants at March 31, 2011.

In addition, our secured borrowings may include yield maintenance, defeasance, or prepayment penalty provisions, which would result in us incurring an additional charge in the event of a full or partial prepayment of outstanding principal before the scheduled maturity. These provisions in our secured borrowings are generally consistent with other similar types of debt instruments issued during the same time period in which our borrowings were secured.

Continuous Equity Program (CEP)

In November 2010, we commenced our second continuous equity program (CEP II), under which we may sell up to \$500,000,000 of our common stock from time to time during a 36-month period. Actual sales will depend on a variety of factors to be determined by us, including market conditions, the trading price of our common stock and determinations of the appropriate sources of funding. In conjunction with CEP II, we engaged sales agents who receive compensation of approximately 1.5% of the gross sales price for shares sold. During the three months ended March 31, 2011 we sold 1,247,910 shares under CEP II at an average sales price of \$115.99 per share, for net proceeds of \$142,569,000. From program inception in November 2010 through the end of the first quarter 2011, we sold 1,680,742 shares at an average price of \$115.07 for net proceeds of \$190,504,000. No shares have been sold under CEP II subsequent to March 31, 2011.

Future Financing and Capital Needs Debt Maturities

One of our principal long-term liquidity needs is the repayment of long-term debt at the time that such debt matures. For both our unsecured and secured notes, a portion of the principal of these notes may be repaid prior to maturity. Early retirement of our unsecured notes could result in gains or losses on extinguishment. If we do not have funds on hand sufficient to repay our indebtedness as it becomes due, it will be necessary for us to refinance the debt. This refinancing may be accomplished by uncollateralized private or public debt offerings, additional debt financing that is secured by mortgages on individual communities or groups of communities or draws on our Credit Facility. Although we believe we will have the capacity to meet our currently anticipated liquidity needs, we cannot assure you that additional debt financing or debt or equity offerings will be available or, if available, that they will be on terms we consider satisfactory.

During the three months ended March 31, 2011, we repaid a variable rate secured mortgage note in the amount of \$28,785,000 in accordance with its scheduled maturity date.

In April 2011, we entered into \$430,000,000 of forward starting interest rate swaps agreeing to pay a fixed rate of interest in exchange for a floating rate of interest at a future date. These swaps were transacted to reduce our exposure to fluctuations in interest rates on future debt issuances.

The following table details our consolidated debt maturities for the next five years, excluding our Credit Facility and amounts outstanding related to communities classified as held for sale, for debt outstanding at March 31, 2011 (dollars in thousands). The Company is not directly or indirectly (as borrower or guarantor) obligated in any material respect to pay principal or interest on the indebtedness of any unconsolidated entities in which the Company has an equity or other interest.

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Community	All-In interest rate (1)	Principal maturity date	Balance outstanding		Scheduled maturities					
			12-31-10	3-31-11	2011	2012	2013	2014	2015	Thereafter
Tax-exempt bonds										
<i>Fixed rate</i>										
Avalon Fields	7.80%	May-2027	9,419	9,342	213	339	364	390	419	7,617
Avalon Oaks	7.49%	Feb-2041	16,637	16,596	114	180	193	207	222	15,680
Avalon Oaks West	7.54%	Apr-2043	16,519	16,482	102	162	173	185	198	15,662
Avalon at Chestnut Hill	6.15%	Oct-2047	41,150	41,060	248	388	409	432	455	39,128
Morningside Park	4.11%	May-2046	100,000	100,000 (5)(8)						100,000
			183,725	183,480	677	1,069	1,139	1,214	1,294	178,087
<i>Variable rate (3)</i>										
Waterford	1.12%	Jul-2014	33,100	33,100(4)				33,100		
Avalon at Mountain View	1.17%	Feb-2017	18,300	18,300(4)						18,300
Avalon at Mission Viejo	1.40%	Jun-2025	7,635	7,635(4)						7,635
Avalon at Nob Hill	1.34%	Jun-2025	20,800	20,800(4)						20,800
Avalon Campbell	1.67%	Jun-2025	38,800	38,800						38,800
Avalon Pacifica	1.69%	Jun-2025	17,600	17,600						17,600
Bowery Place I	3.31%	Nov-2037	93,800	93,800(4)						93,800
Bowery Place II	4.46%	Nov-2039	48,500	48,500(5)						48,500
Avalon Acton	1.79%	Jul-2040	45,000	45,000(4)						45,000
West Chelsea	0.22%	May-2012	93,440	93,440(5)		93,440				
Avalon Walnut Creek	2.99%	Mar-2046	116,000	116,000 (5)						116,000
Avalon Walnut Creek	2.97%	Mar-2046	10,000	10,000(5)						10,000
			542,975	542,975		93,440		33,100		416,435
Conventional loans (6)										
<i>Fixed rate</i>										
\$300 Million unsecured notes	6.79%	Sep-2011	39,900	39,900	39,900					
\$250 Million unsecured notes	5.74%	Jan-2012	104,400	104,400		104,400				
\$250 Million unsecured notes	6.26%	Nov-2012	201,601	201,601		201,601				
\$100 Million unsecured notes	5.11%	Mar-2013	100,000	100,000			100,000			
\$150 Million unsecured notes	5.52%	Apr-2014	150,000	150,000				150,000		

