COMMERCIAL NATIONAL FINANCIAL CORP /PA
Form 10-Q
November 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2006

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission file number 0-18676

COMMERCIAL NATIONAL FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	25-1623213
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
900 LIGONIER STREET LATROBE, PA	15650
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: (724) 539-3501

Indicate by checkmark 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[X] No [ ]

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

Large Accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [x]

Indicate by check mark whether the registrant is a shell company(as defined in Rule 12b-2 of the Exchange Act).

[ ]yes [x] No

Indicate the number of shares outstanding of each of the issuer's classes of common stock.

CLASS	OUTSTANDING AT October 31, 2006
Common Stock, $2 Par Value	3,044,813 Shares

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PART II - OTHER INFORMATION

Item 1. Financial Statements

COMMERCIAL NATIONAL FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except per share amounts)

	September 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Cash and due from banks	$ 14,065	$ 12,760
Interest bearing deposits with banks	74	121
Total cash and cash equivalents	14,139	12,881
Federal funds sold	-	16,950
Investment securities available for sale	80,854	66,117
Restricted investments in bank stock	1,112	1,013
Loans receivable	226,909	207,039
Allowance for loan losses	(1,710)	(1,636)
Net loans	225,199	205,403
Premises and equipment, net	3,978	4,301
Investment in life insurance	13,272	12,940
Other assets	3,284	2,776
Total assets	$ 341,838	$ 322,381
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (all domestic):		
Non-interest bearing	$ 71,451	$ 69,025
Interest bearing	227,110	207,984
Total deposits	298,561	277,009
Short term borrowings	4,575	-
Other liabilities	1,884	1,711
Total liabilities	305,020	278,720
Shareholders' equity:		
Common stock, par value $2 per share; 10,000,000 shares authorized; 3,600,000 issued; 3,044,813 shares outstanding in 2006 and 3,413,426 shares outstanding in 2005	7,200	7,200
Retained earnings	39,644	39,422
Accumulated other comprehensive income	380	617

Treasury stock, at cost, 555,187 shares in 2006 and 186,574 shares in 2005		(10,406)		(3,578)
Total shareholders' equity		36,818		43,661
Total liabilities and shareholders' equity	$	341,838	$	322,381

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

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COMMERCIAL NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30 (unaudited)		Nine Months Ended September 30 (unaudited)	
	2006	2005	2006	2005
INTEREST INCOME:				
Interest and fees on loans	$ 3,307	$ 2,909	$ 9,584	$ 8,406
Interest and dividends on investments:				
Taxable	1,123	1,053	2,949	3,489
Exempt from federal income taxes	38	37	109	104
Other	60	90	351	131
Total interest income	4,528	4,089	12,993	12,130
INTEREST EXPENSE:				
Interest on deposits	1,533	1,119	4,087	3,206
Interest on short-term borrowings	87	-	91	22
Total interest expense	1,620	1,119	4,178	3,228
NET INTEREST INCOME	2,908	2,970	8,815	8,902
PROVISION (CREDIT) FOR LOAN LOSSES	60	15	120	(455)
NET INTEREST INCOME AFTER PROVISION (CREDIT) FOR LOAN LOSSES	2,848	2,955	8,695	9,357
OTHER OPERATING INCOME:				
Asset management and trust income	222	189	669	625
Service charges on deposit accounts	169	168	479	443
Other service charges and fees	158	160	530	518
Net security gains	25	-	25	-
Income from investment in life insurance	134	124	392	377
Other income	64	48	168	160
	772	689	2,263	2,123

Total other operating income							
OTHER OPERATING EXPENSES:							
Salaries and employee benefits		1,274		1,266		3,884		3,958
Net occupancy		183		170		546		538
Furniture and equipment expense		153		185		469		556
Pennsylvania shares tax		141		140		421		418
Legal and professional		128		147		557		421
Other expenses		696		674		2,228		2,119
Total other operating expenses		2,575		2,582		8,105		8,010
INCOME BEFORE INCOME TAXES		1,045		1,062		2,853		3,470
Income tax expense		263		289		729		926
NET INCOME	$	782	$	773	$	2,124	$	2,544
Average Shares Outstanding		3,044,813		3,413,426		3,157,699		3,413,426
EARNINGS PER SHARE, BASIC	$	0.26	$	0.23	$	0.67	$	0.75
Dividends Declared Per Share	$	0.20	$	0.20	$	0.60	$	0.65

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

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COMMERCIAL NATIONAL FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollar amounts in thousands, except per share data)

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
(unaudited)					
Balance at December 31, 2005	$ 7,200	$ 39,422	$ (3,578)	$ 617	$ 43,661
Comprehensive Income:					
Net income	-	2,124	-	-	2,124
Other comprehensive income, net of tax:					
Unrealized net losses on securities	-	-	-	(237)	(237)
Total Comprehensive Income					1,887
Cash dividends declared $.60 per share	-	(1,902)	-	-	(1,902)
Purchase of Treasury Stock (368,613 shares)			(6,828)		(6,828)
Balance at September 30, 2006	$ 7,200	$ 39,644	$ (10,406)	$ 380	$ 36,818
(unaudited)					
Balance at December 31, 2004	$ 7,200	$ 38,946	$ (3,578)	$ 2,092	$ 44,660
Comprehensive Income					
Net income	-	2,544	-	-	2,544
Other comprehensive income, net of tax:					
Unrealized net losses on securities	-	-	-	(984)	(984)
Total Comprehensive Income					1,560
Cash dividends declared $.65 per share	-	(2,219)	-	-	(2,219)
Balance at September 30, 2005	$ 7,200	$ 39,271	$ (3,578)	$ 1,108	$ 44,001

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

COMMERCIAL NATIONAL FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)
(unaudited)

	For Nine Months Ended September 30 2006	2005
OPERATING ACTIVITIES		
Net income	$ 2,124	$ 2,544
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	396	518
Amortization of intangibles	73	73
Provision (credit) for loan losses	120	(455)
Net accretion of loans and securities	(25)	(56)
Net securities gains	(25)	-
Gain on sale of foreclosed real estate	(12)	-
Income from investment in life insurance	(392)	(377)
Increase in other liabilities	295	226
(Increase) decrease in other assets	(538)	495
Net cash provided by operating activities	2,016	2,968
INVESTING ACTIVITIES		
(Increase) decrease in federal funds sold	16,950	(11,350)
Purchase of securities	(40,213)	(602)
Maturities and calls of securities	10,874	23,926
Proceeds from sales of securities	14,319	-
(Increase) decrease in restricted bank stock	(99)	710
Proceeds from sale of foreclosed real estate	29	-
Net increase in loans	(19,941)	(13,420)
Purchase of premises and equipment	(74)	(218)
Net cash used in investing activities	(18,155)	(954)
FINANCING ACTIVITIES		
Net increase in deposits	21,552	13,362
Increase (decrease) in short-term borrowings	4,575	(7,950)
Dividends paid	(1,902)	(2,219)
Purchase of treasury stock	(6,828)	-
Net cash provided by (used in) financing activities	17,397	(3,193)
Increase in cash and cash equivalents	1,258	5,207
Cash and cash equivalents at beginning of year	12,881	7,786
Cash and cash equivalents at end of quarter	$ 14,139	$ 12,993

Supplemental disclosures of cash flow information:

Cash paid during the period for:				
Interest	$	3,896	$	3,186
Income Taxes	$	825	$	780

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

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COMMERCIAL NATIONAL FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006

Note 1 Basis of Presentation

The accompanying consolidated financial statements include the accounts of Commercial National Financial Corporation (the "Corporation") and its wholly owned subsidiary, Commercial Bank & Trust of PA (the'Bank"). All material intercompany transactions have been eliminated.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. However, they do not include all information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the annual financial statements of the Corporation for the year ended December 31, 2005, including the notes thereto. In the opinion of management, the unaudited interim consolidated financial statements include all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of financial position as of September 30, 2006 and the results of operations for the three and nine-month periods ended September 30, 2006. The results of operations for the three and nine months ended September 30, 2006 are not necessarily indicative of the results to be expected for the entire year.

Note 2 Allowance for Loan Losses

The provision for loan losses is the amount added to the allowance against which actual loan losses are charged. The amount of the provision is determined by management through an evaluation of the size and quality of the loan portfolio, economic conditions, concentrations of credit, recent loan loss trends, delinquencies and other risks inherent within the loan portfolio.

The Corporation recorded a $120,000 provision for the nine-month period ended September 30, 2006. By comparison, the Corporation recorded a provision (credit) of $455,000 for the nine-month period end September 30, 2005. In 2005, the Corporation received a settlement on a previously charged off commercial loan. The proceeds from this settlement, net of related costs, amounted to $285,000. In addition, a significant classified loan was paid down in 2005, which had specific reserves allocated to the allowance for loan losses. This pay down along with the settlement noted above resulted in the over allocation of the allowance for loan losses, which was reversed by crediting the provision (income) and reducing the allowance for loan losses in 2005.

Description of changes: (Dollar amounts in thousands)

	2006	2005
Allowance balance January 1	$1,636	$1,855
Additions:		
Provision (credit) charged against operating expenses	120	(455)
Recoveries on previously charged off loans	13	298
Deductions:		
Loans charged off	(59)	(150)

Allowance balance September 30	$1,710	$1,545

COMMERCIAL NATIONAL FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 Comprehensive Income

The components of other comprehensive income (loss) and related tax effects for the three and nine month periods ended September 30, 2006 and 2005 are as follows: (dollars in thousands)

	For three months ended September 30		For nine months ended September30	
	2006	2005	2006	2005
Gross change in unrealized gains (losses) on securities available for sale	$ 1,716	$ (525)	$(334)	$(1,491)
Less: reclassification adjustment for gains realized in income	(25)	-	(25)	-
Net unrealized gains (losses)	1,691	(525)	(359)	(1,491)
Tax effect	575	(178)	(122)	(507)
Net of tax amount	$ 1,116	$ (347)	$(237)	$(984)

Note 4 Legal Proceedings

Other than proceedings that occur in the normal course of business, there are no legal proceedings to which either the Corporation or the bank subsidiary is a party, that in the opinion of management, will have any material effect on the financial position of the Corporation and its subsidiary.

