

WYNN RESORTS LTD  
Form 10-Q  
May 10, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period to

Commission File No. 000-50028

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**WYNN RESORTS, LIMITED**

(Exact name of Registrant as specified in its charter)

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**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**46-0484987**  
(I.R.S. Employer  
Identification Number)

**3131 Las Vegas Boulevard South Las Vegas, Nevada 89109**

(Address of principal executive offices) (Zip Code)

**(702) 770-7555**

(Registrant's telephone number, including area code)

\_\_\_\_\_  
N/A

(Former name, former address and former fiscal year, if changed since last report)

\_\_\_\_\_  
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| <u>Class</u>                   | <u>Outstanding at May 1, 2006</u> |
|--------------------------------|-----------------------------------|
| Common stock, \$0.01 par value | 100,582,299                       |

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**WYNN RESORTS, LIMITED AND SUBSIDIARIES**

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**Table of Contents****Part I - FINANCIAL INFORMATION****Item 1. Financial Statements****WYNN RESORTS, LIMITED AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(amounts in thousands, except share data)

(unaudited)

|   | <b>March 31,</b>    | <b>December 31,</b> |
|---|---------------------|---------------------|
|   | <b>2006</b>         | <b>2005</b>         |
|   | <u>          </u>   | <u>          </u>   |
| <b>ASSETS</b>                                   |                     |                     |
| Current assets:                                 |                     |                     |
| Cash and cash equivalents                       | \$ 477,027          | \$ 434,289          |
| Restricted cash and investments                 | 77,644              | 98,271              |
| Receivables, net                                | 66,533              | 88,468              |
| Inventories                                     | 47,317              | 39,884              |
| Prepaid expenses                                | 25,012              | 23,630              |
|   | <u>          </u>   | <u>          </u>   |
| Total current assets                            | 693,533             | 684,542             |
| Restricted cash and investments                 | 330,511             | 344,331             |
| Property and equipment, net                     | 2,727,008           | 2,663,870           |
| Intangibles, net                                | 57,634              | 60,480              |
| Deferred financing costs                        | 91,425              | 95,619              |
| Deposits and other assets                       | 103,881             | 91,371              |
| Investment in unconsolidated affiliates         | 5,395               | 5,070               |
|   | <u>          </u>   | <u>          </u>   |
| Total assets                                    | <u>\$ 4,009,387</u> | <u>\$ 3,945,283</u> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>      |                     |                     |
| Current liabilities:                            |                     |                     |
| Current portion of long-term debt               | \$ 15,592           | \$ 15,489           |
| Current portion of land concession obligation   | 9,206               | 8,984               |
| Accounts and construction payable               | 66,082              | 79,768              |
| Accrued interest                                | 33,249              | 15,733              |
| Accrued compensation and benefits               | 30,299              | 36,772              |
| Other accrued expenses                          | 32,056              | 28,374              |
| Customer deposits and other related liabilities | 38,348              | 66,120              |
| Construction retention                          | 16,774              | 18,539              |
|   | <u>          </u>   | <u>          </u>   |
| Total current liabilities                       | 241,606             | 269,779             |
| Construction retention                          | 591                 | 757                 |

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|   |                   |                   |
|---|-------------------|-------------------|
| Long-term debt  | 2,180,146         | 2,090,846         |
| Long-term land concession obligation  | 14,550            | 19,218            |
| Other long-term liabilities   | 464               | 1,788             |
|   | <u>          </u> | <u>          </u> |
| Total liabilities   | 2,437,357         | 2,382,388         |
|   | <u>          </u> | <u>          </u> |
| Commitments and contingencies (Note 12)   |                   |                   |
| Stockholders' equity:   |                   |                   |
| Preferred stock, par value \$0.01; authorized 40,000,000 shares; zero shares issued and outstanding                     |                   |                   |
| Common stock, par value \$0.01; authorized 400,000,000 shares; 100,069,095 and 99,331,294 shares issued and outstanding |                   |                   |
|   | 1,001             | 993               |
| Additional paid-in capital  | 1,977,624         | 1,972,847         |
| Deferred compensation - restricted stock  |                   | (15,784)          |
| Accumulated deficit   | (406,595)         | (395,161)         |
|   | <u>          </u> | <u>          </u> |
| Total stockholders' equity  | 1,572,030         | 1,562,895         |
|   | <u>          </u> | <u>          </u> |
| Total liabilities and stockholders' equity  | \$ 4,009,387      | \$ 3,945,283      |
|   | <u>          </u> | <u>          </u> |

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

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## WYNN RESORTS, LIMITED AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

(unaudited)

|   | Three Months Ended<br>March 31, |                                |
|---|---------------------------------|--------------------------------|
|   | 2006                            | 2005                           |
|   |                                 | (As Restated -<br>see Note 14) |
| Operating revenues:                             |                                 |                                |
| Casino  | \$ 126,514                      | \$                             |
| Rooms   | 68,177                          |                                |
| Food and beverage                               | 74,634                          |                                |
| Entertainment, retail and other                 | 48,957                          |                                |
|   | <u>318,282</u>                  |                                |
| Gross revenues                                  | 318,282                         |                                |
| Less promotional allowances                     | (41,057)                        |                                |
|   | <u>277,225</u>                  |                                |
| Net revenues                                    | 277,225                         |                                |
| Operating costs and expenses:                   |                                 |                                |
| Casino  | 63,236                          |                                |
| Rooms   | 16,985                          |                                |
| Food and beverage                               | 44,759                          |                                |
| Entertainment, retail and other                 | 32,514                          | 4                              |
| General and administrative                      | 46,965                          | 5                              |
| Provision for doubtful accounts                 | 2,929                           |                                |
| Pre-opening costs                               | 8,946                           | 38,104                         |
| Depreciation and amortization                   | 41,785                          | 3,494                          |
| Contract termination fee                        | 5,000                           |                                |
| Property charges and other                      | 4,949                           | 53                             |
|   | <u>268,068</u>                  | <u>41,660</u>                  |
| Total operating costs and expenses              | 268,068                         | 41,660                         |
| Equity in income from unconsolidated affiliates | 575                             |                                |
|   | <u>9,732</u>                    | <u>(41,660)</u>                |
| Operating income (loss)                         | 9,732                           | (41,660)                       |
| Other income/(expense):                         |                                 |                                |
| Interest income                                 | 8,432                           | 6,182                          |
| Interest expense                                | (35,943)                        | (2,149)                        |
| Increase in swap fair value                     | 6,345                           | 7,700                          |
|   | <u>(21,166)</u>                 | <u>11,733</u>                  |
| Other income (expense), net                     | (21,166)                        | 11,733                         |

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|  |             |             |
|--|-------------|-------------|
| Net loss                                     | \$ (11,434) | \$ (29,927) |
| Basic and diluted earnings per common share: |             |             |
| Net loss:                                    |             |             |
| Basic  | \$ (0.12)   | \$ (0.30)   |
| Diluted                                      | \$ (0.12)   | \$ (0.30)   |
| Weighted average common shares outstanding:  |             |             |
| Basic  | 98,736      | 98,229      |
| Diluted                                      | 98,736      | 98,229      |

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

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## WYNN RESORTS, LIMITED AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(unaudited)

|   | Three Months Ended<br>March 31, |  |
|---|---------------------------------|--|
|   | 2006                            | 2005<br>(As Restated -<br>see Note 14) |
| Cash flows from operating activities:   |                                 |  |
| Net loss  | \$ (11,434)                     | \$ (29,927)                            |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                                 |  |
| Depreciation and amortization   | 41,785                          | 3,494                                  |
| Stock-based compensation  | 3,919                           | 1,256                                  |
| Amortization and writeoff of deferred financing costs                                     | 3,832                           | 2,043                                  |
| Provision for doubtful accounts   | 2,929                           |  |
| Property charges and other  | 4,949                           | (12)                                   |
| Equity in income of unconsolidated affiliates, net of distributions received              | (325)                           |  |
| Increase in the fair value of interest rate swaps   | (6,345)                         | (7,700)                                |
| Increase (decrease) in cash from changes in:  |                                 |  |
| Receivables   | 19,006                          | (575)                                  |
| Inventories and prepaid expenses  | (8,351)                         | (5,801)                                |
| Accounts payable and accrued expenses   | (16,633)                        | 31,330                                 |
| Net cash provided by (used in) operating activities                                       | 33,332                          | (5,892)                                |
| Cash flows from investing activities:   |                                 |  |
| Capital expenditures  | (115,413)                       | (291,969)                              |
| Restricted cash and investments   | 34,447                          | (13,847)                               |
| Other assets  | (11,056)                        | (21,323)                               |
| Proceeds from sale of equipment   |                                 | 23                                     |
| Net cash used in investing activities   | (92,022)                        | (327,116)                              |
| Cash flows from financing activities:   |                                 |  |
| Proceeds from the exercise of stock options   | 2,365                           | 534                                    |
| Proceeds from issuance of long-term debt  | 114,926                         | 373,436                                |
| Principal payments of long-term debt  | (11,417)                        | (176)                                  |
| Payments on long-term land concession obligation  | (4,446)                         | (4,759)                                |
| Net cash provided by financing activities   | 101,428                         | 369,035                                |
| Cash and cash equivalents:  |                                 |  |



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|                                       |                   |                   |
|---------------------------------------|-------------------|-------------------|
| Increase in cash and cash equivalents | 42,738            | 36,027            |
| Balance, beginning of period          | 434,289           | 330,261           |
|                                       | <u>          </u> | <u>          </u> |
| Balance, end of period                | \$ 477,027        | \$ 366,288        |
|                                       | <u>          </u> | <u>          </u> |

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

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**WYNN RESORTS, LIMITED AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Organization and Basis of Presentation**

Wynn Resorts, Limited, a Nevada corporation (together with its subsidiaries, Wynn Resorts or the Company), was formed in June 2002 and completed an initial public offering of its common stock on October 25, 2002. Wynn Resorts' predecessor, Valvino Lamore, LLC (Valvino), was formed on April 21, 2000 as a Nevada limited liability company to purchase the Desert Inn Resort and Casino (the Desert Inn) for the site of the Company's first casino resort in Las Vegas, Nevada, hereinafter referred to as Wynn Las Vegas.

In June 2002, Valvino's indirect subsidiary, Wynn Resorts (Macau), S.A. (Wynn Macau, S.A.), entered into an agreement with the government of the Macau Special Administrative Region of the People's Republic of China (Macau), granting Wynn Macau, S.A. the right to construct and operate one or more casino gaming properties in Macau. Wynn Macau, S.A.'s first casino resort in Macau is hereinafter referred to as Wynn Macau.

The Company commenced operations with the opening of Wynn Las Vegas on April 28, 2005. The construction and development of Wynn Macau and the development of the Company's expansion of Wynn Las Vegas, known as Encore at Wynn Las Vegas or Encore, are ongoing. For the periods presented prior to April 28, 2005, the Company was solely a development stage company.

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Investments in the 50%-owned joint ventures operating the Ferrari and Maserati automobile dealership and the Brioni mens' retail clothing store inside Wynn Las Vegas are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated.

The accompanying condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures herein are adequate to make the information presented not misleading. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the results for the interim periods have been made. The results for the three months ended March 31, 2006 are not necessarily indicative of results to be expected for the full fiscal year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Certain amounts in the quarter ended March 31, 2005 condensed consolidated financial statements have been reclassified to conform to the quarter ended March 31, 2006 presentation as follows:

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Amounts classified as cost of water for the quarter ended March 31, 2005 have been reclassified as entertainment, retail and other expenses for the quarter ended March 31, 2006; and

Amounts classified as (Gain)/Loss on sale of assets and loss from incidental operations for the quarter ended March 31, 2005 have been reclassified as property charges and other for the quarter ended March 31, 2006.

These reclassifications had no effect on the previously reported net loss.

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**WYNN RESORTS, LIMITED AND SUBSIDIARIES**

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

**(Unaudited)**

**2. Summary of Significant Accounting Policies**

*Accounts receivable and credit risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of casino accounts receivable. The Company issues credit in the form of markers to approved casino customers following investigations of creditworthiness. At March 31, 2006, approximately 60% of the Company's receivables were due from customers residing in foreign countries. Business or economic conditions or other significant events in these countries could affect the collectibility of such receivables.

Accounts receivable, including casino and hotel receivables, are typically non-interest bearing and are initially recorded at cost. Accounts are written off when management deems them to be uncollectible. Recoveries of accounts previously written off are recorded when received. An estimated allowance for doubtful accounts is maintained to reduce the Company's receivables to their carrying amount, which approximates fair value. The allowance is estimated based on specific review of customer accounts as well as management's experience with collection trends in the casino industry and current economic and business conditions.

*Inventories*

Inventories consist of retail, food and beverage items, which are stated at the lower of cost or market value. Cost is determined by the first-in, first-out and specific identification methods.

*Revenue recognition and promotional allowances*

Casino revenues are measured by the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in the customers' possession. Hotel, food and beverage, entertainment and other operating revenues are recognized when services are performed. Advance deposits on rooms and advance ticket sales are recorded as deferred revenues until services are provided to the customer.

Revenues are recognized net of certain sales incentives in accordance with the Emerging Issues Task Force (EITF) consensus on Issue 01-9, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products). EITF 01-9 requires that sales

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incentives be recorded as a reduction of revenue; consequently, the Company's casino revenues are reduced by discounts and points earned in customer loyalty programs, such as the players club loyalty program.

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenue and then deducted as promotional allowances. The estimated cost of providing such promotional allowances for the three months ended March 31, 2006 is primarily included in casino expenses as follows (amounts in thousands):

|                                 |           |
|---------------------------------|-----------|
| Rooms                           | \$ 6,128  |
| Food & Beverage                 | 15,847    |
| Entertainment, retail and other | 2,630     |
|                                 | <hr/>     |
| Total                           | \$ 24,605 |
|                                 | <hr/>     |

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**WYNN RESORTS, LIMITED AND SUBSIDIARIES**

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

**(Unaudited)**

*Advertising Costs*

The Company expenses advertising costs the first time the advertising runs. Advertising expenses incurred in development periods are included in pre-opening expenses. Since the opening of Wynn Las Vegas on April 28, 2005, advertising costs relating to Wynn Las Vegas have been included in general and administrative expenses, while any advertising expenses relating to Wynn Macau or, when it becomes applicable, Encore, will continue to be included in pre-opening expenses. Total advertising expenses included in general and administrative expenses for the three months ended March 31, 2006 were approximately \$5.5 million. Total advertising expenses included in pre-opening expenses during the three months ended March 31, 2005 were approximately \$2.5 million.

*Recently Issued Accounting Standards*

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 123(R), Share Based Payment. This statement is a revision of SFAS No. 123, Accounting for Stock-Based Compensation and supercedes APB Opinion No. 25 and related interpretations. SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services or incurs a liability in exchange for goods and services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. It requires an entity to measure the costs of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognize that cost over the service period. The Company adopted this statement on January 1, 2006 under the modified prospective method and using the Black-Scholes valuation model to value the equity instruments issued. In applying the modified prospective method, financial statements of prior periods presented do not reflect any adjusted amounts (i.e. prior periods do not include compensation cost calculated under the fair value method).