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notes										
\$250 Million unsecured notes	5.89%	Sep-2016	250,000	250,000						250,000
\$250 Million unsecured notes	5.82%	Mar-2017	250,000	250,000						250,000
\$250 Million unsecured notes	6.19%	Mar-2020	250,000	250,000						250,000
\$250 Million unsecured notes	4.04%	Jan-2021	250,000	250,000						250,000
Avalon at Twinbrook	7.25%	Oct-2011	7,339	7,277	7,277					
Avalon at Tysons West	5.55%	Jul-2028	5,862	5,813	130	238	250	263	276	4,656
Avalon Orchards	7.78%	Jul-2033	18,678	18,591	240	382	409	438	470	16,652
Avalon at Arlington Square	4.81%	Apr-2013	170,125	170,125			170,125			
Avalon at Cameron Court	5.07%	Apr-2013	94,572	94,572			94,572			
Avalon Crescent	5.59%	May-2015	110,600	110,600					110,600	
Avalon at Silicon Valley	5.74%	Jul-2015	150,000	150,000					150,000	
Avalon Darien	6.22%	Nov-2015	50,559	50,389	527	746	793	843	47,480	
Avalon Greyrock Place	6.12%	Nov-2015	60,935	60,726	646	914	971	1,031	57,164	
Avalon Commons	6.10%	Jan-2019	55,100	54,988	580	734	779	826	875	51,194
Avalon Walnut Creek	4.00%	Jul-2066	2,500	2,500						2,500
Avalon Shrewsbury	5.92%	May-2019	21,130	21,130	137	285	301	319	338	19,750
Avalon Gates	5.92%	May-2019	41,321	41,321	268	557	589	624	660	38,623
Avalon at Stamford Harbor	5.92%	May-2019	65,695	65,695	426	885	937	992	1,050	61,405
Avalon Freehold	5.94%	May-2019	36,630	36,630	237	493	522	553	585	34,240
Avalon Run East II	5.94%	May-2019	39,250	39,250	254	529	560	592	627	36,688
Avalon Gardens	6.05%	May-2019	66,237	66,237	429	892	945	1,000	1,058	61,913
Avalon Edgewater	5.94%	May-2019	78,565	78,565	509	1,058	1,120	1,186	1,255	73,437
Avalon Foxhall	6.05%	May-2019	59,010	59,010	382	795	841	891	943	55,158
Avalon Gallery Place I	6.05%	May-2019	45,850	45,850	297	618	654	692	733	42,856
Avalon Traville	5.91%	May-2019	77,700	77,700	504	1,047	1,108	1,173	1,242	72,626
Avalon Bellevue	5.91%	May-2019	26,698	26,698	173	360	381	403	427	24,954

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Avalon on the Alameda	5.90%	May-2019	53,980	53,980	350	727	770	815	863	50,455
Avalon Mission Bay North	5.90%	May-2019	73,269	73,269	475	987	1,045	1,106	1,171	68,485
Avalon Woburn	5.90%	May-2019	55,805	55,805	362	752	796	842	892	52,161
			3,063,311	3,062,622	54,103	319,000	378,468	164,589	378,709	1,767,753
Variable rate										
(3)(6)										
Avalon at Crane Brook	0.00%	Mar-2011	29,185	(2)						
Avalon at Bedford Center	1.74%	May-2012	15,221	15,221(4)	560	14,661				
Avalon Walnut Creek	3.01%	Mar-2046	9,000	9,000(5)						9,000
\$300 Million unsecured notes	5.71%	Sep-2011	100,000	100,000 (7)	100,000					
\$50 Million unsecured notes	5.71%	Sep-2011	50,000	50,000(7)	50,000					
\$250 Million unsecured notes	4.38%	Jan-2012	75,000	75,000(7)		75,000				
			278,406	249,221	150,560	89,661				9,000
Total indebtedness excluding unsecured credit facility			\$ 4,068,417	\$ 4,038,298	\$ 205,340	\$ 503,170	\$ 379,607	\$ 198,903	\$ 380,003	\$ 2,371,275

- (1) Includes credit enhancement fees, facility fees, trustees' fees and other fees.
- (2) Borrowing was repaid in accordance with its scheduled maturity in March 2011.
- (3) Variable rates are given as of March 31, 2011.
- (4) Financed by variable rate debt, but interest rate is capped through an interest rate protection agreement.
- (5) Represents full amount of the debt as of March 31, 2011. Actual amounts drawn on the debt as of March 31, 2011 are \$48,015 for Bowery Place II, \$90,000 for Morningside Park, \$109,834 for Walnut Creek, and \$0 for West Chelsea.
- (6) Balances outstanding represent total amounts due at maturity, and are net of \$1,115 and \$760 of debt discount and basis adjustments associated with the hedged unsecured notes as of March 31, 2011 and December 31, 2010, respectively, as reflected in unsecured notes on our Condensed Consolidated Balance Sheets included elsewhere in this report.

- (7) In October 2009, we executed interest rate swaps allowing us to effectively convert principal of our fixed rate unsecured notes to floating rate debt.
- (8) In October 2010, we elected to fix the borrowing rate until June 2011, at which point we will select the updated term and mode for the bonds.