Note 5 Guarantees

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Bank to secure the performance of a customer to a third party. Of these letters of credit, $420,000 automatically renew within the next twelve months, $62,000 will expire within the next twelve months and $3.4 million will expire within thirteen to one hundred and fifty-five months. The Bank, generally, holds collateral and/or personal guarantees supporting these commitments. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The current amount of the liability as of September 30, 2006 for guarantees under standby letters of credit issued is not material.

Note 6 Earnings per share

The Corporation has a simple capital structure. Basic earnings per share equals net income divided by the weighted average common shares outstanding during each period presented.

Note 7 New Accounting Standards

FAS 157

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position, results of operations and cash flows.

SAB 108

On September 13, 2006, the Securities and Exchange Commission “SEC” issued Staff Accounting Bulleting No. 108 (“SAB 108”). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, Companies might evaluate the materiality of financial-statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company’s balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected.

Note 7 New Accounting Standards (continued)

SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. The Company has analyzed SAB 108 and determined that upon adoption it will have no impact on the reported results of operations or financial condition.

FASB Staff Position AUG AIR-1

In September 2006, the FASB issued FASB Staff Position AUG AIR-1, “Accounting for Planned Major Maintenance Activities” which is effective for fiscal years beginning after December 15, 2006. This position statement eliminates the accrue-in-advance method of accounting for planned major maintenance activities. We do not expect this pronouncement to have a significant impact on the determination or reporting of our financial results.

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

SAFE HARBOR STATEMENT

Forward-looking statements (statements which are not historical facts) in this Quarterly Report on Form 10-Q are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "to," "expect," "believe," "anti "intend," "could," "would," "estimate," or "continue" or the negative or other variations thereof or comparable terminolog intended to identify forward-looking statements. These statements are based on information currently available to the Corporation, and the Corporation assumes no obligation to update these statements as circumstances change. Investors are cautioned that all forward-looking statements involve risk and uncertainties, including changes in general economic and financial market conditions, unforeseen credit problems, and the Corporation's ability to execute its business plans. The actual results of future events could differ materially from those stated in any forward-looking statements herein.

CRITICAL ACCOUNTING ESTIMATES

Disclosure of the Corporation's significant accounting policies is included in Note 1 to the Corporation's Consolidated Financial Statements contained in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005 (the 2005 Annual Report). Some of these policies are particularly sensitive, requiring that significant judgments, estimates and assumptions be made by management. Additional information is contained in the Management's Discussion and Analysis section of the 2005 Annual Report for the most sensitive of these issues, including the provision and allowance for loan losses.

Significant estimates are made by management in determining the allowance for loan losses. Management considers a variety of factors in establishing these estimates, including current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, financial and managerial strengths of borrowers, adequacy of collateral (if collateral dependent) and other relevant factors. Estimates related to the value of collateral also have a significant impact on whether or not the Corporation continues to accrue income on delinquent loans and on the amounts at which foreclosed real estate is recorded in the Consolidated Statements of Financial Condition. Management discussed the development and selection of critical accounting estimates and related Management and Discussion and Analysis disclosure with the Corporation's Audit Committee. There were no material changes made to the critical accounting estimates during the periods presented within.

OVERVIEW

The Corporation had net income of $2.1 million, or $0.67 per share, for the nine months ended September 30, 2006 compared to $2.5 million or $0.75 per share for the same period ended a year ago. The Corporation's return on average assets for nine months ended 2006 and 2005 was 0.87% and 1.06% respectively. Return on average equity for the same two periods was 7.37% and 7.64%, respectively.

The Corporation purchased 362,113 shares of its own common stock in the first quarter of 2006. Costs associated with this purchase were $180,000. The legal and professional costs associated with this purchase were $150,000. In addition, the Corporation incurred additional director and miscellaneous costs of $30,000, as a result of the due diligence process prior to the stock purchase.

The Corporation's largest segment of operating results is dependent upon net interest income. Net interest income is interest earned on interest-earning assets less interest paid on interest-bearing liabilities. For the nine months ended September 30, 2006 and 2005, net interest income was $8.8 million and $8.9 million respectively, with 2006 benefiting from the $131,000 in interest income due to payoff and change of status of non-accrual loans.

The allowance for loan losses provision expense for the first nine months of 2006 was $120,000 compared with a ($455,000) credit recognized for the first nine months of 2005. (See Footnote 2 of the Notes to Consolidated Financial Statements) The $575,000 difference is a large component of the decrease in net income from 2006 to 2005.

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

FINANCIAL CONDITION

The Corporation’s total assets increased by $19 million, or 6.04%, from December 31, 2005 to September 30, 2006. The increase in assets was the net result of the following increases and decreases; fed funds sold decreased $17.0 million, investment securities increased $14.7 million and loans increased $19.9 million.

The Corporation’s total deposits increased $21.5 million from December 31, 2005 to September 30, 2006. Non-interest bearing deposits increased $2.4 million and interest-bearing deposits increased $19.1 million. The majority of the growth in deposits was certificates of deposits. Certificates of deposits increased due to higher market rates and bank promotions.

Shareholders' equity was $36.8 million on September 30, 2006 compared to $43.7 million on December 31, 2005. This $6.8 million decrease is due to the purchase of $6.8 million in treasury stock in 2006, $1.9 million in dividends paid, and a decrease in fair value of securities, decreasing equity by $237,000. The fair value of securities decreased because of higher bond market rates, which decreased the fair value of the corporation’s securities available for sale. These decreases were offset by net income of $2.1 million. Book value per common share decreased from $12.79 at December 31, 2005 to $12.09 at September 30, 2006.

RESULTS OF OPERATIONS

First Nine Months of 2006 as compared to the First Nine Months of 2005

Net income for the first nine months of 2006 was $2.1 million compared to $2.5 million for the same period of 2005, representing a 16.51% decrease. The decrease was mainly due the difference in the loan loss provision, with 2006 incurring a $120,000 expense compared to a benefit in 2005 of $455,000.

Interest income for the nine months ended September 30, 2006 was $13.0 million, an increase of 7.12% from interest income of $12.1 million for the nine months ended September 30, 2005. The yield on the loan portfolio for the first nine months of 2006 increased twenty-seven (27) basis points to 5.92%. This increase in yield is due to higher market rates for new loans; in addition loans tied to prime are earning higher yields than last year. The yield on loans and total interest income benefited from the collection of $131,000 in non-accrual interest on two loans noted under **Overview**. Interest income has also benefited from an increase in loan volume, with average balances up 8.7% for nine months ending September 30, 2006 compared to nine months ending September 30, 2005. The yield on the securities portfolio for the first nine months of 2006 increased thirteen (13) basis points to 5.59%. This increase in securities yields was due to purchases of mortgage-backed securities. The yield on total average earning assets for the first nine months of 2006 increased twenty-four (24) basis points from 2005 to 5.83%.

Total interest expense of $4.2 million for the first nine months of 2006 increased by $950,000 or 29.43% compared with the first nine months of 2005. The market cost of certificates of deposits increased; in addition total outstanding certificates of deposit balances increased in comparison to last year. These two factors led to the increase in interest expense for the first nine months of 2006. The average cost of interest-bearing liabilities for the first nine months of 2006 was 2.57%, a fifty-two (52) basis points increase from the same period in 2005.

As a result of the foregoing, net interest income for the first nine months of 2006 was $8.8 million, compared to $8.9 million for the first nine months of 2005.

The Corporation recorded loan loss provision expense in the amount of $120,000 for the nine months ended September 30, 2006 compared to a credit in the provision in the amount of $455,000 for the nine months ended September 30, 2005. After the application of provision (or credit) for loan losses, net interest income after provision (credit) for loan loss was $8.7 million for the nine months ended September 30, 2006 and $9.4 million for the nine months ended September 30, 2005. The difference in results is attributable to the credit (benefit) to loan loss reserve during 2005 and the provision (expense) in 2006 and higher overall interest expense on deposits. For a more detailed explanation of this credit, please refer to the information provided in Footnote 2 of the notes to consolidated financial statements.

Non-interest income for the first nine months of 2006 was $2.3 million, an increase of $140,000 from non-interest income for the first nine months of 2005. Non-interest income increased in 2006 due to the following items; an additional $44,000 in asset management and trust income from an increase in assets under management, an increase of $36,000 in service charges on deposit accounts due to an increase in the volume of deposit account overdrafts, $12,000 increase in other service charges and fees, $25,000 gain on the sale of securities, $15,000 increase on investment in life insurance, and a $8,000 increase in other income.

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

Non-interest expense for the first nine months of 2006 was $8.1 million, an increase of $95,000 or 1.19% from non-interest expense for the first nine months of 2005. Personnel costs declined by $74,000, or 1.87% due to lower benefit costs, occupancy increased $8,000, furniture and equipment expense decreased $87,000 due to lower amortization expense on software and lower depreciation expense on computer equipment. Legal and professional expenses increased by $136,000, a majority of this increase is associated with the treasury stock repurchase previously described. Other expenses increased $109,000 in 2006; other expenses increases were; $16,000 in director fees, $17,000 in insurance costs, $12,000 in trust department costs and $13,000 in software maintenance costs.