In March 2005, the SEC issued Staff Accounting Bulletin ( SAB ) No. 107, Share-Based Payment to provide interpretive guidance on SFAS No. 123(R) valuation methods, assumptions used in valuation models, and the interaction of SFAS No. 123(R) with existing SEC guidance. SAB No. 107 also requires the classification of stock compensation expense in the same financial statement line items as cash compensation, and therefore impacts the Company's departmental expenses (and related operating margins), pre-opening costs and construction in progress for the Company's development projects, and the Company's general and administrative expenses (including corporate expenses).

The adoption of SFAS No. 123(R) and the related interpretations resulted in the Company's elimination of approximately \$15.8 million of deferred compensation against additional paid-in capital and the recognition of approximately \$3.0 million (\$0.03 per share) of compensation cost related to stock options in the following divisions for the three months ended March 31, 2006 (amounts in thousands):

|        |        |
|--------|--------|
| Casino | \$ 651 |
| Rooms  | 141    |

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|                                 |          |
|---------------------------------|----------|
| Food & Beverage                 | 271      |
| Entertainment, retail and other | 60       |
| General and administrative      | 1,382    |
| Pre-opening expenses            | 488      |
|                                 | <hr/>    |
| Total                           | \$ 2,993 |
|                                 | <hr/>    |

As permitted by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123, the Company continued to apply the provisions of Accounting Principles Board

**Table of Contents****WYNN RESORTS, LIMITED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

( APB ) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its employee stock-based compensation for the three months ended March 31, 2005. Accordingly, compensation expense was recognized only to the extent that the market value at the date of grant exceeds the exercise price. The following table illustrates the effect on the net loss that would have resulted had the Company applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation to stock-based employee compensation during the three months ended March 31, 2005 (amounts in thousands):

|  |                             |
|--|-----------------------------|
| Net loss as reported   | \$ (29,927)                 |
| Add: employee stock-based compensation recorded  |                             |
| Less: total stock-based employee compensation expenses determined under the fair-value based method for all awards | (1,817)                     |
|  | <u>                    </u> |
| Proforma net loss  | \$ (31,744)                 |
|  | <u>                    </u> |
| Basic and diluted loss per share:  |                             |
| As reported  | \$ (0.30)                   |
|  | <u>                    </u> |
| Proforma   | \$ (0.32)                   |
|  | <u>                    </u> |

Further information on the Company's share-based compensation arrangements is included in Note 11. Share-based Compensation.

**3. Earnings Per Share**

Earnings per share are calculated in accordance with SFAS No. 128, Earnings Per Share, which provides for the reporting of basic, or undiluted, earnings per share ( EPS ) and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted EPS reflects the addition of potentially dilutive securities. For the three months ended March 31, 2006 and 2005, the Company has recorded net losses causing potentially dilutive securities to be anti-dilutive. As a result, basic EPS is equal to diluted EPS for all periods presented. The calculation of diluted EPS at March 31, 2006 excludes the following anti-dilutive securities: 3,471,000 shares issuable upon exercise of stock options, 789,169 shares under restricted stock grants that had not yet vested and 10,255,260 shares issuable upon conversion of the 6% Convertible Subordinated Debentures due 2015 (the Debentures ). The calculation of diluted EPS at March 31, 2005 excludes the following anti-dilutive securities: 2,505,550 shares issuable upon exercise of stock options, 1,413,338 shares under restricted stock grants that had not yet vested and 10,869,550 shares issuable upon conversion of the Debentures.

**4. Supplemental Disclosure of Cash Flow Information**



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Interest paid for the three months ended March 31, 2006 and 2005 totaled approximately \$24.8 million and \$12.6 million, respectively. Interest capitalized for the three months ended March 31, 2006 and 2005 totaled approximately \$6.4 million and \$30.8 million, respectively.

Stock-based compensation related to employees dedicated to the construction of Wynn Las Vegas and Wynn Macau that was capitalized into construction in progress for the three months ended March 31, 2006 and 2005 totaled approximately \$539,000 and \$539,000, respectively.

During the three months ended March 31, 2006, approximately \$14.1 million principal amount of the Debentures were converted by those holders into 614,301 shares of the common stock of Wynn Resorts, Limited.

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**WYNN RESORTS, LIMITED AND SUBSIDIARIES**

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

**(Unaudited)**

Accordingly, long-term debt was reduced by approximately \$14.1 million, equity was increased by approximately \$13.7 million and deferred financing costs were reduced by approximately \$384,000.

During the three months ended March 31, 2006 approximately \$12.0 million of capital expenditures were made to reduce construction payables and retention. During the three months ended March 31, 2005 capital expenditures excludes an approximately \$33.4 million increase to construction payables and retention.

**5. Related Party Transactions**

*Amounts Due to Officers*

The Company periodically provides services to Stephen A. Wynn, Chairman of the Board of Directors and Chief Executive Officer ( Mr. Wynn ), and certain other officers of the Company, including the personal use of corporate aircraft and household employees, construction work and other personal services. Mr. Wynn and other officers have deposits with the Company to prepay any such items, which are replenished on an ongoing basis as needed. At March 31, 2006 and December 31, 2005, the Company owed Mr. Wynn and the other officers approximately \$325,000 and \$412,000, respectively.

*The Wynn Collection*

At the opening of the Wynn Las Vegas, the resort included an art gallery that displayed rare paintings from The Wynn Collection, a private collection of fine art owned by Mr. and Mrs. Wynn. Prior to June 30, 2005, the Company leased The Wynn Collection from Mr. and Mrs. Wynn for an annual fee of one dollar (\$1), and the Company was entitled to retain all revenues from the public display of The Wynn Collection and the related merchandising revenues. The Company was responsible for all expenses incurred in exhibiting and safeguarding The Wynn Collection, including the cost of insurance (including terrorism insurance) and taxes relating to the rental of The Wynn Collection. On June 30, 2005, this lease arrangement was restructured at the request of the Company. However, the material economic terms of the leasing relationship applicable to Mr. and Mrs. Wynn remained unchanged. In February 2006, the Company closed the art gallery and is converting the gallery location into additional retail stores. The artwork in the gallery has been relocated to different venues within Wynn Las Vegas. The Company continues to be responsible for all expenses in exhibiting and safeguarding The Wynn Collection.

*The Wynn Surname Rights Agreement*

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On August 6, 2004, the Company entered into agreements with Mr. Wynn that confirm and clarify the Company's rights to use the Wynn name and Mr. Wynn's persona in connection with its casino resorts. Under the parties' Surname Rights Agreement, Mr. Wynn granted the Company an exclusive, fully paid-up, perpetual, worldwide license to use, and to own and register, trademarks and service marks incorporating the Wynn name for casino resorts and related businesses, together with the right to sublicense the name and marks to its affiliates. Under the parties' Rights of Publicity License, Mr. Wynn granted the Company the exclusive, royalty-free, worldwide right to use his full name, persona and related rights of publicity for casino resorts and related businesses, together with the ability to sublicense the persona and publicity rights to its affiliates, until October 24, 2017.

### *Villa Suite Lease*

Effective July 1, 2005, Mr. and Mrs. Wynn lease from year to year a villa suite in the Wynn Las Vegas resort as their personal residence. Rent is determined each year by the Audit Committee of the Board of Directors

**Table of Contents****WYNN RESORTS, LIMITED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

(the Audit Committee ), and is based on the fair market value of the use of the suite accommodations. Based on a third-party appraisal, the Audit Committee set the rental for the first lease year at \$580,000. All services for, and maintenance of, the suite are included in the rental, with certain exceptions.

*Other*

Wynn Macau, S.A. rents two apartments from a Wynn Macau, S.A. shareholder for an aggregate of approximately \$3,600 per month.

**6. Property Charges and Other**

Property charges and other for the three months ended March 31, 2006 and 2005, consist of the following (amounts in thousands):

|                                     | <b>Three Months Ended<br/>March 31,</b> |              |
|-------------------------------------|---|--------------|
|                                     | <b>2006</b>                             | <b>2005</b>  |
| Loss on assets retired for remodels | \$ 4,949                                | \$           |
| Loss (gain) on sale of assets       |   | (12)         |
| Loss from incidental operations     |   | 65           |
| <b>Total property charges</b>       | <b>\$ 4,949</b>                         | <b>\$ 53</b> |

**7. Receivables, net**

Receivables, net consist of the following (amounts in thousands):

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|                                       | March 31,<br>2006 | December 31,<br>2005 |
|---------------------------------------|-------------------|----------------------|
| Casino                                | \$ 67,748         | \$ 83,936            |
| Hotel                                 | 10,697            | 12,660               |
| Other                                 | 6,446             | 7,684                |
|                                       | <u>84,891</u>     | <u>104,280</u>       |
| Less: allowance for doubtful accounts | (18,358)          | (15,812)             |
|                                       | <u>\$ 66,533</u>  | <u>\$ 88,468</u>     |

**8. Property and Equipment**

Property and equipment consist of the following (amounts in thousands):

|                                   | March 31,<br>2006   | December 31,<br>2005 |
|-----------------------------------|---------------------|----------------------|
| Land and improvements             | \$ 599,376          | \$ 599,278           |
| Buildings and improvements        | 1,166,499           | 1,159,364            |
| Airplanes                         | 57,582              | 57,582               |
| Furniture, fixtures and equipment | 608,084             | 594,474              |
| Leasehold interest in land        | 67,118              | 67,118               |
| Construction in progress          | 364,449             | 286,570              |
|                                   | <u>2,863,108</u>    | <u>2,764,386</u>     |
| Less: accumulated depreciation    | (136,100)           | (100,516)            |
|                                   | <u>\$ 2,727,008</u> | <u>\$ 2,663,870</u>  |

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## WYNN RESORTS, LIMITED AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As of March 31, 2006 and December 31, 2005, construction in progress includes interest and other costs capitalized in conjunction with the Wynn Macau and Encore projects.

**9. Long-Term Debt**

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

|  | March 31,<br>2006   | December 31,<br>2005 |
|--|---------------------|----------------------|
| 6 <sup>5</sup> / <sub>8</sub> % First Mortgage Notes, due December 1, 2014   | \$ 1,300,000        | \$ 1,300,000         |
| 6% Convertible Subordinated Debentures, due July 15, 2015  | 235,871             | 250,000              |
| \$600.0 million Revolving Credit Facility; due December 14, 2009; interest at LIBOR plus 2.25% (approximately 7.1% and 6.67%)  |                     | 10,000               |
| \$400.0 million Delay Draw Term Loan Facility; due December 14, 2011 interest at LIBOR plus 2.125% (approximately 6.975% and 6.525%)   | 400,000             | 400,000              |
| Senior Term Loan Facilities; due September 14, 2011; interest at LIBOR or HIBOR plus 3.0%, decreasing to LIBOR or HIBOR plus 2.75% upon opening of Wynn Macau (approximately 7.82% and 7.345%) | 193,869             | 78,944               |
| \$44.75 million note payable; due March 31, 2010; interest at LIBOR plus 2.375% (approximately 7.225% and 6.902%)  | 42,305              | 43,536               |
| Note payable - Aircraft; interest at 5.67%   | 13,812              | 13,986               |
| 12% Second Mortgage Notes, net of original issue discount of approximately \$417,000 and \$440,000, respectively due November 1, 2010; effective interest at approximately 12.9%               | 9,725               | 9,702                |
| Other  | 156                 | 167                  |
|  | <u>2,195,738</u>    | <u>2,106,335</u>     |
| Current portion of long-term debt  | (15,592)            | (15,489)             |
|  | <u>\$ 2,180,146</u> | <u>\$ 2,090,846</u>  |

*Convertible Subordinated Debentures*

Each \$1,000 principal amount of the Debentures is convertible at the holder's option into 43.4782 shares of the Company's common stock (subject to adjustment as provided in the indenture governing the Debentures), a conversion rate equivalent to a conversion price of \$23.00 per share. The Company may redeem some or all of the debentures for cash on or after July 20, 2007, at prices specified in the indenture governing

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the Debentures. In addition, the holders may require the Company to repurchase all or a portion of their Debentures, subject to certain exceptions, following a change of control of the Company.

### *Wynn Las Vegas Credit Facilities*

On March 15, 2006, the Company amended its \$600 million Revolving Credit Facility and its \$400 million Delay Draw Term Loan Facility (together, the Wynn Las Vegas Credit Facilities, or the Credit Facilities ) to (a) allow Wynn Las Vegas, LLC to issue up to \$100.0 million of additional 6 <sup>5</sup>/<sub>8</sub>% First Mortgage Notes due December 1, 2014 (the First Mortgage Notes ); (b) simplify draw procedures under the Disbursement Agreement; (c) consolidate certain accounts under the Disbursement Agreement; (d) amend and clarify certain of the conditions for the approval of the budget, plans and specifications of Encore; (e) extend the outside opening date for Encore and the outside completion date for Encore to June 30, 2009 and September 30, 2009, respectively; and (f) permit expenditures of up to \$150.0 million on Encore prior to the execution of a guaranteed maximum price contract.

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As of March 31, 2006, the Company was in compliance with all covenants governing the Company's debt facilities.

**10. Interest Rate Swaps**

The Company has entered into interest rate swap arrangements to effectively fix the interest on floating-rate debt borrowings. The following table presents the historical asset or (liability) fair values (reflected in deposits and other assets or in other long-term liabilities as appropriate) as of March 31, 2006 and 2005 and as of December 31, 2005 and 2004 (amounts in thousands):

|   | <b>Wynn Las Vegas<br/>Interest Rate<br/>Swaps</b> | <b>Wynn Macau<br/>Interest<br/>Rate<br/>Swaps</b> | <b>Total Interest<br/>Rate Swap Asset<br/>/ (Liability)</b> |
|---|---|---|---|
| Asset / (liability) fair value at March 31, 2006    | \$ 13,878   | \$ 1,202  | \$ 15,080   |
| Asset / (liability) fair value at December 31, 2005 | \$ 10,523   | \$ (1,788)  | \$ 8,735  |
| Asset / (liability) fair value at March 31, 2005    | \$ 8,283  | \$  | \$ 8,283  |
| Asset / (liability) fair value at December 31, 2004 | \$ 583  | \$  | \$ 583  |

The fair value approximates the amount the Company would receive if these contracts were settled at the respective valuation dates. Fair value is estimated based upon current, and predictions of future, interest rate levels along a yield curve, the remaining duration of the instruments and other market conditions, and therefore, is subject to significant estimation and a high degree of variability of fluctuation between periods.

The Company accounts for these interest rate swaps in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS No. 133 ), and its related interpretations. Accordingly, during the three months ended March 31, 2006 and 2005, the Company recorded approximately \$6.3 million and \$7.7 million, respectively, as increase to swap fair value, a component of other income (expense), net.