Future Financing and Capital Needs Portfolio and Other Activity

As of March 31, 2011, we had 11 wholly-owned communities under construction, for which a total estimated cost of \$386,600,000 remained to be invested. We also had nine wholly-owned communities under reconstruction, for which a total estimated cost of \$59,144,000 remained to be invested. In addition, we may be required to contribute our proportionate share of capital to Fund II, if or to the extent that Fund II makes capital calls in conjunction with additional community acquisitions during 2011. Substantially all of the capital expenditures necessary to complete the communities currently under construction and reconstruction, fund development costs related to pursuing Development Rights, and make equity contributions to Fund II, will be funded from:

cash currently on hand, including cash in construction escrows, invested in highly liquid overnight money market funds and repurchase agreements, and short-term investment vehicles;

the remaining capacity under our \$1,000,000,000 Credit Facility;

retained operating cash;

the net proceeds from sales of existing communities;

the issuance of debt or equity securities; and/or

private equity funding, including joint venture activity.

Before planned reconstruction activity, including reconstruction activity related to communities acquired by the Funds, or the construction of a Development Right begins, we intend to arrange adequate financing to complete these undertakings, although we cannot assure you that we will be able to obtain such financing. In the event that financing cannot be obtained, we may have to abandon Development Rights, write off associated pre-development costs that were capitalized and/or forego reconstruction activity. In such instances, we will not realize the increased revenues and earnings that we expected from such Development Rights or reconstruction activity and significant losses could be incurred.

From time to time we use joint ventures to hold or develop individual real estate assets. We generally employ joint ventures primarily to mitigate asset concentration or market risk and secondarily as a source of liquidity. We may also use joint ventures related to mixed-use land development opportunities where our partners bring development and operational expertise to the venture. Each joint venture or partnership agreement has been individually negotiated, and our ability to operate and/or dispose of a community in our sole discretion may be limited to varying degrees depending on the terms of the joint venture or partnership agreement. We cannot assure you that we will achieve our objectives through joint ventures.

In evaluating our allocation of capital within our markets, we sell assets that do not meet our long-term investment criteria or when capital and real estate markets allow us to realize a portion of the value created over the past business cycle and redeploy the proceeds from those sales to develop and redevelop communities. Because the proceeds from the sale of communities may not be immediately redeployed into revenue generating assets, the immediate effect of a sale of a community for a gain is to increase net income, but reduce future total revenues, total expenses and NOI. However, we believe that the absence of future cash flows from communities sold will have a minimal impact on our ability to fund future liquidity and capital resource needs.

Off-Balance Sheet Arrangements

In addition to our investment interests in consolidated and unconsolidated real estate entities, we have certain off-balance sheet arrangements with the entities in which we invest. Additional discussion of these entities can be found in Note 6, Investments in Real Estate Entities, of our Condensed Consolidated Financial Statements located elsewhere in this report.

CVP I, LLC has outstanding tax-exempt, variable rate bonds maturing in November 2036 in the amount of \$117,000,000, which have permanent credit enhancement. We have agreed to guarantee, under limited

circumstances, the repayment to the credit enhancer of any advances it may make in fulfillment of CVP I, LLC's repayment obligations under the bonds. We have also guaranteed to the credit enhancer that CVP I, LLC will obtain a final certificate of occupancy for the project (Christie Place in New York City), which is expected in 2011. Our 80% partner in this venture has agreed that it will reimburse us its pro rata share of any amounts paid relative to these guaranteed obligations. The estimated fair value of and our obligation under these guarantees, both at inception and as of March 31, 2011, were not significant. As a result we have not recorded any obligation associated with these guarantees at March 31, 2011.

Subsidiaries of Fund I have 21 loans secured by individual assets with amounts outstanding in the aggregate of \$433,863,000, including \$23,839,000 for the mortgage note of a Fund I subsidiary that we purchased during 2010. Fund I subsidiary loans have varying maturity dates (or dates after which the loans can be prepaid), ranging from October 2011 to September 2016. These mortgage loans are secured by the underlying real estate. The mortgage loans are payable by the subsidiaries of Fund I with operating cash flow or disposition proceeds from the underlying real estate. We have not guaranteed the debt of Fund I, nor do we have any obligation to fund this debt should Fund I be unable to do so.

In addition, as part of the formation of Fund I, we have provided to one of the limited partners a guarantee. The guarantee provides that if, upon final liquidation of Fund I, the total amount of all distributions to that partner during the life of Fund I (whether from operating cash flow or property sales) does not equal a minimum of the total capital contributions made by that partner, then we will pay the partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the partner (maximum of approximately \$7,500,000 as of March 31, 2011). As of March 31, 2011, the expected realizable value of the real estate assets owned by Fund I is considered adequate to cover such potential payment to that partner under the expected Fund I liquidation scenario. The estimated fair value of, and our obligation under this guarantee, both at inception and as of March 31, 2011 was not significant and therefore we have not recorded any obligation for this guarantee as of March 31, 2011.