Federal income tax for the first nine months of 2006 was $729,000 compared to $926,000 for the same period in 2005. The effective tax rates for the first nine months of 2006 and 2005 were 25.56% and 26.69%, respectively. The effective tax rates are lower than the federal statutory rate of 34% due principally to income from tax-exempt on loans, securities, and bank owned life insurance.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2006 as Compared to the Three Months Ended September 30, 2005

The Corporation's net income for the three months ended September 30, 2006 was $782,000, compared to $773,000 for the same period of 2005, representing a 1.17% increase. Income was higher due to a $128,000 increase in non-interest income, a decrease of $7,000 in non-interest expense which was offset by a $107,000 decrease in net interest income, and a $45,000 increase in the loan loss provision.

Interest income for the three months ended September 30, 2006 was $4.5 million, an increase of 10.74% from interest income of $4.1 million for the third quarter of 2005. This increase is attributable to higher average loan balances in 2006 compared to 2005; in addition, yields on loans have increased in 2006 compared to 2005. The loan yield increased (19) nineteen basis points to 5.91%. The Corporation purchased additional mortgage backed securities in 2006; these purchases raised the overall securities yield, which increased forty-five (45) basis points to 5.78% in 2006 compared to 2005. The yield on total average earning assets increased twenty-seven (27) basis points to 5.88%.

Interest expense during the third quarter of 2006 was $1.6 million, or $501,000 more when compared to the third quarter of 2005. The average cost increased to 2.88%, a seventy-five (75) basis points increase from a year ago. The interest expense has increased due to the Corporation paying higher rates on deposits and higher volumes.

Net interest income decreased 2.03% to $2.9 million during the third quarter of 2006 and yielded 3.47% of average total assets compared to 3.70% during the same period a year ago. The Corporations net interest income decreased in 2006 because interest expense on deposits increased at a greater pace than loan and security income. This has occurred due to higher market cost on deposits.

The Corporation recorded a $60,000 provision for loan losses for the third quarter of 2006. During the third quarter of 2005, the Corporation recorded a provision of $15,000 for loan losses. The increase in the provision expense in 2006 compared to 2005 is based on managements' quarterly review of the allowance for loan losses. The corporation determined the growth in commercial loans and mortgages warranted additional provision expense in 2006 compared

2005.

Non-interest income increased $83,000 or 12.00%, to $772,000 during the third quarter of 2006. Higher non-interest income was due to $33,000 increase in asset management and trust income from an increase in assets under management, $25,000 in security gains, $10,000 bank owned life insurance and a $16,000 gain in other income.

Non-interest expense decreased $7,000 during the third quarter of 2006, a 0.27% decrease from the same period in 2005. Personnel costs increased by $8,000, occupancy cost increased $13,000, furniture and fixture costs decreased $32,000 due to lower depreciation expense. Legal and professional costs decreased for the three- month period in 2006 by $19,000 compared to same period 2005. Other expenses increased by $22,000.

Federal income tax on third quarter 2006 pretax earnings was $263,000 compared to $289,000 a year ago. The third quarter effective tax rate was 25.17% and 27.22%, respectively.

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

LIQUIDITY

Liquidity measurements evaluate the Corporation's ability to meet the cash flow requirements of its depositors and borrowers. The most desirable source of liquidity is deposit growth. Additional liquidity is provided by the maturity of investments in loans and securities and the principal and interest received from those earning assets. Another source of liquidity is represented by the Corporation's ability to sell both loans and securities. The Bank is a member of the Federal Home Loan Bank (FHLB) system. The FHLB provides an additional source for liquidity for long and short-term funding. Additional sources of funding from financial institutions have been established for short-term funding needs.

The September 30, 2006 statement of cash flows indicates, for the nine months ending September 30, 2006, that cash from operating activities, the decrease in fed funds sold, deposit growth and an increase in short term borrowings were used to fund loan growth, to increase mortgage backed securities and purchase treasury stock.

As of September 30, 2006, the Corporation had available funding of approximately $170 million with the FHLB and an additional $26 million of short-term funding available through federal funds lines of credit.
General and administrative expenses increased $157.1 million compared to the year ended December 31, 2009. The increase was primarily attributable to $157.9 million in expenses at the Marina Bay Sands.

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Corporate expense decreased $23.3 million compared to the year ended December 31, 2009. The decrease was attributable to a $42.5 million legal settlement that was recorded during the year ended December 31, 2009, partially offset by an increase of $22.4 million in corporate payroll-related expenses.

Pre-opening expenses were $114.8 million for the year ended December 31, 2010, compared to $157.7 million for the year ended December 31, 2009. Pre-opening expense represents personnel and other costs incurred prior to the opening of new ventures, which are expensed as incurred. Pre-opening expenses for the year ended December 31, 2010, were primarily related to activities at the Marina Bay Sands and at Sands Cotai Central. Development expenses, which were not material for the years ended December 31, 2010 and 2009, include the costs associated with the Company s evaluation and pursuit of new business opportunities, which are also expensed as incurred.

Depreciation and amortization expense increased $108.9 million compared to the year ended December 31, 2009. The increase was primarily a result of the opening of the Marina Bay Sands and a full year of depreciation expense at Sands Bethlehem, which contributed $119.1 million and $10.6 million, respectively.

Impairment loss was $16.1 million for the year ended December 31, 2010, compared to $169.5 million for the year ended December 31, 2009. The impairment loss for the year ended December 31, 2010, related to equipment in Macao that is expected to be disposed of. The impairment loss for the year ended December 31, 2009, consisted primarily of $94.0 million related to a reduction in the expected proceeds to be received from the sale of The Shoppes at The Palazzo, $57.2 million related to our indefinite suspension of plans to expand the Sands Expo Center and $15.0 million related to certain real estate that was previously utilized in connection with marketing activities in Asia.

Loss on disposal of assets was $38.6 million for the year ended December 31, 2010, compared to $9.2 million for the year ended December 31, 2009. The loss for the year ended December 31, 2010, related to the disposition of construction materials in Macao and Las Vegas.

Adjusted Property EBITDA

The following table summarizes information related to our segments:

	Year Ended December 31,		
	2010	2009	Percent Change
	(Dollars in thousands)		
Macao:			
The Venetian Macao	$ 809,798	$ 556,547	45.5%
Sands Macao	318,519	244,925	30.0%
Four Seasons Macao	113,692	40,527	180.5%
Other Asia	(24,429)	(32,610)	25.1%
	1,217,580	809,389	50.4%
Marina Bay Sands	641,898		%
United States:			
Las Vegas Operating Properties	310,113	259,206	19.6%
Sands Bethlehem	58,982	17,566	235.8%
	369,095	276,772	33.4%
Total adjusted property EBITDA	$ 2,228,573	$ 1,086,161	105.2%

Adjusted property EBITDA from our Macao operations increased $408.2 million compared to the year ended December 31, 2009, led by an increase of $253.3 million at The Venetian Macao. As previously described, the increase across the properties was primarily attributable to a combined increase in net revenues of $849.5 million, partially offset by an increase of $408.2 million in gross win tax on increased casino revenues, as well as increases in the associated operating expenses.

Adjusted property EBITDA at our Las Vegas Operating Properties increased $51.0 million compared to the year ended December 31, 2009. The increase was primarily attributable to an increase in net revenues of $106.8 million, partially offset by increases in the associated operating expenses.

Adjusted property EBITDA at Marina Bay Sands, which opened in April 2010, and Sands Bethlehem, which opened in May 2009, do not have a comparable prior-year period. Results of their operations are as previously described.

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Interest Expense

The following table summarizes information related to interest expense on long-term debt:

	Year Ended December 31, 2010	2009
	(Dollars in thousands)	
Interest cost (which includes the amortization of deferred financing costs and original issue discounts)	$ 409,337	$ 382,006
Add imputed interest on deferred proceeds from sale of The Shoppes at The Palazzo	3,542	5,313
Less capitalized interest	(106,066)	(65,449)
Interest expense, net	$ 306,813	$ 321,870
Cash paid for interest	$ 343,298	$ 353,002
Weighted average total debt balance	$ 10,608,335	$ 10,994,928
Weighted average interest rate	3.9%	3.5%

Interest cost increased $27.3 million compared to the year ended December 31, 2009. The increase was primarily attributable to an increase in our weighted average interest rate driven by our VOL credit facility and the amendment to our U.S. credit facility, partially offset by a decrease in our weighted average debt balance as a result of repayments on our U.S. and VML credit facilities. The increase in capitalized interest was driven by the recommencement of activities at Sands Cotai Central in Macao during 2010.

Other Factors Effecting Earnings

Other expense was $8.3 million for the year ended December 31, 2010, compared to $9.9 million for the year ended December 31, 2009. The expense during the year ended December 31, 2010, was primarily attributable to foreign exchange losses and decreases in the fair value of our interest rate cap agreements in Macao and Singapore.

The loss on modification or early retirement of debt was $18.6 million for the year ended December 31, 2010, and primarily related to a $21.1 million loss related to the amendment of our U.S. credit facility in August 2010, partially offset by a gain on early retirement of debt of $3.4 million, which related to the repurchase of $60.3 million of the outstanding principal of our senior notes (see Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 9 Long-Term Debt).

Our effective income tax rate was 8.7% for the year ended December 31, 2010, compared to a beneficial rate of 1.0% for the year ended December 31, 2009. The effective income tax rate for the year ended December 31, 2010, reflects a 17% statutory tax rate on our Singapore operations and a zero percent tax rate on our Macao gaming operations due to our income tax exemption in Macao, which, if not extended, will expire in 2013. The effective income tax rate for the year ended December 31, 2009, includes the recording of a valuation allowance on the net deferred tax assets of our U.S. operations. We have not recorded an income tax benefit related to deferred tax assets generated by operations in the U.S. and certain foreign jurisdictions; however, to the extent that the financial results of these operations improve and it becomes more-likely-than-not that these deferred tax assets or a portion thereof are realizable, we will reduce the valuation allowances in the period such determination is made.