**11. Share-Based Compensation**

The Company has adopted the 2002 Stock Incentive Plan (the Stock Plan ) to provide stock compensation arrangements for directors, officers and key employees, and others. The Stock Plan includes provisions for the grant of (i) Incentive Stock Options ( ISO ), (ii) compensatory (i.e. nonqualified) stock options ( NQSO ) and (iii) nonvested shares of the common stock of Wynn Resorts, Limited ( Common Stock ). Officers, key



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employees, directors (whether employee or nonemployee) and independent contractors or consultants of the Company and its subsidiaries are eligible to participate in the Stock Plan. However, only employees of the Company and its subsidiaries are eligible to receive incentive stock options.

A maximum of 9,750,000 shares of Common Stock were reserved for issuance under the Stock Plan. As of March 31, 2006, 4,616,712 shares remain available for the grant of stock options or restricted shares of Common Stock.

Options are generally granted at the current market price at the date of grant. The Stock Plan provides for a variety of vesting schedules, including: immediate; 25% each year over four years; 33.33% for each of the third, fourth and fifth years; cliff vesting at a determined date; and others to be determined at the time of grant. All options expire ten years from the date of grant.

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## WYNN RESORTS, LIMITED AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

|  | March 31, |       |
|--|-----------|-------|
|  | 2006      | 2005  |
| Expected dividend yield                  |           |       |
| Expected stock price volatility          | 32.5%     | 35.3% |
| Risk-free interest rate                  | 4.9%      | 3.9%  |
| Expected average life of options (years) | 7.0       | 5.5   |

A summary of option activity under the Stock Plan as of March 31, 2006, and the changes during the three months then ended is presented below:

|                                | Options          | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual Term | Aggregate<br>Intrinsic<br>Value |
|--------------------------------|------------------|--|--|---------------------------------|
| Outstanding at January 1, 2006 | 3,484,800        | \$ 36.62                                 |  |                                 |
| Granted                        | 168,500          | \$ 68.24                                 |  |                                 |
| Exercised                      | (123,500)        | \$ 21.49                                 |  |                                 |
| Canceled                       | (58,800)         | \$ 37.23                                 |  |                                 |
| Outstanding at March 31, 2006  | <u>3,471,000</u> | \$ 38.68                                 | 8.24   | \$ 132,478,775                  |
| Exercisable at March 31, 2006  | <u>1,109,375</u> | \$ 22.56                                 | 7.29   | \$ 60,230,544                   |

The weighted average fair value of options granted during the three months ended March 31, 2006 and 2005 was \$30.65 and \$27.03, respectively. The total intrinsic value of the options exercised for the three months ended March 31, 2006 and 2005 was \$5.8 million and \$1.8 million, respectively. Since all deferred tax assets are fully reserved, these amounts did not create any tax benefit.

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A summary of the status of the Stock Plan's non-vested options as of March 31, 2006 and changes during the three months ended March 31, 2006, is presented below:

|                              | <b>Options</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|------------------------------|----------------|---|
| Nonvested at January 1, 2006 | 2,495,750      | \$ 17.32  |
| Granted                      | 168,500        | \$ 30.65  |
| Vested                       | (243,825)      | \$ 12.33  |
| Canceled                     | (58,800)       | \$ 15.45  |
|                              | 2,361,625      | \$ 18.79  |

As of March 31, 2006, there was \$38.4 million of total unrecognized compensation cost related to stock options granted under the plan. That cost is expected to be recognized on a straight-line basis over a weighted average of 3.62 years.

In addition to stock options, a total of 1,603,061 nonvested shares of Common Stock have been granted under the Stock Plan from inception through March 31, 2006. Of these shares 624,169 have vested, 189,723

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**WYNN RESORTS, LIMITED AND SUBSIDIARIES**

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

**(Unaudited)**

shares have been canceled and 789,169 shares will vest through December 2009. During the three months ended March 31, 2006 and 2005, the Company recognized compensation cost of approximately \$1.5 million and \$1.8 million, respectively. Of these amounts, approximately \$539,000 was capitalized to construction in progress for each of the three months ended March 31, 2006 and 2005. Approximately \$14.3 million of unamortized compensation cost relating to nonvested shares of Common Stock at March 31, 2006, will be recognized as compensation over the vesting period of the related grants through December 2009.

**12. Commitments and Contingencies**

*Wynn Las Vegas*

*Construction and Remodeling.* As of March 31, 2006, approximately \$15.5 million of budgeted project costs and retention amounts remained to be paid in order to close out the project. The Company expects these final costs to be paid in the second quarter of 2006.

Beginning in the third quarter of 2005, the Company began to make certain enhancements and refinements to Wynn Las Vegas. As a result, the Company has incurred and will continue to incur capital expenditures relating to these enhancements and refinements. Under the terms of the Wynn Las Vegas, LLC credit facilities, the Company is permitted up to \$80.0 million of capital expenditures in 2006, of which approximately \$6.3 million was spent during the first quarter of 2006. These spending limits do not apply to any funds that may be contributed to Wynn Las Vegas, LLC by Wynn Resorts.

*Encore Development.* As a result of the strong demand for the amenities and services offered by Wynn Las Vegas, the continued strength of the Las Vegas market, and the Company's desire to maximize the potential of its substantial real estate assets, the Company is developing Encore on approximately 20 acres on Las Vegas Boulevard (the Las Vegas Strip, or the Strip), immediately adjacent to Wynn Las Vegas. On March 31, 2006, the Company's lenders approved the \$1.74 billion project budget and the related plans and specifications for Encore. Encore's design features a 2,054-room hotel tower fully integrated with Wynn Las Vegas, consisting of 144 suites and 1,910 guest rooms, as well as an approximately 54,000 square foot casino, additional convention and meeting space, as well as restaurants, nightclubs, swimming pools, a spa and salon and retail outlets. The Company commenced construction of Encore on April 28, 2006 and expects to open Encore to the public by the end of 2008. The project budget for Encore includes approximately \$70.0 million to be incurred for construction of a new employee parking garage on our Koval property, a related pedestrian bridge, and costs to be incurred in connection with preparing the Broadway Theater to host Monty Python's Spamalot.

Through March 31, 2006, the Company has spent approximately \$76.2 million on Encore. These costs have been funded from the Credit Facilities and the First Mortgage Notes. The Company expects that the available remaining proceeds from the First Mortgage Notes, together with availability under the credit facilities, and cash flow from operations, will be sufficient to pay for expenditures of up to \$1.52 billion on the Encore project without incurring additional debt or receiving additional capital contributions from Wynn Resorts. Project costs exceeding \$1.52

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billion are expected to be funded by the issuance of up to \$100.0 million of additional First Mortgage Notes and/or contributions from Wynn Resorts.

*Entertainment Productions.* The Company entered into long-term agreements for the licensing, creation, development and production of *Le Rêve, A Small Collection of Imperfect Dreams*, the water-based production show, which opened concurrently with Wynn Las Vegas on April 28, 2005.

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**WYNN RESORTS, LIMITED AND SUBSIDIARIES**

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

**(Unaudited)**

The Company also purchased the rights to stage Avenue Q, the Tony Award-winning musical production and entered into a production services agreement for all production services related to the show. In August 2005, Avenue Q opened to the public in Wynn Las Vegas second showroom, the Broadway Theater.

Under the agreements relating to Le Rêve and Avenue Q, the Company is required to make payments to the creators and producers of each show based upon certain criteria including net ticket sales or profits.

In February 2006, the Company agreed with the producers of Avenue Q to end Avenue Q's exclusive run at Wynn Las Vegas at the end of May 2006. To terminate the contract, the Company will pay a contract termination fee of \$5.0 million. This fee has been recorded in the current quarter in accordance with the liability recognition provisions of Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146). The Company intends to remodel the Broadway Theater, which currently presents Avenue Q, and adjacent areas to accommodate Monty Python's Spamalot.

On July 20, 2005, the Company entered into an agreement with Spamalot, LLC to produce and present Monty Python's Spamalot at Wynn Las Vegas. The production is expected to be accompanied by a retail store, food and beverage facilities and a themed Spamalot Environment. The production costs, showroom renovation costs, production completion date, and opening date have not yet been determined.

*Completion Guarantee and Liquidity Reserve.* As part of the original Wynn Las Vegas financing, the Company contributed \$50.0 million of the net proceeds of the initial public offering of Wynn Resorts common stock to Wynn Completion Guarantor, LLC, a special purpose subsidiary of Wynn Las Vegas, LLC formed in October 2002 to secure completion of Wynn Las Vegas.

In addition, the Company deposited \$30.0 million from the net proceeds of the initial public offering of Wynn Resorts common stock into a liquidity reserve account to secure the completion and opening of Wynn Las Vegas.

The refinancing of Wynn Las Vegas, LLC's indebtedness retained both the completion guarantee deposit and the liquidity reserve. The liquidity reserve is solely for use of the Wynn Las Vegas project, which will be finally closed out in the second quarter of 2006. \$30.0 million of the \$50.0 million completion guarantee will be retained in connection with the construction of Encore.

*Wynn Macau*

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*Construction and Development.* Under its casino concession agreement with Macau, Wynn Macau, S.A. is constructing and will own and operate Wynn Macau, a casino resort facility in Macau's inner harbor area. Wynn Macau is being constructed, and will open, in two phases. The first phase of Wynn Macau is expected to open in the third quarter of 2006. The second phase is expected to open in stages and be fully open by the fourth quarter of 2007.

Construction of Wynn Macau's first phase commenced in June 2004 under a guaranteed maximum price construction contract between Wynn Macau, S.A. and Leighton Contractors (Asia) Limited, China State Construction Engineering (Hong Kong) Limited and China Construction Engineering (Macau) Company Limited, acting together as general contractor. In September 2005, the construction contract was amended and restated to include the second phase of Wynn Macau. Under the amended and restated construction contract, the general contractor is responsible for both the construction and design of the project (other than certain limited

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

**(Unaudited)**

portions to be designed by an affiliate of Wynn Macau, S.A.) based on an existing scope of work and design specifications provided by Wynn Macau, S.A., for a guaranteed maximum price of approximately \$457.2 million (including the contractor's fee and contingencies). The performance of the contractors is backed by a full completion guarantee given jointly and severally by Leighton Holdings Limited and China Overseas Holdings Limited, the parent companies of the general contractor. Upon acceptance by the Wynn Macau project lenders, the Company expects to increase the guaranteed maximum price amount by approximately \$23.0 million to reflect the additional gaming space and suite enhancements announced on February 23, 2006.

Through March 31, 2006, the Company had incurred approximately \$554.5 million of the total \$1.2 billion of budgeted project costs, leaving approximately \$622.4 million still to be incurred. Total budgeted project costs include construction and design costs (including construction contingencies) of approximately \$688.0 million, land acquisition costs of approximately \$49.0 million, the additional casino expansion and suite enhancements of approximately \$70.0 million and capitalized interest, pre-opening expenses, financing fees and other costs totaling in the aggregate approximately \$368.6 million. These costs have been, and will continue to be, paid from the previously funded \$230.0 million base equity loans from Wynn Resorts, \$80.0 million borrowed under Wynn Las Vegas, LLC's revolving credit agreement and loaned to Wynn Macau, S.A. as subordinated debt, Wynn Macau, S.A.'s \$764.0 million senior secured credit facility and cash flows from operations once Wynn Macau opens.

*Land Concession Contract.* Wynn Macau, S.A. has entered into a land concession contract for the Wynn Macau project site. Under the land concession contract, Wynn Macau, S.A. leases a parcel of approximately 16 acres from the government for an initial term of 25 years, with a right to renew for additional periods. Wynn Macau, S.A. has made four payments to the Macau government under the land concession contract and is required to make eight additional semi-annual payments (including interest) for total payments of approximately \$42.7 million. Wynn Macau, S.A. also paid approximately \$17.9 million to an unrelated third party for its relinquishment of rights to a portion of the land. During the term of the land concession contract, Wynn Macau, S.A. is also required to make annual lease payments of up to \$400,000.

*Macau Subconcession Sale.* On March 4, 2006, Wynn Macau, S.A. entered into an agreement with Publishing & Broadcasting, Ltd. (PBL) pursuant to which Wynn Macau, S.A. agreed to sell to PBL a subconcession to operate casino games in Macau for a purchase price of \$900.0 million. The transaction is subject to the approval of the Macau government.

*Future Development*

We have submitted an application for a land concession for an additional 54 acres of land on the Cotai Strip in Macau for future development.

*Leases*



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*Lessor* - The Company is the lessor under six leases for retail operations at Wynn Las Vegas and has entered into license and distribution agreements for five additional retail outlets in Wynn Las Vegas. The Company also is a party to joint venture agreements for the operation of one other retail outlet and the Ferrari and Maserati automobile dealership at Wynn Las Vegas. Each of these retail outlets opened concurrently with the opening of Wynn Las Vegas. The Company has also entered into nine lease arrangements for the future retail operations of Wynn Macau.

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**(Unaudited)**

*Lessee* - In addition, the Company is the lessee under several leases for office space in Las Vegas, Macau and certain other locations, warehouse facilities, the land underlying the Company's aircraft hangar and certain office equipment. The Company also leases land from the government of Macau for the site of Wynn Macau.

*Self-insurance*

The Company's domestic subsidiaries are covered under a self-insured medical plan up to a maximum of \$200,000 per year for each insured person. Amounts in excess of this threshold are covered by the Company's insurance programs, subject to customary policy limits. The Company's foreign subsidiaries are fully-insured.

*Employment Agreements*

The Company has entered into employment agreements with several executive officers, other members of management and certain key employees. These agreements, other than Mr. Wynn's, generally have three- to five-year terms and indicate a base salary. Certain agreements also contain provisions for guaranteed bonuses. A limited number of the executives are also entitled to a separation payment if terminated without cause or upon voluntary termination of employment for good reason following a change of control (as these terms are defined in the employment contracts).

*Litigation*

The Company does not have any material litigation as of March 31, 2006.

**13. Segment Information**

The Company monitors its operations and evaluates earnings by reviewing the assets and operations of Wynn Las Vegas and Wynn Macau. Wynn Las Vegas opened on April 28, 2005. Wynn Macau is currently in the development and construction phase and is expected to open in the third quarter of 2006.