As of March 31, 2011, subsidiaries of Fund II have nine loans secured by individual assets with amounts outstanding in the aggregate of \$332,882,000 with varying maturity dates (or dates after which the loans can be prepaid), ranging from November 2014 to June 2019. During the three months ended March 31, 2011, one subsidiary of Fund II obtained a fixed rate secured note for \$46,141,000 with a 4.68% interest rate with a maturity of February 2018. As of March 31, 2011, Fund II also has \$11,000,000 outstanding under a credit facility that matures in December 2011. The mortgage loans are payable by the subsidiaries of Fund II with operating cash flow or disposition proceeds from the underlying real estate, and the credit facility is payable by Fund II and is secured by capital commitments. We have not guaranteed, beyond our proportionate share of capital commitments supporting the credit facility of Fund II, the debt of Fund II, nor do we have any obligation to fund this debt should Fund II be unable to do so.

In addition, as part of the formation of Fund II, we have provided to one of the limited partners a guarantee. The guarantee provides that if, upon final liquidation of Fund II, the total amount of all distributions to that partner during the life of Fund II (whether from operating cash flow or property sales) does not equal a minimum of the total capital contributions made by that partner, then we will pay the partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the partner (maximum of approximately \$5,843,000 as of March 31, 2011). As of March 31, 2011, the expected realizable value of the real estate assets owned by Fund II is considered adequate to cover such potential payment to that partner under the expected Fund II liquidation scenario. The estimated fair value of, and our obligation under this guarantee, both at inception and as of March 31, 2011 was not significant and therefore we have not recorded any obligation for this guarantee as of March 31, 2011.

Each individual mortgage loan of Fund I or Fund II was made to a special purpose, single asset subsidiary of the Funds. Each mortgage loan provides that it is the obligation of the respective subsidiary only, except under exceptional circumstances (such as fraud or misapplication of funds) in which case the respective Fund could also have obligations with respect to the mortgage loan. In no event do the mortgage loans provide for recourse against investors in the Funds, including against us or our wholly-owned subsidiaries that invest in the Funds. Similarly, in no event are investors in Fund II obligated with respect to the credit facility for Fund II except with respect to their capital commitment to Fund II. A default by a Fund or a

Fund subsidiary on any loan to it would not constitute a default under any of our loans or any loans of our other non-Fund subsidiaries or affiliates. If either the Funds or a subsidiary of one of the Funds were unable to meet its obligations under a loan, the value of our investment in that Fund would likely decline and we might also be more likely to be obligated under the guarantee we provided to one of the Fund partners in each Fund as described above. If either of the Funds or a subsidiary of one of the Funds were unable to meet its obligations under a loan, we and/or the other investors might evaluate whether it was in our respective interests to voluntarily support the Fund through additional equity contributions and/or take other actions to avoid a default under a loan or the consequences of a default (such as foreclosure of a Fund asset).

In the future, in the event either of the Funds were unable to meet their obligations under a loan, we cannot predict at this time whether we would provide any voluntary support, or take any other action, as any such action would depend on a variety of factors, including the amount of support required and the possibility that such support could enhance the return of either of the Funds and/or our returns by providing time for performance to improve.

MVP I, LLC, the entity that owns Avalon at Mission Bay North II, has a loan secured by the underlying real estate assets of the community for \$105,000,000. The loan is a fixed rate, interest-only note bearing interest at 6.02%, maturing in December 2015. We have not guaranteed the debt of MVP I, LLC, nor do we have any obligation to fund this debt should MVP I, LLC be unable to do so.

Avalon Del Rey Apartments, LLC has a loan secured by the underlying real estate assets of the community for \$44,838,000 maturing in April 2016. The variable rate loan had an interest rate of 3.60% at March 31, 2011. We have not guaranteed the debt of Avalon Del Rey Apartments, LLC, nor do we have any obligation to fund this debt should Avalon Del Rey Apartments, LLC be unable to do so.

Aria at Hathorne Hill, LLC is a joint venture in which we have a non-managing member interest. The LLC is developing for-sale town homes in Danvers, Massachusetts. The LLC has a variable rate loan for \$1,860,000 that matured in June 2010. As of March 31, 2011, the amounts under this borrowing have not been repaid, and the venture is negotiating an extension or refinancing of the amounts outstanding. The lender has declared an event of default with respect to the note and required the venture to pay a default rate of interest, the impact of which is immaterial to us. Although we bear no responsibility to repay the amounts outstanding, we have the right to cure any event of default by the venture.

In 2007 we entered into a non-cancelable commitment (the Commitment) to acquire parcels of land in Brooklyn, New York for an aggregate purchase price of approximately \$111,000,000. Under the terms of the Commitment, we are closing on the various parcels over a period determined by the seller's ability to execute unrelated purchase transactions and achieve deferral of gains for the land sold under this Commitment. During the three months ended March 31, 2011, we negotiated an extension for the purchase period with the seller extending the period during which the land closings can occur, until December 2012. At December 2012, either we or the seller can compel execution of the remaining transactions. At March 31, 2011, we have an outstanding commitment to purchase the remaining land for approximately \$50,527,000.

There are no other lines of credit, side agreements, financial guarantees or any other derivative financial instruments related to or between our unconsolidated real estate entities and us. In evaluating our capital structure and overall leverage, management takes into consideration our proportionate share of this unconsolidated debt.