The net income attributable to our noncontrolling interests was $182.2 million for the year ended December 31, 2010, compared to a net loss of $14.3 million for the year ended December 31, 2009. These amounts are primarily related to the noncontrolling interest of SCL.

Development Projects

We have suspended portions of our development projects and should general economic conditions fail to improve, if we are unable to obtain sufficient funding or applicable government approvals such that completion of our suspended projects is not probable, or should management decide to abandon certain projects, all or a portion of our investment to date on our suspended projects could be lost and would result in an impairment charge.

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Macao

We have submitted plans to the Macao government for our other Cotai Strip developments, which represent three integrated resort developments, in addition to The Venetian Macao and Four Seasons Macao, on an area of approximately 200 acres (which we refer to as Sands Cotai Central and parcels 3 and 7 and 8). Subject to the approval from the Macao government, as discussed further below, the developments are expected to include hotels, exhibition and conference facilities, gaming areas, showrooms, spas, dining, retail and entertainment facilities, and other amenities. We commenced construction or pre-construction activities on these developments and plan to operate the related gaming areas under our Macao gaming subconcession. In addition, we are completing the development of some public areas surrounding our Cotai Strip properties on behalf of the Macao government. We currently intend to develop our other Cotai Strip properties as follows:

Sands Cotai Central We are staging the construction of the Sands Cotai Central integrated resort. Upon completion of phases I and II of the project, the integrated resort will feature approximately 5,800 hotel rooms, approximately 300,000 square feet of gaming space, approximately 1.2 million square feet of retail, entertainment, dining and exhibition and conference facilities, and a multipurpose theater. Phase I, which is currently expected to open in April 2012, consists of a hotel tower on parcel 5 to be managed by Hilton Worldwide, which will include 600 five-star rooms and suites under the Conrad brand, and InterContinental Hotels Group, which will include 1,200 four-star rooms and suites under the Holiday Inn brand. Phase I also includes completion of the structural work of an adjacent hotel tower, located on parcel 6, to be managed by Sheraton International Inc. and Sheraton Overseas Management Co. (collectively Starwood) under the Sheraton Towers brand, a variety of retail offerings, more than 300,000 square feet of meeting space, several food and beverage establishments, along with the 106,000-square-foot casino and VIP gaming areas. Phase IIA, which is currently scheduled to open in the third quarter of 2012, includes the opening of the first hotel tower on parcel 6, which will feature nearly 2,000 Sheraton-branded rooms, along with the second casino and the remaining retail, entertainment, dining and meeting facilities. Phase IIB, which is projected to open in the first quarter of 2013, consists of the second hotel tower on parcel 6 and will feature an additional 2,000 rooms and suites under the Sheraton Towers brand. The total cost to complete phases I and II is expected to be approximately $1.6 billion. Phase III of the project is expected to include a fourth hotel and mixed-use tower, located on parcel 5, to be managed by Starwood under the St. Regis brand and the total cost to complete is expected to be approximately $450 million. We intend to commence construction of phase III of the project as demand and market conditions warrant it. As of December 31, 2011, we have capitalized costs of $3.06 billion for the entire project, including the land premium (net of amortization) and $213.7 million in outstanding construction payables. Our management agreement with Starwood imposed certain construction deadlines and opening obligations on us and certain past and/or anticipated delays, as described above, would have allowed Starwood to terminate its agreement. In November 2011, we amended our management agreement with Starwood to, among other things, provide for new construction and opening obligations and deadlines.

Parcel 3 Once completed, the integrated resort on parcel 3 will be connected to The Venetian Macao and Four Seasons Macao. The multi-hotel complex is intended to include a gaming area, a shopping mall and serviced luxury apart-hotel units. We had commenced pre-construction activities and have capitalized costs of $96.0 million, including the land premium (net of amortization), as of December 31, 2011. We intend to commence construction after Sands Cotai Central is complete and necessary government approvals are obtained.

Parcels 7 and 8 Consistent with our original plans, we had commenced pre-construction activities and have capitalized construction costs of $101.1 million as of December 31, 2011. We intended to commence construction after Sands Cotai Central and the integrated resort on parcel 3 were completed, necessary government approvals obtained (including the land concession), assuming future demand warrants it and additional financing is obtained. If we are successful in winning our judicial appeal and obtaining the land concession for parcels 7 and 8 (as discussed below), and are able to proceed with this portion of the development as planned, the related integrated resort is expected to be similar in size and scope to Sands

Cotai Central.

The impact of the delayed construction on our previously estimated cost to complete our Cotai Strip developments on parcels 3 and 7 and 8 is currently not determinable with certainty. As of December 31, 2011, we have capitalized an aggregate of $7.49 billion in construction costs and land premiums (net of amortization) for our Cotai Strip developments, including The Venetian Macao, Four Seasons Macao and Sands Cotai Central, as well as our investments in transportation infrastructure, including our passenger ferry service operations. In addition to funding phases I and II of Sands Cotai Central with borrowings under our new $3.7 billion Macao credit facility entered into in September 2011 (the 2011 VML Credit Facility, see Liquidity and Capital Resources Development Financing Strategy for further disclosure), we will need to arrange additional financing to fund the balance of our Cotai Strip developments and there is no assurance that we will be able to obtain the additional financing required or on terms suitable to the Company.

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Land concessions in Macao generally have an initial term of 25 years with automatic extensions of 10 years thereafter in accordance with Macao law. We have received land concessions from the Macao government to build on parcels 1, 2, 3 and 5 and 6, including the sites on which The Venetian Macao (parcel 1), Four Seasons Macao (parcel 2) and Sands Cotai Central (parcels 5 and 6) are located. We do not own these land sites in Macao; however, the land concessions grant us exclusive use of the land. As specified in the land concessions, we are required to pay premiums for each parcel, which are either payable in a single lump sum upon acceptance of the land concessions by the Macao government or in seven semi-annual installments, as well as annual rent for the term of the land concessions. In December 2010, we received notice from the Macao government that our application for a land concession for parcels 7 and 8 was not approved and we applied to the Chief Executive of Macao for an executive review of the decision. In January 2011, we filed a judicial appeal with the Court of Second Instance in Macao, which has yet to issue a decision. Should we win our judicial appeal, it is still possible for the Chief Executive of Macao to again deny the land concession based upon public policy considerations. If we do not obtain the land concession or do not receive full reimbursement of our capitalized investment in this project, we would record a charge for all or some portion of the $101.1 million in capitalized construction costs, as of December 31, 2011, related to our development on parcels 7 and 8.

Under our land concession for parcel 3, we were initially required to complete the corresponding development by August 2011. The Macao government has granted us a two-year extension to complete the development of parcel 3, which now must be completed by April 2013. The land concession for Sands Cotai Central contains a similar requirement that the corresponding development be completed by May 2014 (48 months from the date the land concession became effective). We intend to apply for an extension from the Macao government to complete our parcel 3 development as we will be unable to meet the April 2013 deadline. Should we determine that we are unable to complete Sands Cotai Central by May 2014, we also intend to apply for an extension from the government. No assurances can be given that additional extensions will be granted. If we are unable to meet the applicable deadline for Sands Cotai Central and the deadlines for either development are not extended, we could lose our land concessions for parcel 3 or Sands Cotai Central, which would prohibit us from operating any facilities developed under the respective land concessions. As a result, we could record a charge for all or some portion of the $96.0 million and $3.06 billion in capitalized construction costs, as of December 31, 2011, related to our development on parcels 3 or Sands Cotai Central, respectively.

United States

We were constructing the Las Vegas Condo Tower, located on the Las Vegas Strip between The Palazzo and The Venetian Las Vegas. We suspended our construction activities for the project due to reduced demand for Las Vegas Strip condominiums and the overall decline in general economic conditions. We intend to recommence construction when demand and conditions improve. As of December 31, 2011, we have capitalized construction costs of $178.3 million for this project. The impact of the suspension on the estimated overall cost of the project is currently not determinable with certainty.

Other

We continue to aggressively pursue a variety of new development opportunities around the world.

Liquidity and Capital Resources

Cash Flows — Summary

Our cash flows consisted of the following:

	Year Ended December 31,		
	2011	2010	2009
		(In thousands)	
Net cash generated from operating activities	$ 2,662,496	$ 1,870,151	$ 638,613
Cash flows from investing activities:			
Change in restricted cash and cash equivalents	804,394	(688,266)	78,630
Capital expenditures	(1,508,493)	(2,023,981)	(2,092,896)
Proceeds from disposal of property and equipment	6,093	49,735	4,203

Acquisition of intangible assets	(100)	(45,303)	
Purchases of investments		(173,774)	
Proceeds from investments		173,774	
Net cash used in investing activities	(698,106)	(2,707,815)	(2,010,063)
Cash flows from financing activities:			
Proceeds from exercise of stock options	25,505	16,455	51
Proceeds from exercise of warrants	12,512	225,514	

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	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Proceeds from sale of and contribution from noncontrolling interest, net of transaction costs			2,386,428
Dividends paid to preferred stockholders	(75,297)	(93,400)	(94,697)
Distributions to noncontrolling interests	(10,388)		
Proceeds from long-term debt	3,201,535	1,397,293	1,831,528
Repayments of long-term debt	(3,300,310)	(2,600,875)	(776,972)
Repurchases and redemption of preferred stock	(845,321)		
Payments of preferred stock inducement premium	(16,871)	(6,579)	
Payments of deferred financing costs	(84,826)	(65,965)	(40,365)
Net cash generated from (used in) financing activities	(1,093,461)	(1,127,557)	3,305,973
Effect of exchange rate on cash	(5,292)	46,886	(17,270)
Increase (decrease) in cash and cash equivalents	$ 865,637	$ (1,918,335)	$ 1,917,253

Cash Flows Operating Activities

Table games play at our properties is conducted on a cash and credit basis. Slot machine play is primarily conducted on a cash basis. The retail hotel rooms business is generally conducted on a cash basis, the group hotel rooms business is conducted on a cash and credit basis, and banquet business is conducted primarily on a credit basis resulting in operating cash flows being generally affected by changes in operating income and accounts receivable. Net cash provided by operating activities increased $792.3 million compared to the year ended December 31, 2010. The increase was attributable primarily to the increase in our operating income during the year ended December 31, 2011, as previously described.