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The Company's total assets by segment are as follows (in thousands):

|                                   | <b>March 31,</b><br><b>2006</b> | <b>December 31,</b><br><b>2005</b> |
|-----------------------------------|---------------------------------|------------------------------------|
|                                   | <u>          </u>               | <u>          </u>                  |
| <b>Total assets</b>               |                                 |                                    |
| Wynn Las Vegas (including Encore) | \$ 3,077,184                    | \$ 3,115,814                       |
| Wynn Macau                        | 572,934                         | 471,571                            |
| Corporate and other assets        | 359,269                         | 357,898                            |
|                                   | <u>          </u>               | <u>          </u>                  |
| <b>Total consolidated assets</b>  | <b>\$ 4,009,387</b>             | <b>\$ 3,945,283</b>                |
|                                   | <u>          </u>               | <u>          </u>                  |

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The Company's segment information on its results of operations for the three months ended March 31, 2006 and 2005, are as follows (in thousands):

|   | <b>Three Months Ended<br/>March 31, 2006</b> | <b>Three Months Ended<br/>March 31, 2005</b> |
|---|--|--|
| <b>Revenues (1)</b>                           |  |  |
| Casino  | \$ 126,514                                   | \$   |
| Rooms   | 68,177                                       |  |
| Food and beverage                             | 74,634                                       |  |
| Entertainment, retail and other               | 48,957                                       |  |
|   | <u>318,282</u>                               |  |
| Gross revenues                                | 318,282                                      |  |
| Less promotional allowances                   | (41,057)                                     |  |
|   | <u>277,225</u>                               |  |
| Net revenues                                  | \$ 277,225                                   | \$   |
| <b>Adjusted EBITDA (1, 2)</b>                 | \$ 81,123                                    | \$ (9)                                       |
| <b>Other operating costs and expenses</b>     |  |  |
| Preopening expenses:                          |  |  |
| Wynn Las Vegas (including Encore)             | (18)   | (29,091)                                     |
| Wynn Macau                                    | (8,928)                                      | (3,974)                                      |
| Corporate and other                           |  | (5,039)                                      |
| Depreciation and amortization:                |  |  |
| Wynn Las Vegas (including Encore)             | (38,949)                                     | (1,511)                                      |
| Wynn Macau                                    | (2,077)                                      | (1,466)                                      |
| Corporate and other                           | (759)  | (517)  |
| Property charges and other:                   |  |  |
| Wynn Las Vegas (including Encore)             | (4,949)                                      | (53)   |
| Wynn Macau                                    |  |  |
| Corporate and other                           |  |  |
| Avenue Q contract termination fee             | (5,000)                                      |  |
| Corporate expenses and other                  | (10,711)                                     |  |
|   | <u>(71,391)</u>                              | <u>(41,651)</u>                              |
| <b>Total</b>                                  | (71,391)                                     | (41,651)                                     |
| <b>Operating income (loss)</b>                | 9,732  | (41,660)                                     |
| <b>Other non-operating costs and expenses</b> |  |  |
| Interest income                               | 8,432  | 6,182  |
| Interest expense                              | (35,943)                                     | (2,149)                                      |
| Increase in swap fair value                   | 6,345  | 7,700  |
|   | <u>(21,166)</u>                              | <u>11,733</u>                                |
| <b>Total</b>                                  | (21,166)                                     | 11,733                                       |

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|                 |             |             |
|-----------------|-------------|-------------|
| <b>Net loss</b> | \$ (11,434) | \$ (29,927) |
|-----------------|-------------|-------------|

- (1) Wynn Macau is currently in the development stage and therefore has no revenues or adjusted EBITDA.
- (2) Adjusted EBITDA is earnings before interest, taxes, depreciation, amortization, pre-opening expenses, property charges, corporate expenses, stock-based compensation, Avenue Q contract termination fee, earnings or losses from unconsolidated affiliates, and other non-operating income and expenses. Adjusted EBITDA is presented exclusively as a supplemental disclosure because management believes that it is widely used to measure the performance, and as a principal basis for valuation, of gaming companies. Management uses Adjusted EBITDA as the primary measure of the operating performance of its segments Wynn Las Vegas and Wynn Macau and to compare the operating performance of its properties with those of its competitors.

**Table of Contents****WYNN RESORTS, LIMITED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****14. Restatement**

Subsequent to the issuance of the Company's condensed consolidated financial statements for the three months ended March 31, 2005, the Company determined that its interest rate swap arrangements relating to certain of its floating-rate debt facilities did not qualify for hedge accounting under Statement of Financial Accounting Standards No. 133 and its related interpretations. The Company's hedge documentation includes, among other items, the assumption that the repricing dates for its debt and swaps match. The documentation required to assess ineffectiveness resulting from having different repricing dates was not in place at the inception of the hedge, nor during the periods for which an assessment was required, and the Company recently determined that the repricing dates on the swap instruments did not match exactly the repricing dates on the floating-rate debt. Documentation deficiencies cannot be corrected, and quarterly testing cannot be performed, retrospectively. As a result of the documentation deficiencies, hedge accounting should not have been used. Accordingly, the Company restated its condensed consolidated financial statements for the three months ended March 31, 2005 to eliminate the application of hedge accounting. Eliminating the application of hedge accounting resulted in recording the mark to market adjustments for the interest rate swaps as increase in swap fair value, a component of other income (expense), net and not in comprehensive income, as was previously reported.

A summary of the significant effects of the restatement on the March 31, 2005 condensed consolidated financial statements is as follows (amounts in thousands except per share data):

|  | <b>For the Three Months<br/>Ended March 31, 2005</b> |                        |
|--|--|------------------------|
|  | <b>As Previously<br/>Reported</b>                    | <b>As<br/>Restated</b> |
| <b>Condensed Consolidated Statement of Operations:</b> |  |                        |
| Increase in swap fair value                            | \$   | \$ 7,700               |
| Other income (expense), net                            | 4,033  | 11,733                 |
| Net (loss)   | (37,627)   | (29,927)               |
| Basic and diluted (loss) per share                     | \$ (0.38)  | \$ (0.30)              |
| <b>Condensed Consolidated Statement of Cash Flows:</b> |  |                        |
| Net (loss)   | \$ (37,627)  | \$ (29,927)            |
| Increase in the fair value of interest rate swaps      | \$   | \$ (7,700)             |

**15. Subsequent Events**

During April 2006, approximately \$11.1 million of additional Debentures were converted into 481,954 shares of the common stock of Wynn Resorts, Limited.

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In April 2006, the Company entered into an agreement to acquire all of the land and improvements currently occupied by the Las Vegas Chamber of Commerce, at the intersection of Sands Avenue and Paradise Road, adjacent to Wynn Las Vegas golf course. This purchase of approximately 4.65 acres of land and all improvements is expected to close in the second quarter of 2007.

In April 2006, a restricted stock agreement relating to a grant of 189,723 shares of the Company's common stock was terminated.

On May 3, 2006, the Audit Committee confirmed the rent to be paid by Mr. and Mrs. Wynn for their villa at Wynn Las Vegas at \$580,000 per year and provided that the next rent adjustment would be July 1, 2008.

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**WYNN RESORTS, LIMITED AND SUBSIDIARIES**

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

**(Unaudited)**

**16. Consolidating Financial Information of Guarantors and Issuers**

The following condensed consolidating financial statement information related to Wynn Resorts (the Parent), which is the issuer of the Debentures, Wynn Resorts Funding, LLC, a subsidiary of the Parent that guarantees the Debentures (the Convertible Debentures Guarantor); and non-guarantor subsidiaries as of March 31, 2006 and December 31, 2005, and for the three months ended March 31, 2006 and 2005.

The following condensed consolidating financial statement information is presented in the form provided because: (i) the Convertible Debentures Guarantor is a wholly-owned subsidiary of the Parent; (ii) the guarantee is considered to be full and unconditional (that is, if the Parent fails to make a scheduled payment, the Convertible Debentures Guarantor is obligated to make the scheduled payment immediately and, if it does not, any holder of the Debentures may immediately bring suit directly against the Convertible Debentures Guarantor for payment of all amounts due and payable); and (iii) the guarantee is joint and several.



**Table of Contents****WYNN RESORTS, LIMITED AND SUBSIDIARIES****CONSOLIDATING BALANCE SHEET INFORMATION**

AS OF MARCH 31, 2006

(amounts in thousands)

(unaudited)

|   | Parent              | Convertible<br>Debentures<br>Guarantor | Non-guarantor<br>Subsidiaries | Eliminating<br>Entries | Total               |
|---|---------------------|--|-------------------------------|------------------------|---------------------|
| <b>ASSETS</b>                                   |                     |  |                               |                        |                     |
| Current assets:                                 |                     |  |                               |                        |                     |
| Cash and cash equivalents                       | \$ 314,679          | \$                                     | \$ 162,348                    | \$                     | \$ 477,027          |
| Restricted cash and investments                 | 1,181               | 7,575                                  | 68,888                        |                        | 77,644              |
| Receivables, net                                | 3                   |  | 66,530                        |                        | 66,533              |
| Inventories                                     |                     |  | 47,317                        |                        | 47,317              |
| Prepaid expenses                                | 262                 |  | 24,750                        |                        | 25,012              |
| <b>Total current assets</b>                     | <b>316,125</b>      | <b>7,575</b>                           | <b>369,833</b>                |                        | <b>693,533</b>      |
| Restricted cash and investments                 | 23                  |  | 330,488                       |                        | 330,511             |
| Property and equipment, net                     | 536                 |  | 2,726,472                     |                        | 2,727,008           |
| Intangibles, net                                |                     |  | 57,634                        |                        | 57,634              |
| Deferred financing costs                        | 6,373               |  | 85,052                        |                        | 91,425              |
| Deposits and other assets                       | 3,457               |  | 100,424                       |                        | 103,881             |
| Investment in unconsolidated affiliates         | 1,283,791           |  | 5,395                         | (1,283,791)            | 5,395               |
| Intercompany balances                           | 204,345             | 37,500                                 | (241,845)                     |                        |                     |
| <b>Total assets</b>                             | <b>\$ 1,814,650</b> | <b>\$ 45,075</b>                       | <b>\$ 3,433,453</b>           | <b>\$ (1,283,791)</b>  | <b>\$ 4,009,387</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>      |                     |  |                               |                        |                     |
| Current liabilities:                            |                     |  |                               |                        |                     |
| Current portion of long-term debt               | \$                  | \$                                     | \$ 15,592                     | \$                     | \$ 15,592           |
| Current portion of land concession obligation   |                     |  | 9,206                         |                        | 9,206               |
| Accounts and construction payable               | 10                  |  | 66,072                        |                        | 66,082              |
| Accrued interest                                | 2,948               |  | 30,301                        |                        | 33,249              |
| Accrued compensation and benefits               | 2,801               |  | 27,498                        |                        | 30,299              |
| Other accrued expenses                          | 990                 |  | 31,066                        |                        | 32,056              |
| Customer deposits and other related liabilities |                     |  | 38,348                        |                        | 38,348              |
| Construction retention                          |                     |  | 16,774                        |                        | 16,774              |
| <b>Total current liabilities</b>                | <b>6,749</b>        |  | <b>234,857</b>                |                        | <b>241,606</b>      |
| Construction retention                          |                     |  | 591                           |                        | 591                 |
| Long-term debt                                  | 235,871             |  | 1,944,275                     |                        | 2,180,146           |
| Long-term land concession obligation.           |                     |  | 14,550                        |                        | 14,550              |
| Other long-term liabilities                     |                     |  | 464                           |                        | 464                 |
| <b>Total liabilities</b>                        | <b>242,620</b>      |  | <b>2,194,737</b>              |                        | <b>2,437,357</b>    |

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|  |              |           |              |                |              |
|--|--------------|-----------|--------------|----------------|--------------|
| Commitments and contingencies              |              |           |              |                |              |
| Stockholders' equity:                      |              |           |              |                |              |
| Common stock                               | 1,001        |           |              |                | 1,001        |
| Additional paid-in capital                 | 1,977,624    | 44,028    | 1,624,385    | (1,668,413)    | 1,977,624    |
| Accumulated deficit                        | (406,595)    | 1,047     | (385,669)    | 384,622        | (406,595)    |
| Total stockholders' equity                 | 1,572,030    | 45,075    | 1,238,716    | (1,283,791)    | 1,572,030    |
| Total liabilities and stockholders' equity | \$ 1,814,650 | \$ 45,075 | \$ 3,433,453 | \$ (1,283,791) | \$ 4,009,387 |

**Table of Contents****WYNN RESORTS, LIMITED AND SUBSIDIARIES****CONSOLIDATING BALANCE SHEET INFORMATION**

AS OF DECEMBER 31, 2005

(amounts in thousands)

(unaudited)

|   | Parent              | Convertible<br>Debentures<br>Guarantor | Non-guarantor<br>Subsidiaries | Eliminating<br>Entries | Total               |
|---|---------------------|--|-------------------------------|------------------------|---------------------|
| <b>ASSETS</b>                                   |                     |  |                               |                        |                     |
| Current assets:                                 |                     |  |                               |                        |                     |
| Cash and cash equivalents                       | \$ 308,013          | \$                                     | \$ 126,276                    | \$                     | \$ 434,289          |
| Restricted cash and investments                 | 1,064               | 15,001                                 | 82,206                        |                        | 98,271              |
| Receivables, net                                | 31                  |  | 88,437                        |                        | 88,468              |
| Inventories                                     |                     |  | 39,884                        |                        | 39,884              |
| Prepaid expenses                                | 324                 |  | 23,306                        |                        | 23,630              |
| <b>Total current assets</b>                     | <b>309,432</b>      | <b>15,001</b>                          | <b>360,109</b>                |                        | <b>684,542</b>      |
| Restricted cash and investments                 | 23                  |  | 344,308                       |                        | 344,331             |
| Property and equipment, net                     | 530                 |  | 2,663,340                     |                        | 2,663,870           |
| Intangibles, net                                |                     |  | 60,480                        |                        | 60,480              |
| Deferred financing costs                        | 6,934               |  | 88,685                        |                        | 95,619              |
| Deposits and other assets                       | 3,454               |  | 87,917                        |                        | 91,371              |
| Investment in unconsolidated affiliates         | 1,295,256           |  | 5,070                         | (1,295,256)            | 5,070               |
| Intercompany balances                           | 216,454             | 30,000                                 | (246,454)                     |                        |                     |
| <b>Total assets</b>                             | <b>\$ 1,832,083</b> | <b>\$ 45,001</b>                       | <b>\$ 3,363,455</b>           | <b>\$ (1,295,256)</b>  | <b>\$ 3,945,283</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>      |                     |  |                               |                        |                     |
| Current liabilities:                            |                     |  |                               |                        |                     |
| Current portion of long-term debt               | \$                  | \$                                     | \$ 15,489                     | \$                     | \$ 15,489           |
| Current portion of land concession obligation   |                     |  | 8,984                         |                        | 8,984               |
| Accounts and construction payable               | 41                  |  | 79,727                        |                        | 79,768              |
| Accrued interest                                | 9,142               |  | 6,591                         |                        | 15,733              |
| Accrued compensation and benefits               | 9,050               |  | 27,722                        |                        | 36,772              |
| Other accrued expenses                          | 955                 |  | 27,419                        |                        | 28,374              |
| Customer deposits and other related liabilities |                     |  | 66,120                        |                        | 66,120              |
| Construction retention                          |                     |  | 18,539                        |                        | 18,539              |
| <b>Total current liabilities</b>                | <b>19,188</b>       |  | <b>250,591</b>                |                        | <b>269,779</b>      |
| Construction retention                          |                     |  | 757                           |                        | 757                 |
| Long-term debt                                  | 250,000             |  | 1,840,846                     |                        | 2,090,846           |
| Long-term land concession obligation.           |                     |  | 19,218                        |                        | 19,218              |
| Other long-term liabilities                     |                     |  | 1,788                         |                        | 1,788               |
| <b>Total liabilities</b>                        | <b>269,188</b>      |  | <b>2,113,200</b>              |                        | <b>2,382,388</b>    |