Contractual Obligations

We currently have contractual obligations consisting primarily of long-term debt obligations and lease obligations for certain land parcels and regional and administrative office space. During the three months ended March 31, 2011, we exercised a termination provision under a ground lease associated with an abandoned development pursuit. The lease required cash payments of \$5,400 in 2011 and between \$8,000 and \$12,000 per year through the expiration date of the lease in 2105. The required cash payments under the ground lease were being offset in their entirety by cash receipts from subleases through termination of the agreement. By exercising its termination option,

we eliminated all future obligations under the land lease, reducing both future cash payments due under the land lease and offsetting cash receipts under the associated subleases. There have been no other changes in our scheduled contractual obligations required for the next five years and thereafter for the quarter ended March 31, 2011.

Development Communities

As of March 31, 2011, we had 11 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 2,446 apartment homes to our portfolio for a total capitalized cost, including land acquisition costs, of approximately \$643,400,000. You should carefully review Item 1a., Risk Factors, of our Form 10-K for a discussion of the risks associated with development activity.

The following table presents a summary of the Development Communities. We hold a direct or indirect fee simple ownership interest in these communities.

	Number of apartment homes	Total capitalized cost (1) (\$ millions)	Construction start	Initial occupancy (2)	Estimated completion	Estimated stabilization (3)
1 Avalon Rockville Centre <i>Rockville Centre, NY</i>	349	\$ 109.7	Q1 2010	Q2 2011	Q3 2012	Q1 2013
2 Avalon Queen Anne <i>Seattle, WA</i>	203	56.7	Q3 2010	Q4 2011	Q2 2012	Q4 2012
3 Avalon at the Pinehills II <i>Plymouth, MA</i>	91	18.4	Q3 2010	Q2 2011	Q3 2011	Q1 2012
4 Avalon Springs II <i>Wilton, CT</i>	100	31.3	Q3 2010	Q2 2011	Q3 2011	Q1 2012
5 Avalon Green II <i>Greenburgh, NY</i>	444	110.6	Q3 2010	Q4 2011	Q1 2013	Q3 2013
6 Avalon Brandemoor II <i>Lynnwood, WA</i>	82	15.5	Q3 2010	Q3 2011	Q4 2011	Q2 2012
7 Avalon Cohasset <i>Cohasset, MA</i>	220	53.1	Q4 2010	Q4 2011	Q2 2012	Q4 2012
8 Avalon Ocean Avenue <i>San Francisco, CA</i>	173	61.1	Q4 2010	Q2 2012	Q4 2012	Q2 2013
9 Avalon North Bergen <i>North Bergen, NJ</i>	164	45.2	Q4 2010	Q3 2012	Q3 2012	Q1 2013
10 Avalon at Wesmont Station I <i>Wood-Ridge, NJ</i>	266	64.2	Q4 2010	Q2 2012	Q1 2013	Q3 2013
11 Avalon Park Crest <i>Tysons Corner, VA</i>	354	77.6	Q4 2010	Q2 2012	Q2 2013	Q4 2013
Total	2,446	\$ 643.4				

- (1) Total capitalized cost includes all capitalized costs projected to be or actually incurred to develop the respective Development Community, determined in accordance with GAAP, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees. Total capitalized cost for communities identified as having joint venture ownership, either during construction or upon construction completion, represents the total projected joint venture contribution amount.
- (2) Future initial occupancy dates are estimates. There can be no assurance that we will pursue to completion any or all of these proposed developments.
- (3) Stabilized operations is defined as the earlier of (i) attainment of 95% or greater physical occupancy or (ii) the one-year anniversary of completion of development.

Redevelopment Communities

As of March 31, 2011, there were nine communities under redevelopment. We expect the total capitalized cost to redevelop these communities to be \$112,400,000 excluding costs prior to redevelopment. We have found that the cost to redevelop an existing apartment community is more difficult to budget and estimate than the cost to develop a new community. Accordingly, we expect that actual costs may vary from our budget by a wider range than for a new development community. We cannot assure you that we will meet our schedule for reconstruction completion or increasing operations, or that we will meet our budgeted costs, either individually or in the aggregate. We anticipate maintaining our current level of redevelopment activity related to communities in our current operating portfolio for the remainder of 2011. You should carefully review Item 1a., Risk Factors, of our Form 10-K for a discussion of the risks associated with redevelopment activity.