Cash Flows Investing Activities

Capital expenditures for the year ended December 31, 2011, totaled $1.51 billion, including $915.4 million for construction and development activities in Macao (primarily for our Sands Cotai Central development); $466.1 million for construction activities in Singapore; $56.3 million for construction activities at Sands Bethlehem; and $70.7 million at our Las Vegas Operating Properties and for corporate and other activities.

Cash Flows Financing Activities

Net cash flows used in financing activities were $1.09 billion for the year ended December 31, 2011, which was primarily attributable to the repayments of $2.06 billion under our VML credit facility, $749.7 million under our VOL credit facility, $418.6 million under our Singapore credit facility, and payments of $845.3 million for repurchases and redemption of preferred stock, $75.3 million for preferred stock dividends and $16.9 million to induce the exercise of warrants with settlement through tendering preferred stock. These uses were partially offset by proceeds of $3.20 billion from our 2011 VML Credit Facility.

As of December 31, 2011, we had $1.10 billion available for borrowing under the revolving portions of our U.S., Macao and Singapore credit facilities, net of letters of credit, outstanding banker s guarantees and undrawn amounts committed to be funded by Lehman Brothers-related subsidiaries.

Development Financing Strategy

Through December 31, 2011, we have funded our development projects primarily through borrowings from our U.S., Macao and Singapore credit facilities (see Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 9 Long-Term Debt), operating cash flows, proceeds from our equity offerings and proceeds from the disposition of non-core assets.

The U.S. credit facility, as amended in August 2010, requires our Las Vegas operations to comply with certain financial covenants at the end of each quarter, including maintaining a maximum leverage ratio of net debt, as defined, to trailing twelve-month adjusted earnings before interest, income taxes, depreciation and amortization, as defined (Adjusted EBITDA). The maximum leverage ratio is 6.0x for the quarterly period ended December 31, 2011, decreases to 5.5x for the quarterly periods ended March 31 and June 30, 2012, and then decreases to 5.0x for all quarterly periods thereafter through maturity. We can elect to contribute up to $50 million of cash on hand to our Las Vegas operations on a bi-quarterly basis; such contributions having the effect of increasing Adjusted EBITDA during the applicable quarter for purposes of calculating compliance with the maximum leverage ratio (the EBITDA true-up). The Singapore credit facility requires operations of Marina Bay Sands to comply with similar financial covenants, which commenced with the quarterly period ended September 30, 2011, including maintaining a maximum leverage ratio of debt to Adjusted EBITDA. The maximum leverage ratio is 5.5x for the quarterly period ended December 31, 2011, decreases to 5.25x for the quarterly period ended March 31, 2012, and then decreases by 0.25x every other quarter until September 30, 2014, when it decreases to, and remains at, 3.75x for all quarterly periods thereafter through maturity. In Macao, our 2011 VML Credit Facility, entered into in September 2011, will also require our Macao operations to comply with similar financial covenants commencing with the quarterly period ended March 31, 2012, including maintaining a maximum leverage ratio of debt to Adjusted EBITDA. The maximum leverage ratio will be 4.5x for the quarterly periods ended March 31, 2012 through June 30, 2013, decreases to 4.0x for the quarterly periods ended September 30, 2013 through December 31, 2014, decreases to 3.5x for the quarterly periods ended March 31 through December 31, 2015, and then decreases to, and remains at, 3.0x for all quarterly periods thereafter through maturity. If we are unable to maintain compliance with the financial covenants under these credit facilities, we would be in default under the respective credit facilities. A default under the U.S. credit facility would trigger a cross-default under our airplane financings, which, if the respective lenders chose to accelerate the indebtedness outstanding under these agreements, would result in a default under our senior notes. Certain defaults under the 2011 VML Credit Facility would trigger a cross-default under our ferry financing. Any defaults or cross-defaults under these agreements would allow the lenders, in each case, to exercise their rights and remedies as defined under their respective agreements. If the lenders were to exercise their rights to accelerate the due dates of the indebtedness outstanding, there can be no assurance that we would be able to repay or refinance any amounts that may become due and payable under such agreements, which could force us to restructure or alter our operations or debt obligations.

In 2008, we completed a $475.0 million convertible senior notes offering and a $2.1 billion common and preferred stock and warrants offering, of which the preferred stock became redeemable at our option in November 2011. In 2009, we completed a $600.0 million exchangeable bond offering and the $2.5 billion SCL Offering (see Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 9 Long-Term Debt Macao Related Debt Exchangeable Bonds and Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 10 Equity Noncontrolling Interests). A portion of the proceeds from these offerings was used in the U.S. to pay down $775.9 million under the revolving portion of the U.S. credit facility in March 2010 and $1.0 billion under the term loan portions of the U.S. credit facility in August 2010, and to exercise the EBITDA true-up provision during the quarterly period ended March 31, 2011. As of December 31, 2011, our U.S., Singapore, and Macao leverage ratios were 3.9x, 2.4x and 2.0x, respectively, compared to the maximum leverage ratios allowed of 6.0x, 5.5x and 4.5x (effective for the quarterly period ending March 31, 2012), respectively.

We held unrestricted and restricted cash and cash equivalents of approximately $3.90 billion and $7.1 million, respectively, as of December 31, 2011, of which approximately $3.15 billion of the unrestricted amount is held by non-U.S. subsidiaries. Of the $3.15 billion, approximately $2.37 billion is available to be repatriated to the U.S. with minimal taxes owed on such amounts due to the Company s significant foreign taxes paid, which would ultimately generate U.S. foreign tax credits if cash is repatriated. The remaining unrestricted amounts are not available for repatriation primarily due to dividend requirements to third party public shareholders in the case of funds being repatriated from SCL. We believe the cash on hand, cash flow generated from operations and available borrowings under our credit facilities will be sufficient to fund our developments currently under construction and maintain compliance with the financial covenants of our U.S., Macao and Singapore credit facilities. In the normal course of our activities, we will continue to evaluate our capital structure and opportunities for enhancements thereof. In November 2011, we completed our $3.7 billion 2011 VML Credit Facility, which was used to repay the outstanding indebtedness under the VML and VOL credit facilities, as well as continue to fund the development, construction and completion of certain components of Sands Cotai Central.

As part of a regular cash dividend program, on January 31, 2012, our Board of Directors declared a quarterly cash dividend of $0.25 per common share (a total of approximately $206 million, which includes our Principal Stockholder s family exercise of their warrants, as discussed below) to be paid on March 30, 2012, to shareholders of record on March 20, 2012. Also on January 31, 2012, the Board of Directors of SCL declared a dividend of 0.58 Hong Kong dollars per share (a total of approximately $601.0 million at exchange rates in effect on December 31, 2011, of which we will retain 70.3% of such amount) to SCL shareholders of record on February 20, 2012, which was paid on February 28, 2012.

In February 2012, we submitted a redemption notice for the Senior Notes in order to redeem the $189.7 million outstanding balance, which we expect to settle in March 2012 and record a $2.9 million loss on extinguishment of debt.

Our Principal Stockholder s family has indicated their intent to pay $525.0 million to exercise all of their outstanding warrants to purchase 87,500,175 shares of our common stock in March 2012.

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Aggregate Indebtedness and Other Known Contractual Obligations

Our total long-term indebtedness and other known contractual obligations are summarized below as of December 31, 2011:

	Payments Due by Period Ending December 31, 2011(12)				
	Less than 1 Year	2-3 Years	4-5 Years (In thousands)	More than 5 Years	Total
Long-Term Debt Obligations(1)					
Senior Secured Credit Facility Term B	$ 21,695	$ 760,854	$ 1,352,955	$	$ 2,135,504
Senior Secured Credit Facility Delayed Draws I and II	7,243	235,297	470,549		713,089
6.375% Senior Notes(2)	189,712				189,712
Airplane Financings	3,688	7,375	7,374	56,297	74,734
U.S. Other	910	1,820	228		2,958
2011 VML Credit Facility Term B		200,096	3,005,914		3,206,010
Ferry Financing	35,067	70,134	35,067		140,268
Macao Other	231	75			306
Singapore Credit Facility	384,654	769,308	2,394,200		3,548,162
Singapore Other	735	709			1,444
Fixed Interest Payments	12,140	24,195	2,014		38,349
Variable Interest Payments(3)	255,020	436,590	207,309	285	899,204
HVAC Equipment Lease(4)					
HVAC Equipment Lease	1,623	3,096	2,866	13,752	21,337
HVAC Equipment Lease Interest Payments	1,544	2,730	2,284	2,281	8,839
Contractual Obligations					
Former Tenants(5)	650	977	800	5,600	8,027
Employment Agreements(6)	9,506	4,075	708		14,289
Macao Leasehold Interests in Land(7)	49,524	54,471	10,550	86,392	200,937
Mall Leases(8)	8,835	17,423	16,750	100,232	143,240
Macao Annual Premium(9)	33,508	67,017	67,017	184,297	351,839
Parking Lot Lease(10)	1,200	2,400	2,400	104,700	110,700
Other Operating Leases(11)	10,392	11,016	5,796	5,033	32,237
Total	$ 1,027,877	$ 2,669,658	$ 7,584,781	$ 558,869	$ 11,841,185

(1) See Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 9 Long-Term Debt for further details on these financing transactions.