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|  |              |           |              |                |              |
|--|--------------|-----------|--------------|----------------|--------------|
| Commitments and contingencies              |              |           |              |                |              |
| Stockholders' equity:                      |              |           |              |                |              |
| Common stock                               | 993          |           |              |                | 993          |
| Additional paid-in capital                 | 1,972,847    | 44,028    | 1,623,218    | (1,667,246)    | 1,972,847    |
| Deferred compensation                      | (15,784)     |           | (957)        | 957            | (15,784)     |
| Accumulated deficit                        | (395,161)    | 973       | (372,006)    | 371,033        | (395,161)    |
| Total stockholders' equity                 | 1,562,895    | 45,001    | 1,250,255    | (1,295,256)    | 1,562,895    |
| Total liabilities and stockholders' equity | \$ 1,832,083 | \$ 45,001 | \$ 3,363,455 | \$ (1,295,256) | \$ 3,945,283 |

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## WYNN RESORTS, LIMITED AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION

THREE MONTHS ENDED MARCH 31, 2006

(amounts in thousands)

(unaudited)

|  | Parent            | Convertible<br>Debentures<br>Guarantor | Non-guarantor<br>Subsidiaries | Eliminating<br>Entries | Total             |
|--|-------------------|--|-------------------------------|------------------------|-------------------|
|  | <u>          </u> | <u>          </u>                      | <u>          </u>             | <u>          </u>      | <u>          </u> |
| Operating revenues:                                    |                   |  |                               |                        |                   |
| Casino   | \$                | \$                                     | \$ 126,514                    | \$                     | \$ 126,514        |
| Rooms  |                   |  | 68,177                        |                        | 68,177            |
| Food and beverage                                      |                   |  | 74,634                        |                        | 74,634            |
| Entertainment, retail and other                        |                   |  | 48,957                        |                        | 48,957            |
|  | <u>          </u> | <u>          </u>                      | <u>          </u>             | <u>          </u>      | <u>          </u> |
| Gross revenues   |                   |  | 318,282                       |                        | 318,282           |
| Less promotional allowances                            |                   |  | (41,057)                      |                        | (41,057)          |
|  | <u>          </u> | <u>          </u>                      | <u>          </u>             | <u>          </u>      | <u>          </u> |
| Net revenues   |                   |  | 277,225                       |                        | 277,225           |
| Operating costs and expenses:                          |                   |  |                               |                        |                   |
| Casino   |                   |  | 63,236                        |                        | 63,236            |
| Rooms  |                   |  | 16,985                        |                        | 16,985            |
| Food and beverage                                      |                   |  | 44,759                        |                        | 44,759            |
| Entertainment, retail and other                        |                   |  | 32,514                        |                        | 32,514            |
| General and administrative                             | (182)             |  | 47,147                        |                        | 46,965            |
| Provision for doubtful accounts                        | (17)              |  | 2,946                         |                        | 2,929             |
| Pre-opening costs                                      |                   |  | 8,946                         |                        | 8,946             |
| Depreciation and amortization                          | 20                |  | 41,765                        |                        | 41,785            |
| Contract termination fee                               |                   |  | 5,000                         |                        | 5,000             |
| Property charges and other                             |                   |  | 4,949                         |                        | 4,949             |
|  | <u>          </u> | <u>          </u>                      | <u>          </u>             | <u>          </u>      | <u>          </u> |
| Total operating costs and expenses                     | (179)             |  | 268,247                       |                        | 268,068           |
| Equity in income/(loss) from unconsolidated affiliates | (14,317)          |  | 575                           | 14,317                 | 575               |
|  | <u>          </u> | <u>          </u>                      | <u>          </u>             | <u>          </u>      | <u>          </u> |
| Operating income/(loss)                                | (14,138)          |  | 9,553                         | 14,317                 | 9,732             |
|  | <u>          </u> | <u>          </u>                      | <u>          </u>             | <u>          </u>      | <u>          </u> |
| Other income/(expense):                                |                   |  |                               |                        |                   |
| Interest income  | 7,954             | 74                                     | 6,547                         | (6,143)                | 8,432             |
| Interest expense                                       | (5,250)           |  | (36,836)                      | 6,143                  | (35,943)          |
| Increase in swap fair value                            |                   |  | 6,345                         |                        | 6,345             |
|  | <u>          </u> | <u>          </u>                      | <u>          </u>             | <u>          </u>      | <u>          </u> |
| Other income (expense), net                            | 2,704             | 74                                     | (23,944)                      |                        | (21,166)          |
|  | <u>          </u> | <u>          </u>                      | <u>          </u>             | <u>          </u>      | <u>          </u> |
| Net income/(loss)                                      | \$ (11,434)       | \$ 74                                  | \$ (14,391)                   | \$ 14,317              | \$ (11,434)       |
|  | <u>          </u> | <u>          </u>                      | <u>          </u>             | <u>          </u>      | <u>          </u> |



**Table of Contents****WYNN RESORTS, LIMITED AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION****THREE MONTHS ENDED MARCH 31, 2005 (As Restated - see Note 14)****(amounts in thousands)****(unaudited)**

|  | <u>Parent</u> | <u>Convertible<br/>Debentures<br/>Guarantor</u> | <u>Non-guarantor<br/>Subsidiaries</u> | <u>Eliminating<br/>Entries</u> | <u>Total</u> |
|--|---------------|---|---------------------------------------|--------------------------------|--------------|
| <b>Operating revenues:</b>                             |               |   |                                       |                                |              |
| Casino   | \$            | \$  | \$                                    | \$                             | \$           |
| Rooms  |               |   |                                       |                                |              |
| Food and beverage                                      |               |   |                                       |                                |              |
| Entertainment, retail and other                        | 1,500         |   |                                       | (1,500)                        |              |
| Gross revenues   | 1,500         |   |                                       | (1,500)                        |              |
| Less promotional allowances                            |               |   |                                       |                                |              |
| Net revenues   | 1,500         |   |                                       | (1,500)                        |              |
| <b>Operating costs and expenses:</b>                   |               |   |                                       |                                |              |
| Casino   |               |   |                                       |                                |              |
| Rooms  |               |   |                                       |                                |              |
| Food and beverage                                      |               |   |                                       |                                |              |
| Entertainment, retail and other                        |               |   |                                       |                                |              |
| General and administrative                             | 5             |   | 4                                     |                                | 9            |
| Provision for doubtful accounts                        |               |   |                                       |                                |              |
| Pre-opening costs                                      | 6,885         |   | 32,719                                | (1,500)                        | 38,104       |
| Depreciation and amortization                          | 20            |   | 3,474                                 |                                | 3,494        |
| Property charges and other                             |               |   | 53                                    |                                | 53           |
| Total operating costs and expenses                     | 6,910         |   | 36,250                                | (1,500)                        | 41,660       |
| Equity in income/(loss) from unconsolidated affiliates | (28,692)      |   |                                       | 28,692                         |              |
| Operating income/(loss)                                | (34,102)      |   | (36,250)                              | 28,692                         | (41,660)     |
| <b>Other income/(expense):</b>                         |               |   |                                       |                                |              |
| Interest income  | 4,175         | 82  | 4,377                                 | (2,452)                        | 6,182        |
| Interest expense                                       |               |   | (4,601)                               | 2,452                          | (2,149)      |
| Increase in swap fair value                            |               |   | 7,700                                 |                                | 7,700        |
| Other income (expense), net                            | 4,175         | 82  | 7,476                                 |                                | 11,733       |
| Net income/(loss)                                      | \$ (29,927)   | \$ 82   | \$ (28,774)                           | \$ 28,692                      | \$ (29,927)  |





**Table of Contents****WYNN RESORTS, LIMITED AND SUBSIDIARIES****CONSOLIDATING STATEMENTS OF CASH FLOWS INFORMATION****THREE MONTHS ENDED MARCH 31, 2006****(amounts in thousands)****(unaudited)**

|  | <u>Parent</u>  | <u>Convertible<br/>Debentures<br/>Guarantor</u> | <u>Non-guarantor<br/>Subsidiaries</u> | <u>Eliminating<br/>Entries</u> | <u>Total</u>    |
|--|----------------|---|---------------------------------------|--------------------------------|-----------------|
| <b>Cash flows from operating activities:</b>   |                |   |                                       |                                |                 |
| Net income/(loss)  | \$ (11,434)    | \$ 74   | \$ (14,391)                           | \$ 14,317                      | \$ (11,434)     |
| Adjustments to reconcile net income/(loss) to net cash provided by / (used in) operating activities: |                |   |                                       |                                |                 |
| Depreciation and amortization  | 20             |   | 41,765                                |                                | 41,785          |
| Stock-based compensation   | 1,607          |   | 2,312                                 |                                | 3,919           |
| Amortization and write-off of deferred financing costs   | 176            |   | 3,656                                 |                                | 3,832           |
| Provision for doubtful accounts  | (17)           |   | 2,946                                 |                                | 2,929           |
| Property charges and other   |                |   | 4,949                                 |                                | 4,949           |
| Equity in loss from unconsolidated affiliates  | 14,317         |   | (325)                                 | (14,317)                       | (325)           |
| Increase in fair value of interest rate swaps  |                |   | (6,345)                               |                                | (6,345)         |
| Increase (decrease) in cash from changes in:   |                |   |                                       |                                |                 |
| Receivables  | 45             |   | 18,961                                |                                | 19,006          |
| Inventories and prepaid expenses   | 62             |   | (8,413)                               |                                | (8,351)         |
| Accounts payable and accrued expenses  | (12,439)       |   | (4,194)                               |                                | (16,633)        |
| <b>Net cash provided by (used in) operating activities</b>   | <b>(7,663)</b> | <b>74</b>                                       | <b>40,921</b>                         |                                | <b>33,332</b>   |
| <b>Cash flows from investing activities:</b>   |                |   |                                       |                                |                 |
| Capital expenditures, net of construction payables   | (26)           |   | (115,387)                             |                                | (115,413)       |
| Restricted cash and investments  | (117)          | 7,426   | 27,138                                |                                | 34,447          |
| Other assets   | (2)            |   | (11,054)                              |                                | (11,056)        |
| Intercompany balances  | 12,109         | (7,500)   | (4,609)                               |                                |                 |
| <b>Net cash provided by (used in) investing activities</b>   | <b>11,964</b>  | <b>(74)</b>                                     | <b>(103,912)</b>                      |                                | <b>(92,022)</b> |
| <b>Cash flows from financing activities:</b>   |                |   |                                       |                                |                 |
| Exercise of stock options  | 2,365          |   |                                       |                                | 2,365           |
| Proceeds from issuance of long-term debt   |                |   | 114,926                               |                                | 114,926         |
| Principal payments on long-term debt   |                |   | (11,417)                              |                                | (11,417)        |
| Principal payments on land concession  |                |   | (4,446)                               |                                | (4,446)         |
| <b>Net cash provided by financing activities</b>   | <b>2,365</b>   |   | <b>99,063</b>                         |                                | <b>101,428</b>  |
| <b>Cash and cash equivalents:</b>  |                |   |                                       |                                |                 |
| Increase (decrease) in cash and cash equivalents   | 6,666          |   | 36,072                                |                                | 42,738          |
| Balance, beginning of period   | 308,013        |   | 126,276                               |                                | 434,289         |

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|                        |                   |           |                   |           |                   |
|------------------------|-------------------|-----------|-------------------|-----------|-------------------|
| Balance, end of period | <u>\$ 314,679</u> | <u>\$</u> | <u>\$ 162,348</u> | <u>\$</u> | <u>\$ 477,027</u> |
|------------------------|-------------------|-----------|-------------------|-----------|-------------------|

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## WYNN RESORTS, LIMITED AND SUBSIDIARIES

## CONSOLIDATING STATEMENTS OF CASH FLOWS INFORMATION

THREE MONTHS ENDED MARCH 31, 2005 (As Restated - see Note 14)

(amounts in thousands)

(unaudited)

|  | Parent            | Convertible<br>Debentures<br>Guarantor | Non-guarantor<br>Subsidiaries | Eliminating<br>Entries | Total             |
|--|-------------------|--|-------------------------------|------------------------|-------------------|
|  | <u>          </u> | <u>          </u>                      | <u>          </u>             | <u>          </u>      | <u>          </u> |
| Cash flows from operating activities:  |                   |  |                               |                        |                   |
| Net income/(loss)  | \$ (29,927)       | \$ 82                                  | \$ (28,774)                   | \$ 28,692              | \$ (29,927)       |
| Adjustments to reconcile net income/(loss) to net cash provided by / (used in) operating activities: |                   |  |                               |                        |                   |
| Depreciation and amortization  | 20                |  | 3,474                         |                        | 3,494             |
| Stock-based compensation   | 1,256             |  |                               |                        | 1,256             |
| Amortization and write-off of deferred financing costs   | 178               |  | 1,865                         |                        | 2,043             |
| Property charges and other   |                   |  | (12)                          |                        | (12)              |
| Equity in loss from unconsolidated affiliates  | 28,692            |  |                               | (28,692)               |                   |
| Increase in fair value of interest rate swaps  |                   |  | (7,700)                       |                        | (7,700)           |
| Increase (decrease) in cash from changes in:   |                   |  |                               |                        |                   |
| Receivables  | (8)               |  | (567)                         |                        | (575)             |
| Inventories and prepaid expenses   | (70)              |  | (5,731)                       |                        | (5,801)           |
| Accounts payable and accrued expenses  | (7,947)           |  | 39,277                        |                        | 31,330            |
|  | <u>          </u> | <u>          </u>                      | <u>          </u>             | <u>          </u>      | <u>          </u> |
| Net cash provided by (used in) operating activities  | (7,806)           | 82                                     | 1,832                         |                        | (5,892)           |
| Cash flows from investing activities:  |                   |  |                               |                        |                   |
| Capital expenditures, net of construction payables   |                   |  | (291,969)                     |                        | (291,969)         |
| Restricted cash and investments  | 101               | 7,418                                  | (21,366)                      |                        | (13,847)          |
| Other assets   |                   |  | (21,323)                      |                        | (21,323)          |
| Intercompany balances  | 12,257            | (7,500)                                | (4,757)                       |                        |                   |
| Proceeds from sale of equipment  |                   |  | 23                            |                        | 23                |
|  | <u>          </u> | <u>          </u>                      | <u>          </u>             | <u>          </u>      | <u>          </u> |
| Net cash provided by (used in) investing activities  | 12,358            | (82)                                   | (339,392)                     |                        | (327,116)         |
| Cash flows from financing activities:  |                   |  |                               |                        |                   |
| Exercise of stock options  | 534               |  |                               |                        | 534               |
| Proceeds from issuance of long-term debt   |                   |  | 373,436                       |                        | 373,436           |
| Principal payments on long-term debt   |                   |  | (176)                         |                        | (176)             |
| Principal payments on land concession  |                   |  | (4,759)                       |                        | (4,759)           |
|  | <u>          </u> | <u>          </u>                      | <u>          </u>             | <u>          </u>      | <u>          </u> |
| Net cash provided by financing activities  | 534               |  | 368,501                       |                        | 369,035           |
| Cash and cash equivalents:   |                   |  |                               |                        |                   |
| Increase (decrease) in cash and cash equivalents   | 5,086             |  | 30,941                        |                        | 36,027            |
| Balance, beginning of period   | 302,262           |  | 27,999                        |                        | 330,261           |

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|                        |                   |           |                  |           |                   |
|------------------------|-------------------|-----------|------------------|-----------|-------------------|
| Balance, end of period | <u>\$ 307,348</u> | <u>\$</u> | <u>\$ 58,940</u> | <u>\$</u> | <u>\$ 366,288</u> |
|------------------------|-------------------|-----------|------------------|-----------|-------------------|

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with, and is qualified in its entirety by, the condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This discussion gives effect to the restatement described in Note 14 to these condensed consolidated financial statements.