The following presents a summary of these Redevelopment Communities:

	Number of apartment homes	Total cost (\$ millions)		Reconstruction start	Estimated reconstruction completion	Estimated restabilized operations (2)
		Pre-redevelopment cost	Total capitalized cost (1)			
1. Avalon Pleasanton <i>Pleasanton, CA</i>	456	\$ 63.0	\$ 80.6	Q2 2009	Q4 2011	Q2 2012
2. Avalon Princeton Junction <i>West Windsor, NJ</i>	512	30.2	49.7	Q2 2009	Q1 2012	Q3 2012
3. Avalon Summit <i>Quincy, MA</i>	245	17.7	26.2	Q2 2010	Q2 2011	Q4 2011
4. Avalon at Decoverly (3) <i>Rockville, MD</i>	564	63.5	71.1	Q3 2010	Q2 2011	Q4 2011
5. Avalon Commons <i>Smithtown, NY</i>	312	34.1	38.4	Q4 2010	Q3 2011	Q1 2012
6. Avalon at South Coast <i>Costa Mesa, CA</i>	258	26.0	33.8	Q4 2010	Q1 2012	Q3 2012
7. Crowne Ridge <i>San Rafael, CA</i>	254	33.1	46.8	Q4 2010	Q2 2012	Q4 2012
8. Avalon Cove <i>Jersey City, NJ</i>	504	93.7	114.0	Q4 2010	Q3 2012	Q1 2013
9. Avalon Sunset Towers <i>San Francisco, CA</i>	243	28.9	42.0	Q4 2010	Q3 2013	Q1 2014
Total (4)	3,348	\$ 390.2	\$ 502.6			

- (1) Total capitalized cost includes all capitalized costs projected to be or actually incurred to redevelop the respective Redevelopment Community, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees, all as determined in accordance with GAAP.
- (2) Restabilized operations is defined as the earlier of (i) attainment of 95% or greater physical occupancy or (ii) the one-year anniversary of completion of redevelopment.
- (3) Redevelopment efforts will be focused on the 368 units associated with the initial phase of this community which was acquired by one of our predecessors in Q3 1995.
- (4) We commenced the redevelopment of Avalon at Prudential Center in Boston, MA during the second quarter of 2010 for an estimated total capitalized cost of \$28.4 million, excluding costs incurred prior to the redevelopment. The redevelopment is primarily focused on the exterior and/or common area and is not expected to have a material impact on community operations, including occupancy, or the expected future level of rental revenue. This community is therefore included in the Established Community portfolio and not classified as a Redevelopment Community.

Development Rights

At March 31, 2011, we had \$193,593,000 in acquisition and related capitalized costs for land parcels we own, and \$85,382,000 in capitalized costs (including legal fees, design fees and related overhead costs) related to Development Rights for which we control the land parcel, typically

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through an option to purchase or lease the land. Collectively, the land held for development and associated costs for deferred development rights relate to 34 Development Rights for which we expect to develop new apartment communities in the future. The cumulative capitalized costs for land held for development as of March 31, 2011, includes \$154,375,000 in original land

acquisition costs. We also have \$50,527,000 in future land acquisition costs under our Commitment, related to a Development Right in Brooklyn, NY, as discussed under *Off-Balance Sheet Arrangements* elsewhere within this Form 10-Q. The original land acquisition cost per home, including our obligation under the Commitment, ranged from \$9,000 per home in Connecticut to \$150,000 per home in New York City. In addition, the land for a Development Right that we control under a 99-year land lease agreement is subject to future minimum rental amounts of \$6,600,000 per year. The Development Rights range from those beginning design and architectural planning to those that have completed site plans and drawings and can begin construction almost immediately. We estimate that the successful completion of all of these communities would ultimately add approximately 9,424 apartment homes to our portfolio. Substantially all of these apartment homes will offer features like those offered by the communities we currently own.

For 24 Development Rights, we control the land through an option to purchase or lease the parcel. While we generally prefer to hold Development Rights through options to acquire land, for the remaining 10 Development Rights we either currently own the land or have executed a long term land lease for the parcel of land on which a community would be built if we proceeded with development.

The properties comprising the Development Rights are in different stages of the due diligence and regulatory approval process. The decisions as to which of the Development Rights to invest in, if any, or to continue to pursue once an investment in a Development Right is made, are business judgments that we make after we perform financial, demographic and other analyses. In the event that we do not proceed with a Development Right, we generally would not recover capitalized costs incurred in the pursuit of those communities, unless we were to recover amounts in connection with the sale of land; however, we cannot guarantee a recovery. Pre-development costs incurred in the pursuit of Development Rights for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development no longer probable, any capitalized pre-development costs are charged to expense.

You should carefully review Section 1a., *Risk Factors*, of our Form 10-K for a discussion of the risks associated with Development Rights.

Market	Number of rights	Estimated number of homes	Total capitalized cost (\$ millions) (1)
Boston, MA	5	1,289	\$ 423
Fairfield-New Haven, CT	4	781	154
New York, NY	3	1,720	754
New Jersey	10	2,444	489
Long Island, NY	2	507	143
Washington, DC Metro	4	1,247	312
Seattle, WA	2	578	150
Oakland-East Bay, CA	2	505	143
San Francisco, CA	1	174	75
Orange County, CA	1	179	49
Total	34	9,424	\$ 2,692

- (1) Total capitalized cost includes all capitalized costs incurred to date (if any) and projected to be incurred to develop the respective community, determined in accordance with GAAP, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees.

Other Land and Real Estate Assets

We own land parcels with a carrying value of approximately \$99,005,000 that we do not currently plan to develop. These parcels consist of land that we (i) originally planned to develop and (ii) ancillary parcels acquired in connection with Development Rights that we had not planned to develop, as more fully described below.

i) The land that we originally acquired for future development has an original cost of \$129,376,000, and a current carrying value of \$76,985,000, and is comprised of seven parcels originally intended for the development of approximately 2,600 apartment homes. The current carrying value of these land parcels reflects impairment charges of \$52,391,000 incurred in prior periods.

ii) The out parcels and certain other land parcels that we acquired in connection with various development pursuits without a view to developing have a current carrying value of \$22,020,000, which reflects impairment charges of \$12,166,000 incurred in prior periods.