(2) Subsequent to December 31, 2011, we submitted our redemption notice for the Senior Notes in order to redeem the $189.7 million outstanding balance in March 2012. As a result, the outstanding balance has been reclassified above to Less than 1 Year.

(3) Based on December 31, 2011, London Inter-Bank Offered Rate (LIBOR) and Hong Kong Inter-Bank Offered Rate (HIBOR) of 0.6% and Singapore Swap Offer Rate (SOR) of 0.4% plus the applicable interest rate spread in accordance with the respective debt agreements.

(4) In July 2009, we entered into a capital lease agreement with its current heating, ventilation and air conditioning (HVAC) provider (the HVAC Equipment Lease) to provide the operation and maintenance services for the HVAC equipment in Las Vegas. The lease has a 10-year term with a purchase option at the third, fifth, seventh and tenth anniversary dates. We are obligated under the agreement to make monthly payments of approximately $300,000 for the first year with automatic decreases of approximately $14,000 per month on every anniversary date. The HVAC Equipment Lease has been capitalized at the present value of the future minimum lease payments at lease inception.

(5) We are party to tenant lease termination and asset purchase agreements. Under the agreement for The Grand Canal Shoppes sale, we are obligated to fulfill the lease termination and asset purchase agreements.

(6) We are party to employment agreements with eight of our executive officers, with remaining terms of one to four years.

(7) We are party to long-term land leases of 25 years with automatic extensions at our option of 10 years thereafter in accordance with Macao law.

(8) We are party to certain leaseback agreements for the Blue Man Group Theater, gondola and certain office and retail space related to the sales of The Grand Canal Shoppes and The Shoppes at the Palazzo.

(9) In addition to the 39% gross gaming win tax in Macao (which is not included in this table as the amount we pay is variable in nature), we are required to pay an annual premium with a fixed portion and a variable portion, which is based on the number

and type of gaming tables and gaming machines we operate. Based on the gaming tables and gaming machines in operation as of December 31, 2011, the annual premium is approximately $33.5 million payable to the Macao government through the termination of the gaming subconcession in June 2022.

(10) We are party to a 99-year lease agreement (92 years remaining) for a parking structure located adjacent to The Venetian Las Vegas.

(11) We are party to certain operating leases for real estate, various equipment and service arrangements.

(12) As of December 31, 2011, we had a $43.4 million liability related to unrecognized tax benefits; we do not expect this liability to result in a payment of cash within the next 12 months. We are unable to reasonably estimate the timing of the liability in individual years beyond 12 months due to uncertainties in the timing of the effective settlement of tax positions; therefore, such amounts are not included in the table.

Off-Balance Sheet Arrangements

We have not entered into any transactions with special purpose entities, nor have we engaged in any derivative transactions other than interest rate caps.

Restrictions on Distributions

We are a parent company with limited business operations. Our main asset is the stock and membership interests of our subsidiaries. The debt instruments of our U.S., Macao and Singapore subsidiaries contain certain restrictions that, among other things, limit the ability of certain subsidiaries to incur additional indebtedness, issue disqualified stock or equity interests, pay dividends or make other distributions, repurchase equity interests or certain indebtedness, create certain liens, enter into certain transactions with affiliates, enter into certain mergers or consolidations or sell our assets of our company without prior approval of the lenders or noteholders.

Inflation

We believe that inflation and changing prices have not had a material impact on our sales, revenues or income from continuing operations during the past three fiscal years.

Special Note Regarding Forward-Looking Statements

This report contains forward-looking statements that are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include the discussions of our business strategies and expectations concerning future operations, margins, profitability, liquidity and capital resources. In addition, in certain portions included in this report, the words: anticipates, believes, estimates, seeks, expects, intends and similar expressions, as they relate to our company or management, are intended to identify forward-looking statements. Although we believe that these forward-looking statements are reasonable, we cannot assure you that any forward-looking statements will prove to be correct. These forward- looking statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, among others, the risks associated with:

general economic and business conditions which may impact levels of disposable income, consumer spending, group meeting business, pricing of hotel rooms and retail and mall sales;

our substantial leverage, debt service and debt covenant compliance (including the pledge of our assets as security for our indebtedness);

disruptions in the global financing markets and our ability to obtain sufficient funding for our current and future developments;

the extensive regulations to which we are subject to and the costs of compliance with such regulations;

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increased competition for labor and materials due to other planned construction projects in Macao and quota limits on the hiring of foreign workers;

the impact of the suspensions of certain of our development projects and our ability to meet certain development deadlines;

the uncertainty of tourist behavior related to discretionary spending and vacationing at casino-resorts in Macao, Singapore, Las Vegas and Pennsylvania;

regulatory policies in mainland China or other countries in which our customers reside, including visa restrictions limiting the number of visits or the length of stay for visitors from mainland China to Macao, restrictions on foreign currency exchange or importation of currency, and the judicial enforcement of gaming debts;

our dependence upon properties primarily in Macao, Singapore and Las Vegas for all of our cash flow;

our relationship with GGP or any successor owner of The Shoppes at The Palazzo and The Grand Canal Shoppes;

new developments, construction and ventures, including our Cotai Strip developments;

the passage of new legislation and receipt of governmental approvals for our proposed developments in Macao and other jurisdictions where we are planning to operate;

our insurance coverage, including the risk that we have not obtained sufficient coverage or will only be able to obtain additional coverage at significantly increased rates;

disruptions or reductions in travel due to acts of terrorism;

disruptions or reductions in travel, as well as disruptions in our operations, due to natural or man-made disasters, outbreaks of infectious diseases, such as avian flu, SARS and H1N1 flu, terrorist activity or war;

government regulation of the casino industry, including gaming license regulation, the requirement for certain beneficial owners of our securities to be found suitable by gaming authorities, the legalization of gaming in other jurisdictions and regulation of gaming on the Internet;

increased competition in Macao and Las Vegas, including recent and upcoming increases in hotel rooms, meeting and convention space, retail space and potential additional gaming licenses;

fluctuations in the demand for all-suites rooms, occupancy rates and average daily room rates in Macao, Singapore and Las Vegas;

the popularity of Macao, Singapore and Las Vegas as convention and trade show destinations;

new taxes, changes to existing tax rates or proposed changes in tax legislation;

our ability to maintain our gaming licenses, certificate and subconcession;

the continued services of our key management and personnel;

any potential conflict between the interests of our Principal Stockholder and us;

the ability of our subsidiaries to make distribution payments to us;

our failure to maintain the integrity of our internal or customer data;

the completion of infrastructure projects in Macao and Singapore; and

the outcome of any ongoing and future litigation.

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All future written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. Readers are cautioned not to place undue reliance on these forward-looking statements. We assume no obligation to update any forward-looking statements after the date of this report as a result of new information, future events or developments, except as required by federal securities laws.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. These estimates and judgments are based on historical information, information that is currently available to us and on various other assumptions that management believes to be reasonable under the circumstances. Actual results could vary from those estimates and we may change our estimates and assumptions in future evaluations. Changes in these estimates and assumptions may have a material effect on our results of operations and financial condition. We believe that the critical accounting policies discussed below affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Allowance for Doubtful Casino Accounts

We maintain an allowance, or reserve, for doubtful casino accounts at our operating casino resorts in Macao, Singapore and the U.S., which we regularly evaluate. We specifically analyze the collectability of each account with a balance over a specified dollar amount, based upon the age of the account, the customer s financial condition, collection history and any other known information, and we apply standard reserve percentages to aged account balances under the specified dollar amount. We also monitor regional and global economic conditions and forecasts in our evaluation of the adequacy of the recorded reserves. Credit or marker play was 27.5%, 34.5% and 71.7% of table games play at our Macao properties, Marina Bay Sands and Las Vegas Operating Properties, respectively, during the year ended December 31, 2011. Our allowance for doubtful casino accounts was 22.2% and 24.2% of gross casino receivables from customers as of December 31, 2011 and 2010, respectively. As the credit extended to our junkets can be offset by the commissions payable to said junkets, the allowance for doubtful accounts related to receivables from junkets is not material. Our allowance for doubtful accounts from our hotel and other receivables is also not material.

Litigation Accrual

We are subject to various claims and legal actions. We estimate the accruals for these claims and legal actions based on all relevant facts and circumstances currently available and include such accruals in other accrued liabilities in the consolidated balance sheets when it is determined that such contingencies are both probable and reasonably estimable.

Property and Equipment

At December 31, 2011, we had net property and equipment of $15.03 billion, representing 67.6% of our total assets. We depreciate property and equipment on a straight-line basis over their estimated useful lives. The estimated useful lives are based on the nature of the assets as well as current operating strategy and legal considerations such as contractual life. Future events, such as property expansions, property developments, new competition, or new regulations, could result in a change in the manner in which we use certain assets requiring a change in the estimated useful lives of such assets.

For assets to be held and used (including projects under development), fixed assets are reviewed for impairment whenever indicators of impairment exist. If an indicator of impairment exists, we first group our assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (the asset group). Secondly, we estimate the undiscounted future cash flows that are directly associated with and expected to arise from the completion, use and eventual disposition of such asset group. We estimate the undiscounted cash flows over the remaining useful life of the primary asset within the asset group. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, then an impairment is measured based on fair value compared to carrying value, with fair value typically based on a discounted cash flow model. If an asset is still under development, future cash flows include remaining construction costs.

To estimate the undiscounted cash flows of our asset groups, we consider all potential cash flows scenarios, which are probability weighted based on management s estimates given current conditions. Determining the recoverability of our asset groups is judgmental in nature and requires the use of significant estimates and assumptions, including estimated cash flows, probability weighting of potential scenarios, costs to complete construction for assets under development, growth rates and future market conditions, among others. Future changes to our estimates and assumptions based upon changes in macro-economic factors, regulatory environments, operating results or management s intentions may result in future changes to the recoverability of our asset groups.