**Forward-Looking Statements**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Certain information included in this Quarterly Report on Form 10-Q contains statements that are forward-looking, including, but not limited to, statements relating to our business strategy and development activities as well as other capital spending, financing sources, the effects of regulation (including gaming and tax regulations), expectations concerning future operations, margins, profitability and competition. Any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, in some cases you can identify forward-looking statements by terminology such as may, will, should, would, could, believe, expect, anticipate, intend, plan, continue or the negative of these terms or other comparable terminology. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by us. These risks and uncertainties include, but are not limited to: conditions precedent to funding under the agreements governing the disbursement of the proceeds of certain of our debt and equity offerings and borrowings under our credit facilities; competition in the casino/hotel and resort industries; completion of our Wynn Macau casino resort on time and within budget; our intention to fund a substantial portion of the development and construction costs of Encore with anticipated cash flows generated at Wynn Las Vegas; doing business in foreign locations such as Macau (including the risks associated with Macau's developing gaming regulatory framework); new development and construction activities of competitors; our limited operating history; our dependence on Stephen A. Wynn and existing management; our dependence on one property and, later a limited number of properties, for all of our cash flow; leverage and debt service (including sensitivity to fluctuations in interest rates); levels of travel, leisure and casino spending; general domestic or international economic conditions; pending or future legal proceedings; changes in federal or state tax laws or the administration of such laws; changes in gaming laws or regulations (including the legalization of gaming in certain jurisdictions); applications for licenses and approvals under applicable jurisdictional laws and regulations (including gaming laws and regulations); the impact that an outbreak of an infectious disease, such as avian flu, or the impact of a natural disaster, such as the tsunami which struck southeast Asia in December 2004, may have on the travel and leisure industry; and the consequences of the war in Iraq and other military conflicts in the Middle East and any future security alerts and/or terrorist attacks. Further information on potential factors that could affect our financial condition, results of operations and business are included in this report and our other filings with the Securities and Exchange Commission (SEC). You should not place undue reliance on any forward-looking statements, which are based only on information currently available to us. We undertake no obligation to publicly release any revisions to such forward-looking statements to reflect events or circumstances after the date of this report.

**Overview**

We are a developer, owner and operator of destination casino resorts. We own and operate Wynn Las Vegas, a destination casino resort in Las Vegas, Nevada, which opened on April 28, 2005. We are also constructing a destination casino resort in the Macau Special Administrative Region of the People's Republic of China (Macau), named Wynn Macau, which will open in September 2006. In addition, on April 28, 2006, we commenced construction on Encore at Wynn Las Vegas (Encore), a hotel and casino resort fully integrated with Wynn Las Vegas. Until the opening of Wynn Las Vegas, we were solely a development stage company.

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*Wynn Las Vegas*

We believe Wynn Las Vegas is the preeminent destination casino resort on the Strip in Las Vegas. Wynn Las Vegas features:

An approximately 111,000 square foot casino offering a full range of games, including private baccarat salons, a poker room, and a race and sports book;

Luxury hotel accommodations in 2,716 spacious hotel rooms, suites and villas;

Casual and fine dining in 18 outlets featuring signature chefs, including the Five Diamond award-winning restaurant, Alex;

A Ferrari and Maserati automobile dealership;

Approximately 76,000 square feet of high-end, brand-name retail shopping, including stores and boutiques featuring Brioni, Chanel, Dior, Graff, Louis Vuitton, Jean-Paul Gaultier and Manolo Blahnik;

Recreation and leisure facilities, including an 18-hole golf course, five swimming pools, private cabanas and full service spa and salon; and

Two showrooms, a nightclub and lounge entertainment.

The resort, which is located at the intersection of the Las Vegas Strip and Sands Avenue, occupies approximately 217 acres of land fronting the Strip and utilizes approximately 18 additional acres across Sands Avenue for employee parking.

Since its opening, we have enhanced and refined Wynn Las Vegas in response to market demands and customer preferences. We expect to continue these efforts, in each case, investing in projects designed to maximize the performance of Wynn Las Vegas. In the first quarter of 2006, we began remodeling the six North Fairway Villas (the six South Fairway Villas were remodeled in 2005), closed the Wynn art gallery to begin remodeling that area to accommodate high-end retail outlets, and began certain enhancements to our spa and salon. In February, we also agreed with the producers of Avenue Q to end Avenue Q's exclusive run at Wynn Las Vegas at the end of May 2006. We intend to remodel the Broadway Theater and adjacent areas to accommodate Monty Python's Spamalot, winner of the 2005 Tony Award for best musical. We have not yet determined the total costs of remodeling the theater and adjacent areas, nor have we determined the opening date for Monty Python's Spamalot.

*Encore at Wynn Las Vegas*

As a result of the strong demand for the amenities and services offered by Wynn Las Vegas, the continued strength of the Las Vegas market, and our desire to maximize the potential of our substantial real estate assets, we are constructing Encore on approximately 20 acres on the Strip, immediately adjacent to Wynn Las Vegas. On March 31, 2006, our lenders approved the \$1.74 billion project budget and the related plans and

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specifications for Encore (the Encore Budget, Plans and Specs ). Encore currently includes a 2,054-room hotel tower fully integrated with Wynn Las Vegas, consisting of 144 suites and 1,910 guest rooms, as well as an approximately 54,000 square foot casino, additional convention and meeting space, as well as restaurants, nightclubs, swimming pools, a spa and salon and retail outlets. We commenced construction of Encore on April 28, 2006, and expect to open it to the public by the end of 2008. The project budget for Encore includes approximately \$70.0 million to be incurred for construction of a new employee parking garage on our Koval property, a related pedestrian bridge and costs to be incurred in connection with preparing the Broadway Theater to host Monty Python's Spamalot.

### *Wynn Macau*

We are constructing and will own and operate Wynn Macau, our first destination casino resort in Macau, under a 20-year casino concession agreement granted by the Macau government in June 2002. We are one of

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only three concessionaires and two sub-concessionaires currently permitted by the government to operate a casino gaming business in Macau. The government of Macau has expressed its desire to transform Macau into the tourist destination of choice in Asia. The Chinese government has also gradually relaxed its travel and currency restrictions, allowing mainland Chinese from certain urban centers and economically developed areas to visit Macau without joining a tour group. The Chinese government also has increased the amount of renminbi that Chinese citizens are permitted to bring into Macau. With approximately 100.0 million people within a three-hour drive and nearly 1.0 billion people within a three-hour flight from Macau, Wynn Macau is located in what we believe will be one of the largest and fastest-growing gaming markets in the world.

Wynn Macau is being constructed, and will open, in phases. The total budget of Wynn Macau's two phases is approximately \$1.2 billion. The first phase of the project will utilize approximately 11 acres of a total site area of 16 acres of land and includes 600 hotel rooms and suites, 200 table games and 380 slot machines in approximately 100,000 square feet of casino gaming space, seven restaurants, approximately 26,000 square feet of retail space, a spa, a salon, entertainment lounges and meeting facilities. The first phase will open in September 2006. The second phase will include up to an additional 300 table games in approximately 136,000 square feet of additional casino space, two restaurants, retail space, a theater, and a dramatic front feature attraction. The second phase will be built on the remaining five acres of the Wynn Macau site and will be integrated into the first phase of Wynn Macau. The second phase is expected to be completed and opened in stages and to be fully open to the public in the fourth quarter of 2007.

### *Future Growth*

We have submitted an application for a land concession for an additional 54 acres of land on the Cotai Strip in Macau for future development. We also continue to evaluate additional domestic and international opportunities as they arise.

### *Macau Subconcession Sale*

On March 4, 2006, Wynn Macau, S.A. entered into an agreement with Publishing & Broadcasting, Ltd. ( PBL ) pursuant to which Wynn Macau, S.A. agreed to sell to PBL a subconcession to operate casino games in Macau for a purchase price of \$900.0 million. The transaction is subject to the approval of the Macau government.

## **Results of Operations**

We offer gaming, hotel accommodations, dining, entertainment, retail shopping, convention services and other amenities at Wynn Las Vegas. In the first quarter of 2006, Wynn Las Vegas generated net revenues of \$277.2 million and Adjusted EBITDA of \$81.1 million. Net revenues are comprised of \$126.5 million in net gaming revenues (45.6% of total net revenues) and \$150.7 million of net non-gaming revenues (54.4% of total net revenues). The quality of the resort's non-gaming amenities, combined with providing guests with an unparalleled total resort experience, has driven a premium in Wynn Las Vegas' average daily room rates and other non-gaming revenues. Consequently, we believe that revenues from Wynn Las Vegas' non-gaming activities comprise a higher percentage of total revenues than that of many of its competitors.

We are currently reliant solely upon the operations of Wynn Las Vegas for our operating cash flow. Concentration of our cash flow in one property exposes us to certain risks that competitors, whose operations are more diversified, may be better able to control. In addition to the concentration of operations in a single property, many of our customers are high-end gaming customers who wager on credit, thus exposing us to



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increased credit risk. High-end gaming also increases the potential for variability in our results.

We incurred a net loss for the three months ended March 31, 2006 of \$11.4 million, which represents a \$18.5 million or 62% decrease from the net loss of \$29.9 million for the three months ended March 31, 2005.

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During the first quarter of 2005, we were solely a development stage enterprise and pre-opening expenses increased significantly as Wynn Las Vegas approached opening. In contrast, we operated Wynn Las Vegas during the entire quarter ended March 31, 2006. As Wynn Macau nears its scheduled opening in the third quarter of 2006 and since construction of Encore is accelerating, we expect that our pre-opening expenses in future periods will exceed those in the three months ended March 31, 2006. However, we no longer incur pre-opening expenses related to Wynn Las Vegas, which were a significant contributor to the net loss incurred for the three months ended March 31, 2005. We expect that pre-opening expenses in future periods will be less than those incurred during the first quarter of 2005, before the opening of Wynn Las Vegas.

We monitor our operations and evaluate our earnings by reviewing the assets and operations of Wynn Las Vegas (including Encore) and Wynn Macau. The following table sets forth our financial results for the three months ended March 31, 2006 and 2005, by segment and reconciles Adjusted EBITDA to net loss (amounts in thousands):

|   | <b>Three Months Ended<br/>March 31, 2006</b> | <b>Three Months Ended<br/>March 31, 2005</b> |
|---|--|--|
| <b>Revenues (1)</b>                           |  |  |
| Casino  | \$ 126,514                                   | \$   |
| Rooms   | 68,177                                       |  |
| Food and beverage                             | 74,634                                       |  |
| Entertainment, retail and other               | 48,957                                       |  |
|   | <u>318,282</u>                               |  |
| Gross revenues                                | 318,282                                      |  |
| Less promotional allowances                   | (41,057)                                     |  |
|   | <u>277,225</u>                               |  |
| Net revenues                                  | \$ 277,225                                   | \$   |
|   | <u>81,123</u>                                | <u>(9)</u>                                   |
| <b>Adjusted EBITDA (1, 2)</b>                 | \$ 81,123                                    | \$ (9)                                       |
| <b>Other operating costs and expenses</b>     |  |  |
| Preopening expenses:                          |  |  |
| Wynn Las Vegas (including Encore)             | (18)   | (29,091)                                     |
| Wynn Macau                                    | (8,928)                                      | (3,974)                                      |
| Corporate and other                           |  | (5,039)                                      |
| Depreciation and amortization:                |  |  |
| Wynn Las Vegas (including Encore)             | (38,949)                                     | (1,511)                                      |
| Wynn Macau                                    | (2,077)                                      | (1,466)                                      |
| Corporate and other                           | (759)  | (517)  |
| Property charges and other:                   |  |  |
| Wynn Las Vegas (including Encore)             | (4,949)                                      | (53)   |
| Wynn Macau                                    |  |  |
| Corporate and other                           |  |  |
| Avenue Q contract termination fee             | (5,000)                                      |  |
| Corporate expenses and other                  | (10,711)                                     |  |
|   | <u>(71,391)</u>                              | <u>(41,651)</u>                              |
| <b>Total</b>                                  | (71,391)                                     | (41,651)                                     |
| <b>Operating income (loss)</b>                | 9,732  | (41,660)                                     |
| <b>Other non-operating costs and expenses</b> |  |  |
| Interest income                               | 8,432  | 6,182  |
| Interest expense                              | (35,943)                                     | (2,149)                                      |
| Increase in swap fair value                   | 6,345  | 7,700  |

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|                 |             |             |
|-----------------|-------------|-------------|
| <b>Total</b>    | (21,166)    | 11,733      |
| <b>Net loss</b> | \$ (11,434) | \$ (29,927) |

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- (1) Wynn Macau is currently in the development stage and therefore has no revenues or adjusted EBITDA.
- (2) Adjusted EBITDA is earnings before interest, taxes, depreciation, amortization, pre-opening expenses, property charges, corporate expenses, stock-based compensation, Avenue Q contract termination fee, earnings or losses from unconsolidated affiliates and other non-operating income and expenses. Adjusted EBITDA is presented exclusively as a supplemental disclosure because management believes that it is widely used to measure the performance, and as a principal basis for valuation, of gaming companies. Management uses Adjusted EBITDA as the primary measure of the operating performance of its segments Wynn Las Vegas and Wynn Macau and to compare the operating performance of its properties with those of its competitors. The Company also presents Adjusted EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Gaming companies have historically reported EBITDA as a supplement to financial measures in accordance with generally accepted accounting principles in the United States ( GAAP ). In order to view the operations of their casinos on a more stand-alone basis, gaming companies, including Wynn Resorts, Limited, have historically excluded from their EBITDA calculations pre-opening expenses, property charges and corporate expenses, which do not relate to the management of specific casino properties. However, Adjusted EBITDA should not be considered as an alternative to operating income as an indicator of the Company's performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure determined in accordance with GAAP. Unlike net income, Adjusted EBITDA does not include depreciation or interest expense and therefore does not reflect current or future capital expenditures or the cost of capital. We compensate for these limitations by using Adjusted EBITDA as only one of several comparative tools, together with GAAP measurements, to assist in the evaluation of operating performance. Such GAAP measurements include operating income (loss), net income (loss), cash flows from operations and cash flow data. The Company has significant uses of cash flows, including capital expenditures, interest payments, debt principal repayments, taxes and other non-recurring charges, which are not reflected in Adjusted EBITDA. Also, Wynn Resorts' calculation of Adjusted EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

*Financial results for the three months ended March 31, 2006 compared to the three months ended March 31, 2005.*

We opened Wynn Las Vegas on April 28, 2005. Prior to opening Wynn Las Vegas, we had not commenced operations, nor generated any significant revenues. Because Wynn Las Vegas was not open during the quarter ended March 31, 2005, there is no adequate comparison between the quarters ended March 31, 2006 and March 31, 2005.