We believe that the current carrying value of \$99,005,000 for all of these land parcels is such that there is no indication of impaired value, or further need to record a charge for impairment in the case of assets previously impaired. However, we may be subject to the recognition of further charges for impairment in the event that there are indicators of such impairment, and we determine that the carrying value of the assets is greater than the current fair value, less costs to dispose.

Insurance and Risk of Uninsured Losses

We carry commercial general liability insurance and property insurance with respect to all of our communities. These policies, and other insurance policies we carry, have policy specifications, insured limits and deductibles that we consider commercially reasonable. There are, however, certain types of losses (such as losses arising from acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in management's view, economically impractical. You should carefully review the discussion under Item 1a., Risk Factors, of our Form 10-K for a discussion of risks associated with an uninsured property or liability loss.

On January 15, 2011, we elected to extend our property insurance policy for a new 16 month term in order to take advantage of market conditions. As a result, our property insurance premium decreased by approximately 10% with no material changes in coverage. We expect to renew this policy when it expires on May 15, 2012.

Inflation and Deflation

Substantially all of our apartment leases are for a term of one year or less. In an inflationary environment, this may allow us to realize increased rents upon renewal of existing leases or the beginning of new leases. Short-term leases generally minimize our risk from the adverse effects of inflation, although these leases generally permit residents to leave at the end of the lease term and therefore expose us to the effect of a decline in market rents. In a deflationary rent environment, we may be exposed to declining rents more quickly under these shorter-term leases.

Forward-Looking Statements

This Form 10-Q contains forward-looking statements as that term is defined under the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by our use of the words believe, expect, anticipate, intend, estimate, assume, project, plan, and other similar expressions in this Form 10-Q, that predict or indicate future events and trends and that do not report historical matters. These statements include, among other things, statements regarding our intent, belief or expectations with respect to:

our potential development, redevelopment, acquisition or disposition of communities;

the timing and cost of completion of apartment communities under construction, reconstruction, development or redevelopment;

the timing of lease-up, occupancy and stabilization of apartment communities;

the pursuit of land on which we are considering future development;

the anticipated operating performance of our communities;

cost, yield, revenue, NOI and earnings estimates;

our declaration or payment of distributions;

our joint venture and discretionary fund activities;

our policies regarding investments, indebtedness, acquisitions, dispositions, financings and other matters;

our qualification as a REIT under the Internal Revenue Code;

the real estate markets in Northern and Southern California and markets in selected states in the Mid-Atlantic, Midwest, New England, Metro New York/New Jersey and Pacific Northwest regions of the United States and in general;

the availability of debt and equity financing;

interest rates;

general economic conditions including the recent economic downturn; and

trends affecting our financial condition or results of operations.

We cannot assure the future results or outcome of the matters described in these statements; rather, these statements merely reflect our current expectations of the approximate outcomes of the matters discussed. We do not undertake a duty to update these forward-looking statements, and therefore they may not represent our estimates and assumptions after the date of this report. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to differ materially from the anticipated future results, performance or achievements expressed or implied by these forward-looking statements. You should carefully review the discussion under Item 1a., Risk Factors, on our Form 10-K for a discussion of risks associated with forward-looking statements.

Some of the factors that could cause our actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements include, but are not limited to, the following:

we may fail to secure development opportunities due to an inability to reach agreements with third-parties to obtain land at attractive prices or to obtain desired zoning and other local approvals;

we may abandon or defer development opportunities for a number of reasons, including changes in local market conditions which make development less desirable, increases in costs of development, increases in the cost of capital or lack of capital availability, resulting in losses;

construction costs of a community may exceed our original estimates;

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we may not complete construction and lease-up of communities under development or redevelopment on schedule, resulting in increased interest costs and construction costs and a decrease in our expected rental revenues;

occupancy rates and market rents may be adversely affected by competition and local economic and market conditions which are beyond our control;

financing may not be available on favorable terms or at all, and our cash flows from operations and access to cost effective capital may be insufficient for the development of our pipeline which could limit our pursuit of opportunities;

our cash flows may be insufficient to meet required payments of principal and interest, and we may be unable to refinance existing indebtedness or the terms of such refinancing may not be as favorable as the terms of existing indebtedness;

we may be unsuccessful in our management of Fund I, Fund II or the REIT vehicles that are used with each respective Fund; and

we may be unsuccessful in managing changes in our portfolio composition.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of

the facts and circumstances relating to various transactions had been different, or different assumptions were made, it is possible that different accounting policies would have been applied, resulting in different financial results or a different presentation of our financial statements. Our critical accounting policies consist primarily of the following: (i) principles of consolidation, (ii) cost capitalization, (iii) asset impairment evaluation and (iv) REIT status. Our critical accounting policies and estimates have not changed materially from the discussion of our significant accounting policies found in Management's Discussion and Analysis and Results of Operations in our Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our exposures to market risk since December 31, 2010.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2011. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

We continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

(b) Changes in internal controls over financial reporting.