For assets to be held for sale, the fixed assets (the disposal group) are measured at the lower of their carrying amount or fair value less cost to sell. Losses are recognized for any initial or subsequent write-down to fair value less cost to sell, while gains are recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative loss previously recognized. Any gains or losses not previously recognized that result from the sale of the disposal group shall be recognized at the date of sale. Fixed assets are not depreciated while classified as held for sale.

Capitalized Interest

Interest costs associated with our major construction projects are capitalized and included in the cost of the projects. When no debt is incurred specifically for construction projects, we capitalize interest on amounts expended using the weighted average cost of our outstanding borrowings. Capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period.

Leasehold Interests in Land

Leasehold interests in land represent payments made for the use of land over an extended period of time. The leasehold interests in land are amortized on a straight-line basis over the expected term of the related lease agreements.

Indefinite Useful Life Assets

As of December 31, 2011, we had a $50.0 million asset related to our Sands Bethlehem gaming license and a $16.5 million asset related to our Sands Bethlehem table games certificate, both of which were determined to have indefinite useful lives. Assets with indefinite useful lives are not subject to amortization and are tested for impairment and recoverability annually or more frequently if events or circumstances indicate that the assets might be impaired. The impairment test consists of a comparison of the fair value of the asset with its carrying amount. If the carrying amount of the asset is not recoverable and exceeds its fair value, an impairment will be recognized in an amount equal to that excess. If the carrying amount of the asset does not exceed the fair value, no impairment is recognized.

The fair value of our Sands Bethlehem gaming license and table games certificate was estimated using our expected adjusted property EBITDA, combined with estimated future tax-affected cash flows and a terminal value using the Gordon Growth Model, which were discounted to present value at rates commensurate with our capital structure and the prevailing borrowing rates within the casino industry in general. Adjusted property EBITDA and discounted cash flows are common measures used to value cash-intensive businesses such as casinos. Determining the fair value of the gaming license and table games certificate is judgmental in nature and requires the use of significant estimates and assumptions, including adjusted property EBITDA, growth rates, discount rates and future market conditions, among others. Future changes to our estimates and assumptions based upon changes in macro-economic factors, operating results or management s intentions may result in future changes to the fair value of the gaming license and table games certificate.

Stock-Based Compensation

Accounting standards regarding share-based payments require the recognition of compensation expense in the consolidated statements of operations related to the fair value of employee stock-based compensation. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility and the expected dividends. Expected volatilities are based on our historical volatility or combined with the historical volatilities from a selection of companies from our peer group when there is a lack of our historical information, as is the case for our SCL equity plan. We used the simplified method for estimating expected option life, as the options qualify as plain-vanilla options and we will continue to use the simplified method beyond December 31, 2011, due to the lack of historical information as allowed under related accounting standards. We believe that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of our stock options granted. Judgment is also

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required in estimating the amount of stock-based awards expected to be forfeited prior to vesting. If actual forfeitures differ significantly from these estimates, stock-based compensation expense could be materially impacted. All employee stock options were granted with an exercise price equal to the fair market value (as defined in the Company s equity award plans).

During the years ended December 31, 2011 and 2010, we recorded stock-based compensation expense of $62.7 million and $58.0 million, respectively. As of December 31, 2011, under the 2004 plan there was $40.9 million of unrecognized compensation cost, net of estimated forfeitures of 10.0% per year, related to unvested stock options and there was $32.1 million of unrecognized compensation cost, net of estimated forfeitures of 10.0% per year, related to unvested restricted stock and stock units. The stock option and restricted stock and stock units costs are expected to be recognized over a weighted average period of 2.0 years and 3.0 years, respectively.

As of December 31, 2011, under the SCL Equity Plan there was $18.3 million of unrecognized compensation cost, net of estimated forfeitures of 8.8% per year, related to unvested stock options that are expected to be recognized over a weighted average period of 3.1 years.

Income Taxes

We are subject to income taxes in the U.S. (including federal and state) and numerous foreign jurisdictions in which we operate. We record income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and attributable to operating loss and tax credit carryforwards. Accounting standards regarding income taxes requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance, if based on the available evidence, it is more-likely-than-not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed at each reporting period based on a more-likely-than-not realization threshold. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with operating loss and tax credit carryforwards not expiring, and implementation of tax planning strategies.

We recorded a valuation allowance on the net deferred tax assets of certain foreign jurisdictions of $179.5 million and $216.3 million, as of December 31, 2011 and 2010, respectively, and a valuation allowance on the net deferred tax assets of our U.S. operations of $145.7 million and $114.9 million as of December 31, 2011 and 2010, respectively. Management will reassess the realization of deferred tax assets based on the applicable accounting standards for income taxes each reporting period and consider the scheduled reversal of deferred tax liabilities, sources of taxable income and tax planning strategies. To the extent that the financial results of these operations improve and it becomes more-likely-than-not that the deferred tax assets are realizable, we will be able to reduce the valuation allowance.

Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions for which the tax treatment is uncertain. Accounting standards regarding uncertainty in income taxes provides a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more-likely-than-not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely, based solely on the technical merits, of being sustained on examinations. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

Our major tax jurisdictions are the U.S., Macao, and Singapore. In the U.S., we are pursuing resolution through the appeals process of certain adjustments proposed by the Internal Revenue Service IRS for years 2005 through 2009. We are subject to examination for years after 2006 in Macao and Singapore and for tax years after 2009 in the U.S.

Recent Accounting Pronouncements

See related disclosure at Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 2 Summary of Significant Accounting Policies.

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ITEM 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our primary exposure to market risk is interest rate risk associated with our variable rate long-term debt, which we attempt to manage through the use of interest rate cap agreements. We do not hold or issue financial instruments for trading purposes and do not enter into derivative transactions that would be considered speculative positions. Our derivative financial instruments consist exclusively of interest rate cap agreements, which do not qualify for hedge accounting. Interest differentials resulting from these agreements are recorded on an accrual basis as an adjustment to interest expense.

To manage exposure to counterparty credit risk in interest rate cap agreements, we enter into agreements with highly rated institutions that can be expected to fully perform under the terms of such agreements. Frequently, these institutions are also members of the bank group providing our credit facilities, which management believes further minimizes the risk of nonperformance.

The table below provides information about our financial instruments that are sensitive to changes in interest rates. For debt obligations, the table presents notional amounts and weighted average interest rates by contractual maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on December 31, 2011, LIBOR, HIBOR and SOR plus the applicable interest rate spread in accordance with the respective debt agreements. The information is presented in U.S. dollar equivalents, which is the Company s reporting currency, for the years ending December 31:

	2012	2013	2014	2015	2016	Thereafter	Total	Fair Value(1)
				(In millions)				
LIABILITIES								
Long-term debt								
Fixed rate	$	$	$	$ 189.7	$	$	$ 189.7	$ 191.6
Average interest rate(2)	%	%	%	6.4%	%	%	6.4%	
Variable rate	$ 453.3	$ 527.6	$ 1,517.2	$ 3,569.3	$ 3,697.0	$ 56.3	$ 9,820.7	$ 9,292.9
Average interest rate(2)	2.8%	2.7%	2.4%	2.8%	2.9%	2.0%	2.8%	
ASSETS								
Cap Agreements(3)	$	$ 0.1	$ 1.1	$	$	$	$ 1.2	$ 1.2

(1) The estimated fair values are based on quoted market prices, if available, or by pricing models based on the value of related cash flows discounted at current market interest rates.

(2) Based upon contractual interest rates for fixed rate indebtedness or current LIBOR, HIBOR and SOR for variable rate indebtedness. Based on variable rate debt levels as of December 31, 2011, an assumed 100 basis point change in LIBOR, HIBOR and SOR would cause our annual interest cost to change approximately $97.5 million.

(3) As of December 31, 2011, we have 38 interest rate cap agreements with an aggregate fair value of $1.2 million based on quoted market values from the institutions holding the agreements.

Borrowings under the U.S. credit facility, as amended, bear interest, at our election, at either an adjusted Eurodollar rate or at an alternative base rate plus a credit spread. The portions of the revolving facility and term loans that were not extended bear interest at the alternative base rate plus 0.25% per annum or 0.5% per annum, respectively, or at the adjusted Eurodollar rate plus 1.25% per annum or 1.5% per annum, respectively. The extended revolving facility and extended term loans bear interest at the alternative base rate plus 1.0% per annum or 1.5% per annum, respectively, or at the adjusted Eurodollar rate plus 2.0% per annum or 2.5% per annum, respectively. Applicable spreads under the U.S. credit facility are subject to downward adjustments based upon our credit rating. Borrowings under the 2011 VML Credit Facility bear interest at either the adjusted Eurodollar rate or an alternative base rate (in the case of U.S. dollar denominated loans) or HIBOR (in the case of Hong Kong dollar and Macao pataca denominated loans), as applicable, plus a spread of 2.25% until May 13, 2012 (the first 180 days after the closing date). Beginning May 14, 2012, the spread for all borrowings is subject to reduction based on a specified consolidated leverage ratio. Borrowings under the Singapore credit facility bear interest at SOR plus a spread of 2.25% per annum. Borrowings under the airplane financings bear interest at LIBOR plus approximately 1.5% per annum. Borrowings under the ferry financing, as amended, bear interest at HIBOR plus 2.5% per annum.

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Foreign currency transaction losses for the year ended December 31, 2011, were $1.0 million primarily due to U.S. denominated debt held in Macao. We may be vulnerable to changes in the U.S. dollar/pataca exchange rate. Based on balances as of December 31, 2011, an assumed 1% change in the U.S. dollar/pataca exchange rate would cause a foreign currency transaction gain/loss of approximately $14.9 million. We do not hedge our exposure to foreign currencies; however, we maintain a significant amount of our operating funds in the same currencies in which we have obligations thereby reducing our exposure to currency fluctuations.