### *Revenues*

Wynn Las Vegas' net gaming revenues were \$126.5 million for the three months ended March 31, 2006. During that period, the average table games win percentage (before discounts) was within the expected range of 19% to 22%, and the slot win percentage was within the expected range of 5% to 6% of handle.

For the three months ended March 31, 2006, Wynn Las Vegas' gross room revenues were approximately \$68.2 million. Average daily rate ( ADR ) and occupancy for that period were \$293 and 95.5%, respectively, generating revenues per available room ( REVPAR ) of \$279. Other non-gaming revenues included food and beverage revenues of approximately \$74.6 million, retail revenues of approximately \$17.2 million, entertainment revenues of approximately \$20.3 million, and other revenues from outlets, including the spa and salon, of approximately \$11.5 million.

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### *Adjusted EBITDA*

Wynn Las Vegas Adjusted EBITDA was approximately \$81.1 million for the three months ended March 31, 2006. Included in Adjusted EBITDA are direct departmental expenses not present in the corresponding 2005 quarter. During 2006, these departmental expenses included casino expenses of \$62.6 million, rooms expenses of \$16.8 million, food and beverage expenses of \$44.5 million, and entertainment, retail and other expenses of \$32.5 million. Also included are general and administrative expenses of approximately \$36.8 million and approximately \$2.9 million charged as a provision for doubtful accounts receivable. At opening, Wynn Las Vegas employed approximately 9,200 persons to accommodate increased opening needs. Natural staffing attrition has reduced the number of current employees to approximately 8,900 persons, reflecting a more normalized staffing level of approximately 7,900 full-time equivalents.

### *Pre-opening expenses*

Wynn Las Vegas pre-opening expenses decreased by \$29.1 million for the first three months of 2006 compared to the same period in 2005. Once it opened for business in April 2005, Wynn Las Vegas no longer incurred pre-opening expenses; however, \$18,000 of pre-opening expenses relating to Encore are included in the Wynn Las Vegas segment. There also was a substantial increase in staffing immediately preceding the opening of Wynn Las Vegas, which contributed to the increased level of pre-opening expenses in the first quarter of 2005. As the Encore development progresses in 2006, we expect associated pre-opening expenses to increase, but not to the same level as we experienced with Wynn Las Vegas.

Wynn Macau's pre-opening expenses increased by \$5.0 million or 125% from the first quarter of 2005 to the first quarter of 2006, due primarily to the increased pre-opening activity commensurate with the progress of the resort's construction. We expect that Wynn Macau's pre-opening expenses will continue to increase in the second and third quarters of 2006 as construction and development continue toward opening, similar to the trend experienced with Wynn Las Vegas in 2005, prior to its opening.

After Wynn Las Vegas opened on April 28, 2005, corporate expenses were charged to general and administrative expense instead of pre-opening expenses.

### *Depreciation and amortization*

Wynn Las Vegas depreciation and amortization expense increased by \$37.4 million for the first quarter of 2006 compared to the first quarter of 2005, as a result of the opening of Wynn Las Vegas. During the construction of Wynn Las Vegas, costs incurred in the construction of the buildings, improvements to land and the purchases of assets for use in operations were capitalized. Once Wynn Las Vegas opened and these assets were placed into service, we began recognizing the associated depreciation expense. The depreciation expenses will continue throughout the estimated useful lives of these assets. In addition, we continually evaluate the useful life of our property and equipment, intangibles and other assets. When circumstances require a revision to those estimates of useful life, we adjust them accordingly.

Wynn Macau's depreciation and amortization expenses remained relatively consistent between the first quarter of 2006 compared to the first quarter of 2005. Other than charges to depreciation for certain office equipment and amortization for the Macau gaming and land concessions, Wynn Macau's depreciation expenses will remain relatively insignificant until the resort opens and its assets are placed into service.

Certain assets, primarily a corporate aircraft and certain furniture, fixtures and equipment of Wynn Resorts and its subsidiaries included in corporate and other, are also depreciated. In addition, when we opened Wynn Las Vegas, we began recognizing the depreciation of the furniture, fixtures and equipment in our corporate offices, which are located at Wynn Las Vegas.

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### *Property charges and other*

In response to our evaluation of the finished product and in response to the reactions of our guests, we began to make enhancements and refinements to Wynn Las Vegas in the third quarter of 2005 and continued enhancing Wynn Las Vegas in the first quarter of 2006. The \$4.9 million of costs relating to assets retired as a result of these enhancement and remodel efforts for the first quarter of 2006 have been expensed as property charges. In the first quarter of 2006, we began remodeling the six North Fairway Villas (the six South Fairway Villas were remodeled in 2005), closed the Wynn art gallery to begin remodeling that area to accommodate high-end retail outlets, and began certain enhancements to our spa and salon. There were no comparable Wynn Las Vegas property charges incurred during the first quarter of 2005. Property charges in the first quarter of 2005 instead reflect losses on the incidental operations of approximately \$65,000, net of a gain on ordinary asset sales of approximately \$12,000.

### *Avenue Q Contract Termination*

In February 2006, we agreed with the producers of Avenue Q to end Avenue Q's exclusive run at Wynn Las Vegas at the end of May 2006. To terminate the contract, we will pay a contract termination fee of \$5.0 million. This fee has been recorded in the current quarter in accordance with the liability recognition provisions of Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146). We intend to remodel the Broadway Theater, which presents Avenue Q, and adjacent areas to accommodate Monty Python's Spamalot. We have not yet determined the total costs of remodeling the theater and adjacent areas, nor have we determined the opening date for Monty Python's Spamalot.

### *Corporate expenses and other*

Corporate expenses reflect costs such as salaries and other general and administrative expenses that are not allocated to Wynn Las Vegas or Wynn Macau. Prior to opening Wynn Las Vegas, corporate expenses were reported as pre-opening expenses. Consequently, the corporate expenses of approximately \$10.7 million in the first quarter of 2006 represent such unallocated expenses and have no comparative amount for the first quarter of 2005. Total stock option expense of \$3.0 million for the first quarter of 2006 resulting from the adoption of SFAS No. 123R is also included in corporate expenses and other.

### *Other non-operating costs and expenses*

Interest and other income increased by \$2.2 million for the first quarter of 2006 compared to the first quarter of 2005. This increase is due primarily to higher interest rates earned on cash balances.

Interest expense, net of capitalized interest increased by \$33.8 million for the first quarter of 2006 compared to the first quarter of 2005, due primarily to the significant decrease in the amount of interest capitalized once Wynn Las Vegas opened.

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We seek to manage the interest rate risk associated with our variable rate borrowings through balancing fixed-rate and variable-rate borrowings supplemented by the use of derivative financial instruments as required or considered necessary. We were required to, and did obtain through interest rate swap arrangements, interest rate protection for portions of our borrowings under our credit facilities. These interest rate swaps are accounted for in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended ( SFAS 133 ). The fair value of the interest rate swaps are recorded as either assets or liabilities. Changes in the fair value of these interest rate swaps are recorded as non-operating income or expense in each period. The financial information shown above reflects approximately \$6.3 million of income for the first quarter of 2006 resulting from the increase in the fair value of our interest rate swaps from December 31, 2005 to March 31, 2006. The first quarter of 2005 includes income of \$7.7 million resulting from the increase in the fair value of interest rate swaps between December 31, 2004 and March 31, 2005.



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### **Liquidity and Capital Resources**

#### *Cash flows from operations*

Our operating cash flows are primarily affected by our operating income, interest paid, and non-cash charges included in operating income. During the first quarter of 2005, we were solely a development stage company without material operations. During this period, net cash used in operations was \$5.9 million. On April 28, 2005, we opened Wynn Las Vegas and began generating cash from operations. Net cash from operations in the first quarter of 2006 was \$33.3 million.

#### *Capital Resources*

At March 31, 2006, we had approximately \$477.0 million of cash and cash equivalents available for use without restriction, including for new development activities, general corporate purposes, enhancements to Wynn Las Vegas, and to support the development and construction of Wynn Macau and Encore. Of this, approximately \$314.7 million is held by Wynn Resorts, Limited, which is not a guarantor of the debt of its subsidiaries, including Wynn Las Vegas, LLC and Wynn Macau, S.A. However, Wynn Resorts, Limited has provided an equity commitment agreement to Wynn Las Vegas, LLC's secured lenders, which obligates Wynn Resorts, Limited to contribute up to \$215.3 million for Encore project costs if Wynn Las Vegas, LLC is unable to pay such costs.

We require a certain amount of cash on hand for operations. Otherwise we attempt to minimize the amount of cash held in banks. Accordingly, excess funds are swept from accounts into overnight investments or to repay borrowings under our credit facilities.

At March 31, 2006, we had approximately \$408.2 million in restricted cash and investments from the proceeds of our debt and equity financings. Of this amount, approximately \$364.4 million is restricted for the remaining costs of Wynn Las Vegas and the construction, development and pre-opening expenses of Encore, including \$80.0 million restricted for the Wynn Las Vegas liquidity reserve and completion guarantee (\$30.0 million of which must be retained for Encore as a completion guarantee); approximately \$35.0 million is restricted for the ongoing development, construction and pre-opening expenses of Wynn Macau; and approximately \$7.5 million is restricted for the semi-annual interest payment on our 6% Convertible Subordinated Debentures due 2015 (the "Convertible Debentures"), due and payable on July 15, 2006. In addition, there is approximately \$1.3 million restricted for certain sales tax and other payments. Cash equivalents include investments in overnight money market funds. Restricted investments are kept in money market funds or relatively short-term, government-backed, marketable debt securities, as required by agreements governing the Company's debt facilities.

#### *Convertible Debentures Conversions*

Through May 1, 2006, approximately \$25.2 million principal amount of the Debentures were converted by those holders into 1,096,255 shares of the common stock of Wynn Resorts, Limited. This has reduced our long-term debt accordingly and will decrease our interest expense by approximately \$1.5 million annually.

*Construction and Development*

*Wynn Las Vegas*

As of March 31, 2006, approximately \$15.5 million of budgeted project costs and retention amounts remained to be paid in order to close out the project. We expect these final costs to be paid in the second quarter of 2006.

Beginning in the third quarter of 2005, we made and continue to make certain enhancements and refinements to Wynn Las Vegas. As a result, we have incurred and will continue to incur capital expenditures relating to these enhancements and refinements. Under the terms of the Wynn Las Vegas credit facilities, we are

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permitted to make up to \$80.0 million of capital expenditures in 2006, of which we have expended approximately \$6.3 million in the first quarter of 2006. The spending limit will be increased to the extent funds are contributed to Wynn Las Vegas by Wynn Resorts, Limited.

*Encore at Wynn Las Vegas*

Our lenders approved the Encore budget, plans and specifications on March 31, 2006. On April 28, 2006, one year after opening Wynn Las Vegas, we broke ground and commenced construction on Encore. We expect to open Encore to the public by the end of 2008.

*Wynn Macau*

In June 2004, we began construction of Wynn Macau. Design and construction is progressing on schedule and within budget. Many areas in the first phase of the project, including the information technology data center, several floors of guestrooms and suites in the hotel tower, the loading dock and main kitchen storage area, have been handed over to operations. Final finish work is in progress on several restaurants, in the casino and other areas.

Construction milestones since groundbreaking include the following:

*Phase I*

The parking garage, information technology data center, loading dock, main kitchen storage area and lowrise podium superstructure are complete;  
Fit-out work in the main and VIP casinos, the hotel retail promenade, the spa and salon, several restaurants, the business center, the lobby lounge, the Café and other areas is progressing significantly;  
Stone installation is complete in the highrise hotel tower and the wall cover installation has commenced on the 14<sup>th</sup> through the 22<sup>nd</sup> floors;  
Furniture installation has begun and is in progress in the rooms on the 9<sup>th</sup> through 12 floors;  
Interior millwork is progressing in many areas of the casino and hotel areas;  
Tiling, awning installation, tree planting and other activities are ongoing in the swimming pool area; and  
Waterproofing is complete on the front fountain feature and equipment installation is in progress.

*Phase II (expansion)*

Design is largely complete;  
Piling and pile cap activities are largely complete;  
Basement retaining walls for the moving front feature attraction have been completed; and  
The ground floor slab is complete and first floor slab is in progress.

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The current total project budget for Wynn Macau is approximately \$1.2 billion, including contingencies, but excluding up to \$20.5 million of post-opening land concession payments anticipated to be funded from operating cash flows. Under the amended and restated construction contract, the general contractor is responsible for both the construction and design of the project (other than certain limited portions to be designed by one of our subsidiaries) based on an existing scope of work and design specifications for both the first phase and the expansion as provided by us, for a guaranteed maximum price of approximately \$457.2 million (including the contractor's fee and contingency). We expect that upon receipt of required lender consent, the guaranteed maximum price will be increased by approximately \$23.0 million to reflect addition of the previously announced casino expansion and certain suite enhancements to the second phase of Wynn Macau.

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As of March 31, 2006, the Company has incurred approximately \$554.5 million of a total \$1.2 billion project budget. Approximately \$622.4 million remains to be spent to complete Wynn Macau.

### *Financing Activity*

#### *Wynn Las Vegas and Encore*

A final accounting for Wynn Las Vegas is expected in the second quarter of 2006. Wynn Las Vegas' estimated \$2.74 billion total project cost has been, and will be, funded from a combination of contributed capital from the original shareholders of Valvino Lamore, LLC (the predecessor of Wynn Resorts, Limited), proceeds from sales of our common stock, proceeds from the issuance of the 12% Second Mortgage Notes due 2010 (the Second Mortgage Notes) (which were discharged in connection with the December 2004 refinancing), proceeds from the issuance of the 6<sup>5</sup>/<sub>8</sub>% First Mortgage Notes due 2014 (the First Mortgage Notes), and a portion of Wynn Las Vegas, LLC's \$1.0 billion credit facilities (the Wynn Las Vegas Credit Facilities), which consist of a \$400 million term loan facility (the Term Loan) and a \$600 million revolving facility (the Revolver).