None.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various claims and/or administrative proceedings that arise in the ordinary course of our business. While no assurances can be given, the Company does not believe that any of these outstanding litigation matters, individually or in the aggregate, will have a material adverse effect on its operations.

Item 1a. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors which could materially affect our business, financial condition or future results discussed in the Form 10-K in Part I, Item 1a. Risk Factors. The risks described in our Form 10-K are not the only risks that could affect the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results in the future. There have been no material changes to our risk factors since December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended March 31, 2011, the Company issued 7,500 shares of common stock in exchange for 7,500 units of limited partnership held by a limited partner of Avalon Upper Falls, LLC. The shares were issued in reliance on an exemption from

registration under Section 4(2) of the Securities Act of 1933. The Company is relying on the exemption based on factual representations received from the limited partner who received these shares.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Dollar Amount that May Yet be Purchased Under the Plans or Programs (in thousands) (2)
January 1 - January 31, 2011	125	\$ 112.55		\$ 200,000
February 1 - February 28, 2011	3,253	\$ 117.14		\$ 200,000
March 1 - March 31, 2011	34,971	\$ 117.10		\$ 200,000

(1) Reflects shares surrendered to the Company in connection with exercise of stock options as payment of exercise price, as well as for taxes associated with the vesting of restricted share grants.

(2) As disclosed in our Form 10-Q for the quarter ended March 31, 2008, represents amounts outstanding under the Company's \$500,000,000 Stock Repurchase Program. There is no scheduled expiration date to this program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

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Exhibit No.	Description
3(i).1	Articles of Amendment and Restatement of Articles of Incorporation of AvalonBay Communities (the Company), dated as of June 4, 1998. (Incorporated by reference to Exhibit 3(i).1 to Form 10-K of the Company filed on March 1, 2007.)
3(i).2	Articles of Amendment, dated as of October 2, 1998. (Incorporated by reference to Exhibit 3(i).2 to Form 10-K of the Company filed on March 1, 2007.)
3(ii).1	Amended and Restated Bylaws of the Company, as adopted by the Board of Directors on May 21, 2009. (Incorporated by reference to Exhibit 3(ii).1 to Form 10-K of the Company filed on March 1, 2010.)
3(ii).2	Amendment to Amended and Restated Bylaws of the Company, dated February 10, 2010. (Incorporated by reference to Exhibit 3.2 to Form 8-K of the Company filed February 12, 2010.)
4.1	Indenture for Senior Debt Securities, dated as of January 16, 1998, between the Company and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to Exhibit 4.1 to Registration Statement on form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
4.2	First Supplemental Indenture, dated as of January 20, 1998, between the Company and the State Street Bank and Trust Company as Trustee. (Incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
4.3	Second Supplemental Indenture, dated as of July 7, 1998, between the Company and State Street Bank and Trust Company as Trustee. (Incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
4.4	Amended and Restated Third Supplemental Indenture, dated as of July 10, 2000 between the Company and State Street Bank and Trust Company as Trustee. (Incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
4.5	Fourth Supplemental Indenture, dated as of September 18, 2006 between the Company and U.S. Bank National Association as Trustee. (Incorporated by reference to Exhibit 4.5 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
4.6	Dividend Reinvestment and Stock Purchase Plan of the Company. (Incorporated by reference to Exhibit 8.1 to Registration Statement on Form S-3 of the Company (File No. 333-87063), filed September 14, 1999.)
4.7	Amendment to the Company's Dividend Reinvestment and Stock Purchase Plan filed on December 17, 1999. (Incorporated by reference to the Prospectus Supplement filed pursuant to Rule 424(b)(2) of the Securities Act of 1933 on December 17, 1999.)
4.8	Amendment to the Company's Dividend Reinvestment and Stock Purchase Plan filed on March 26, 2004. (Incorporated by reference to the Prospectus Supplement filed pursuant to Rule 424(b)(3) of the Securities Act of 1933 on March 26, 2004.)

- 4.9 Amendment to the Company's Dividend Reinvestment and Stock Purchase Plan filed on May 15, 2006. (Incorporated by references to the Prospectus Supplement filed pursuant to Rule 424(b)(3) of the Securities Act of 1933 on May 15, 2006.)
- 12.1 Statements re: Computation of Ratios. (Filed herewith.)
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer). (Filed herewith.)
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer). (Filed herewith.)
- 32 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer and Chief Financial Officer). (Furnished herewith.)
- 101 XBRL (Extensible Business Reporting Language). The following materials from AvalonBay Communities, Inc.'s Quarterly Report on form 10-Q for the period ended March 31, 2011, formatted in XBRL: (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations, (iii) condensed consolidated statements of cash flows, and (iv) notes to consolidated financial statements.*

* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

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

AVALONBAY COMMUNITIES, INC.

Date: May 6, 2011

/s/ Bryce Blair
Bryce Blair

Chief Executive Officer

(Principal Executive Officer)

Date: May 6, 2011

/s/ Thomas J. Sargeant
Thomas J. Sargeant
Chief Financial Officer
(Principal Financial Officer)