See also Liquidity and Capital Resources and Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 9 Long-Term Debt.

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ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

INDEX TO FINANCIAL STATEMENTS

Financial Statements:

The financial information included in the financial statement schedule should be read in conjunction with the consolidated financial statements. All other financial statement schedules have been omitted because they are not applicable or the required information is included in the consolidated financial statements or the notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors and Stockholders of Las Vegas Sands Corp.

In our opinion, the consolidated financial statements listed in the accompanying index, present fairly, in all material respects, the financial position of Las Vegas Sands Corp. and its subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Las Vegas, Nevada
February 29, 2012

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LAS VEGAS SANDS CORP. AND SUBSIDIARIES
Consolidated Balance Sheets

	December 31, 2011	December 31, 2010
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,902,718	$ 3,037,081
Restricted cash and cash equivalents	4,828	164,315
Accounts receivable, net	1,336,817	716,919
Inventories	34,990	32,260
Deferred income taxes, net	72,192	61,606
Prepaid expenses and other	45,607	46,726
Total current assets	5,397,152	4,058,907
Property and equipment, net	15,030,979	14,502,197
Deferred financing costs, net	173,636	155,378
Restricted cash and cash equivalents	2,315	645,605
Deferred income taxes, net	153	10,423
Leasehold interests in land, net	1,390,468	1,398,840
Intangible assets, net	80,068	89,805
Other assets, net	169,352	183,153
Total assets	$ 22,244,123	$ 21,044,308
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 104,113	$ 113,505
Construction payables	359,909	516,981
Accrued interest payable	31,668	42,625
Other accrued liabilities	1,439,110	1,160,234
Income taxes payable	108,060	
Current maturities of long-term debt	455,846	767,068
Total current liabilities	2,498,706	2,600,413
Other long-term liabilities	89,445	78,240
Deferred income taxes	205,438	115,219
Deferred proceeds from sale of The Shoppes at The Palazzo	266,992	243,928
Deferred gain on sale of The Grand Canal Shoppes	47,344	50,808
Deferred rent from mall transactions	119,915	147,378
Long-term debt	9,577,131	9,373,755
Total liabilities	12,804,971	12,609,741
Preferred stock, $0.001 par value, issued to Principal Stockholder s family, no shares and 5,250,000 shares issued and outstanding, after allocation of fair value of attached warrants, aggregate redemption/liquidation value of $0 and $577,500		503,379

(Note 10)		
Commitments and contingencies (Note 14)		
Equity:		
Preferred stock, $0.001 par value, 50,000,000 shares authorized, no shares and 3,614,923 shares issued and outstanding with warrants to purchase up to 709,501 and 22,663,212 shares of common stock		207,356
Common stock, $0.001 par value, 1,000,000,000 shares authorized, 733,249,698 and 707,507,982 shares issued and outstanding	733	708
Capital in excess of par value	5,610,160	5,444,705
Accumulated other comprehensive income	94,104	129,519
Retained earnings	2,145,692	880,703
Total Las Vegas Sands Corp. stockholders equity	7,850,689	6,662,991
Noncontrolling interests	1,588,463	1,268,197
Total equity	9,439,152	7,931,188
Total liabilities and equity	$ 22,244,123	$ 21,044,308

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

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LAS VEGAS SANDS CORP. AND SUBSIDIARIES
Consolidated Statements of Operations

	Year Ended December 31,		
	2011	2010	2009
	(In thousands, except share and per share data)		
Revenues:			
Casino	$ 7,437,002	$ 5,533,088	$ 3,524,798
Rooms	1,000,035	797,499	657,783
Food and beverage	598,823	446,558	327,699
Mall	325,123	186,617	137,290
Convention, retail and other	501,351	354,175	281,874
	9,862,334	7,317,937	4,929,444
Less promotional allowances	(451,589)	(464,755)	(366,339)
Net revenues	9,410,745	6,853,182	4,563,105
Operating expenses:			
Casino	4,007,887	3,249,227	2,349,422
Rooms	210,052	143,326	121,097
Food and beverage	307,446	207,956	165,977
Mall	59,183	43,771	32,697
Convention, retail and other	338,109	230,907	207,680
Provision for doubtful accounts	150,456	97,762	103,802
General and administrative	836,924	683,298	526,199
Corporate expense	185,694	108,848	132,098
Rental expense	43,366	41,302	29,899
Pre-opening expense	65,825	114,833	157,731
Development expense	11,309	1,783	533
Depreciation and amortization	794,404	694,971	586,041
Impairment loss		16,057	169,468
Loss on disposal of assets	10,203	38,555	9,201
	7,020,858	5,672,596	4,591,845
Operating income (loss)	2,389,887	1,180,586	(28,740)
Other income (expense):			
Interest income	14,394	8,947	11,122
Interest expense, net of amounts capitalized	(282,949)	(306,813)	(321,870)
Other expense	(3,955)	(8,260)	(9,891)
Loss on modification or early retirement of debt	(22,554)	(18,555)	(23,248)
Income (loss) before income taxes	2,094,823	855,905	(372,627)
Income tax benefit (expense)	(211,704)	(74,302)	3,884
Net income (loss)	1,883,119	781,603	(368,743)
Net (income) loss attributable to noncontrolling interests	(322,996)	(182,209)	14,264

Net income (loss) attributable to Las Vegas Sands Corp.		1,560,123		599,394		(354,479)
Preferred stock dividends		(63,924)		(92,807)		(93,026)
Accretion to redemption value of preferred stock issued to Principal Stockholder s family		(80,975)		(92,545)		(92,545)
Preferred stock inducement, repurchase and redemption premiums		(145,716)		(6,579)		
Net income (loss) attributable to common stockholders	$	1,269,508	$	407,463	$	(540,050)
Basic earnings (loss) per share	$	1.74	$	0.61	$	(0.82)
Diluted earnings (loss) per share	$	1.56	$	0.51	$	(0.82)
Weighted average shares outstanding:						
Basic		728,343,428		667,463,535		656,836,950
Diluted		811,816,687		791,760,624		656,836,950

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

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LAS VEGAS SANDS CORP. AND SUBSIDIARIES
Consolidated Statements of Equity and Comprehensive Income (Loss)

	Las Vegas Sands Corp. Stockholders Equity							
	Preferred Stock	Common Stock	Capital in Excess of Par Value	Accumulated Other Comprehensive Income	Retained Earnings	Total Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance at January 1, 2009	$ 298,066	$ 642	$ 3,090,292	$ 17,554	$ 1,015,554		$ 3,073	$ 4,425,181
Net loss					(354,479)	(354,479)	(14,264)	(368,743)
Currency translation adjustment				10,906		10,906	(602)	10,304
Total comprehensive loss						(343,573)	(14,866)	(358,439)
Exercise of stock options			51					51
Tax shortfall from stock-based compensation			(4,965)					(4,965)
Stock-based compensation			49,054					49,054
Exercise of warrants	(63,459)	18	63,441					
Deemed contribution from Principal Stockholder			519					519
Sale of and contribution from noncontrolling interest, net of transaction costs			1,916,459	(1,712)			1,101,681	3,016,428
Dividends declared, net of amounts previously accrued					(87,843)			(87,843)
Accumulated but undeclared dividend requirement on preferred stock issued to Principal					(6,854)			(6,854)

Stockholder s family								
Accretion to redemption value of preferred stock issued to Principal Stockholder s family					(92,545)			(92,545)
Balance at December 31, 2009	234,607	660	5,114,851	26,748	473,833		1,089,888	6,940,587
Net income					599,394	599,394	182,209	781,603
Currency translation adjustment				102,771		102,771	(4,253)	98,518
Total comprehensive income						702,165	177,956	880,121
Exercise of stock options		2	16,453					16,455
Tax shortfall from stock-based compensation			(195)					(195)
Stock-based compensation			58,120				2,698	60,818
Exercise of warrants	(27,251)	46	252,719					225,514
Deemed contribution from Principal Stockholder			412					412
Acquisition of remaining shares of noncontrolling interest			2,345				(2,345)	
Dividends declared, net of amounts previously accrued					(86,546)			(86,546)
Accumulated but undeclared dividend requirement on preferred stock issued to Principal Stockholder s					(6,854)			(6,854)

family								
Accretion to redemption value of preferred stock issued to Principal Stockholder s family					(92,545)			(92,545)
Preferred stock inducement premium					(6,579)			(6,579)
Balance at December 31, 2010	207,356	708	5,444,705	129,519	880,703		1,268,197	7,931,188
Net income					1,560,123	1,560,123	322,996	1,883,119
Currency translation adjustment				(35,415)		(35,415)	2,622	(32,793)
Total comprehensive income						1,524,708	325,618	1,850,326
Exercise of stock options		2	24,223				1,280	25,505
Stock-based compensation			60,363				2,927	63,290
Issuance of restricted stock		1	(1)					
Exercise of warrants	(68,380)	22	80,870					12,512
Repurchase and redemption of preferred stock	(138,976)				(128,845)			(267,821)
Disposition of interest in majority owned subsidiary							829	829
Distributions to noncontrolling interests							(10,388)	(10,388)
Dividends declared, net of amounts previously accrued					(68,443)			(68,443)
Accretion to redemption value of preferred stock issued to Principal					(80,975)			(80,975)

Stockholder s family								
Preferred stock inducement premium					(16,871)			(16,871)
Balance at December 31, 2011	$	$ 733	$ 5,610,160	$ 94,104	$ 2,145,692		$ 1,588,463	$ 9,439,152

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

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LAS VEGAS SANDS CORP. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2011	**2010**	**2009**
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$ 1,883,119	$ 781,603	$ (368,743)
Adjustments to reconcile net income (loss) to net cash generated from operating activities:			