The Revolver is available for Wynn Las Vegas' general corporate purposes and for Encore, and any amounts repaid may be re-borrowed. In the second quarter of 2005, we borrowed \$80.0 million under the Revolver and loaned it to Wynn Macau, S.A. as subordinated debt. This borrowing was repaid by Wynn Las Vegas, LLC in the third quarter of 2005; consequently, as of March 31, 2006, the entire \$600.0 million Revolver was available for future borrowings for the construction of Encore or for other uses as necessary.

We have designated, and expect to continue to designate, borrowings under the Wynn Las Vegas Credit Facilities as Eurodollar Loans. These Eurodollar Loans bear interest at the London Interbank Offered Rate (LIBOR) plus 2.25% for the Revolver loans and LIBOR plus 2.125% for the Term Loan. Interest on Eurodollar Loans is payable at the end of the applicable interest period in the case of interest periods of one, two or three months, and every three months in the case of interest periods of six months. After the opening of Encore, the applicable borrowing margins for Eurodollar revolving loans will range from 1.25% to 2.5% per annum depending on Wynn Las Vegas, LLC's leverage ratio. In addition to interest, we also pay quarterly in arrears, 0.75% per annum on the daily average of unborrowed availability under the Revolver. After the opening of Encore, the annual fee that we will be required to pay for unborrowed availability under the Revolver will be based on Wynn Las Vegas, LLC's leverage ratio and will range from 0.25% to 0.50% per annum.

The Wynn Las Vegas Credit Facilities are obligations of Wynn Las Vegas, LLC and are guaranteed by each of its subsidiaries (other than Wynn Completion Guarantor, LLC). The obligations and guarantees are secured by: (1) a first priority security interest on a \$30.0 million liquidity reserve account; (2) a \$50.0 million completion guarantee deposit account held by Wynn Completion Guarantor, LLC; (3) the remaining previously funded proceeds of the Wynn Las Vegas Credit Facilities; (4) a first priority pledge of all member's interests owned by Wynn Las Vegas, LLC in its subsidiaries (other than Wynn Completion Guarantor, LLC) and Wynn Resorts Holdings, LLC's 100% member's interest in Wynn Las Vegas, LLC; (5) first mortgages on all real property constituting Wynn Las Vegas, its golf course and Encore; and (6) a first priority security interest in substantially all other existing and future assets of Wynn Las Vegas, LLC and the guarantors, excluding a corporate aircraft owned by World Travel, LLC, a subsidiary of Wynn Las Vegas, LLC.

The obligations of Wynn Las Vegas, LLC and the guarantors under the Wynn Las Vegas Credit Facilities rank pari passu in right of payment with their existing and future senior indebtedness, including indebtedness with respect to the First Mortgage Notes and senior in right of payment to all of their existing and future subordinated indebtedness.

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The Revolver will terminate and be payable in full on December 14, 2009, and the Term Loan will mature on December 14, 2011.

We have spent approximately \$76.2 million on Encore through March 31, 2006. These costs have been funded from the Wynn Las Vegas Credit Facilities and the First Mortgage Notes. We expect that the available

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remaining proceeds from the First Mortgage Notes, together with availability under the credit facilities, and cash flow from operations, will be sufficient to pay for expenditures of up to \$1.52 billion on the Encore project without incurring additional debt or receiving additional capital contributions from Wynn Resorts. Project costs exceeding \$1.52 billion are expected to be funded by the issuance of up to \$100.0 million of additional First Mortgage Notes and/or contributions from Wynn Resorts, Limited. On March 31, 2006, Wynn Resorts, Limited delivered an equity commitment agreement to the lenders under the Wynn Las Vegas Credit Facilities. Under this agreement, Wynn Resorts has committed to pay up to \$215.3 million of Encore project costs if Wynn Las Vegas, LLC is unable to do so.

On March 15, 2006, we amended our Wynn Las Vegas credit facilities to (a) allow us to issue up to \$100.0 million of additional First Mortgage Notes; (b) simplify draw procedures under the agreement governing our access to proceeds from our borrowings (the Disbursement Agreement); (c) consolidate certain accounts under the Disbursement Agreement; (d) amend and clarify certain of the conditions for the approval of the Encore budget, plans and specifications; (e) extend the outside opening date for Encore and the outside completion date for Encore to June 30, 2009 and September 30, 2009, respectively; and (f) permit expenditures of up to \$150.0 million on Encore prior to the execution of a guaranteed maximum price contract.

The final costs of Wynn Las Vegas will be paid from previously funded amounts under the First Mortgage Notes and the Term Loan and the ongoing costs of Encore will be paid with funds from the following sources and in the following order of priority:

First, by using agreed excess cash flow from the operations of Wynn Las Vegas and any equity contributions from Wynn Resorts;

Second, by using any proceeds from the First Mortgage Notes (including any additional First Mortgage Notes that may be issued in the future), and the proceeds of borrowings under the Wynn Las Vegas Credit Facilities, until exhaustion of the First Mortgage Notes proceeds, with amounts funded 66.67% from notes proceeds and 33.33% from the Wynn Las Vegas Credit Facilities;

Third, by using proceeds of additional borrowings under the Wynn Las Vegas Credit Facilities; and

Fourth, by using the funds from the completion guarantee deposit account.

We have two interest rate swap agreements to hedge a portion of the underlying interest rate risk on borrowings under the Wynn Las Vegas Credit Facilities. See Item 3. Quantitative and Qualitative Disclosures About Market Risk.

*Wynn Macau*

Financing for Wynn Macau's design, development, construction and pre-opening expenses is provided by a combination of cash on hand in the form of base equity loans totaling \$230 million, subordinated loan financing (provided from funds borrowed under the Wynn Las Vegas, LLC revolving credit facility) totaling \$80 million, and a senior secured credit facility. Wynn Macau, S.A.'s senior secured credit facility of \$764 million includes \$729 million of senior term loan facilities, a HK\$117 million revolving credit facility (approximately US\$15 million), and an additional term loan facility of HK\$156 million (approximately US\$20 million). As of March 31, 2006, we had borrowed approximately \$193.9 million under the Wynn Macau, S.A. senior secured credit facility.

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The term loan facilities mature in September 2011, and the revolving credit facility matures in September 2007. The principal amount of the term loans is required to be repaid in quarterly installments, commencing on March 14, 2008. The term loans will bear interest at LIBOR or the Hong Kong Interbank Offered Rate ( HIBOR ) plus a margin of 3.0% until the opening of Wynn Macau (expected in the third quarter of 2006), at which time the interest rate will reduce to LIBOR or HIBOR plus a margin of 2.75%. The senior bank facility also provides for further reductions in the margin on the term loans if Wynn Macau, S.A. satisfies certain prescribed leverage ratio tests. Loans under the revolving credit facility will bear interest at HIBOR plus 2.5%.



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Collateral for the senior bank facility consists of substantially all of the assets of Wynn Macau, S.A. Certain affiliates that own interests in Wynn Macau, S.A., either directly or indirectly through other subsidiaries, have executed guarantees of the loans and pledged their interests in Wynn Macau, S.A. as additional security for repayment of the loans.

We began to draw under the senior bank facility in October 2005, after expenditure of the base equity and subordinated funding. Through March 31, 2006, we incurred approximately \$554.5 million of the total \$1.2 billion of budgeted project costs. Total budgeted project costs include construction and design costs (including construction contingencies) of approximately \$688.0 million, land acquisition costs of approximately \$49.0 million, costs related to the additional casino expansion of approximately \$70.0 million and capitalized interest, pre-opening expenses, financing fees and other costs totaling in the aggregate approximately \$368.6 million. These costs have been, and will continue to be, paid from the previously funded \$230.0 million base equity loans from Wynn Resorts and \$80.0 million borrowed under Wynn Las Vegas, LLC's revolving credit agreement and loaned as subordinated debt, as well as Wynn Macau, S.A.'s \$764.0 million senior secured credit facilities and cash flows from operations once Wynn Macau opens. As of March 31, 2006, project costs still to be incurred totaled approximately \$622.4 million.

In addition to the above financing sources, we have \$30.0 million (plus \$2.1 million of accumulated interest earnings) of long-term restricted cash reserved as contingent equity. We have entered into interest rate swap agreements to hedge a portion of the underlying interest rate risk on borrowings under the Wynn Macau, S.A. credit facilities. See Item 3. Quantitative and Qualitative Disclosures About Market Risk.

*Other*

We also have outstanding at March 31, 2006 approximately \$42.3 million of an original \$44.75 million borrowing secured by one of our corporate aircraft. This loan matures on May 24, 2010. Principal and interest are payable quarterly, and interest is calculated at LIBOR plus a margin of 2.375%. In addition to scheduled amortization payments, we are required to prepay the loans if certain events of loss with respect to the aircraft occur. Beginning December 31, 2006, we may prepay all or any portion of the loan, subject to a minimum prepayment of \$10.0 million.

*Other Liquidity Matters*

Wynn Resorts, Limited is a holding company and, as a result, its ability to pay dividends is dependent on its subsidiaries' ability to provide funds to it. Restrictions imposed by our subsidiaries' debt instruments significantly restrict certain key subsidiaries holding a majority of our assets, including Wynn Las Vegas, LLC and Wynn Macau, S.A., from making dividends or distributions to us. Specifically, Wynn Las Vegas, LLC and certain of its subsidiaries are restricted under the indenture governing the First Mortgage Notes from making certain restricted payments, as defined in the indenture. These restricted payments include the payment of dividends or distributions to any direct or indirect holders of equity interests of Wynn Las Vegas, LLC. These restricted payments may not be made unless certain financial and non-financial criteria have been satisfied. The credit facilities of Wynn Las Vegas, LLC and Wynn Macau, S.A. contain similar restrictions; provided that the Wynn Macau, S.A. loan agreements permit distribution of the net proceeds of subconcession sales.

If completion of the Encore or Wynn Macau projects is delayed, then our debt service obligations accruing prior to the actual opening will increase correspondingly. Wynn Las Vegas will fund its operations and capital requirements from operating cash flow and remaining availability under Wynn Las Vegas, LLC's credit facilities. We cannot assure you, however, that Wynn Las Vegas will generate sufficient cash flow from operations or that future borrowings available to us under the Wynn Las Vegas credit facilities will be sufficient to enable us to service and repay Wynn Las Vegas, LLC's indebtedness and to fund its other liquidity needs. Similarly, we expect that Wynn Macau, upon opening, will

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fund Wynn Macau, S.A.'s debt service obligations with operating cash flow and remaining availability under its senior secured bank facility. However, we cannot

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assure you that operating cash flows and available borrowings will be sufficient to do so. We may refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of the indebtedness on acceptable terms or at all.

New business developments or other unforeseen events may occur, resulting in the need to raise additional funds. We continue to explore opportunities to develop additional gaming or related businesses in Las Vegas, as well as other domestic or international markets. There can be no assurances regarding the business prospects with respect to any other opportunity. Any other development would require us to obtain additional financing. We may decide to conduct any such development through Wynn Resorts, Limited or through subsidiaries separate from the Wynn Las Vegas and Wynn Macau-related entities.

Wynn Resorts, Limited's articles of incorporation provide that Wynn Resorts, Limited may redeem shares of its capital stock, including its common stock, that are owned or controlled by an unsuitable person or its affiliates to the extent a gaming authority makes a determination of unsuitability and orders the redemption, or to the extent deemed necessary or advisable by our Board of Directors. The redemption price may be paid in cash, by promissory note or both, as required by the applicable gaming authority and, if not, as we elect. Any promissory note that we issue to an unsuitable person or its affiliate in exchange for its shares could increase our debt to equity ratio and will increase our leverage ratio.

## **Critical Accounting Policies and Estimates**

Management's discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements. Our consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America. Certain of our accounting policies require that management apply significant judgment in defining the appropriate assumptions integral to financial estimates. On an ongoing basis, management evaluates those estimates, including those relating to the estimated lives of depreciable assets, asset impairment, allowances for doubtful accounts, accruals for customer loyalty rewards, self insurance, contingencies, litigation and other items. Judgments are based on historical experience, terms of existing contracts, industry trends and information available from outside sources, as appropriate. However, by their nature, judgments are subject to an inherent degree of uncertainty and, therefore, actual results could differ from our estimates.

### *Development, Construction and Property and Equipment Estimates*

During the construction and development of a resort, pre-opening or start-up costs are expensed when incurred. In connection with the construction and development of Wynn Las Vegas, significant start-up costs were incurred and charged to pre-opening expenses through the second quarter of 2005, as anticipated. Once Wynn Las Vegas opened to the public, expenses associated with the opening of the resort were no longer charged as pre-opening expenses. However, start-up costs relating to the Encore and Wynn Macau projects will continue to be charged to pre-opening expenses.

During the construction and development stage, direct costs such as those incurred for the design and construction of Wynn Las Vegas and Wynn Macau, including applicable portions of interest, are capitalized. Accordingly, the recorded amounts of property and equipment increase significantly during construction periods. Depreciation expense related to capitalized construction costs is recognized when the related assets are put in service. Accordingly, upon opening of Wynn Las Vegas, we began recognizing depreciation expense on the resort's fixed assets. Depreciation expense is recognized in our financial statements based on the straight-line method over the estimated useful lives of the corresponding assets as follows:

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|                                   |                |
|-----------------------------------|----------------|
| Buildings and improvements        | 10 to 45 years |
| Land improvements                 | 10 to 45 years |
| Airplanes                         | 7 to 20 years  |
| Furniture, fixtures and equipment | 5 to 20 years  |

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The remaining estimated useful lives of assets are periodically reviewed for continued applicability.

Our leasehold interest in the land leased in Macau under the land concession contract entered into in June 2004 is being amortized over 25 years, to reflect the initial term of the concession contract, which currently terminates in June 2029. Depreciation on the majority of the assets comprising Wynn Macau, however, will commence in the third quarter of 2006, when Wynn Macau opens. The maximum useful life of certain gaming-related assets at Wynn Macau will be the remaining life of the gaming concession, which currently expires in June 2022. Consequently, depreciation related to certain gaming assets of Wynn Macau will generally be charged on an accelerated basis when compared to Wynn Las Vegas.

Costs related to improvements are capitalized, while costs of building repairs and maintenance are charged to expense when incurred. The cost and accumulated depreciation of property and equipment retired or otherwise disposed of are eliminated from the respective accounts and any resulting gain or loss is included in operating income or loss.

We also evaluate our property and equipment and other long-lived assets for impairment in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. For assets to be disposed of, we recognize the asset at the lower of carrying value or fair market value less costs of disposal, as estimated based on comparable asset sales, solicited offers, or a discounted cash flow model. For assets to be held and used, we review for impairment whenever indicators of impairment exist. We then compare the estimated future cash flows of the asset, on an undiscounted basis, to the carrying value of the asset. 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 recorded based on the fair value of the asset, typically measured using a discounted cash flow model. If an asset is still under development, future cash flows include remaining construction costs. All recognized impairment losses, whether for assets to be disposed of or assets to be held and used, are recorded as operating expenses.

### *Income Taxes*

We are subject to income taxes in the United States and Macau. We account for income taxes according to Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ( SFAS 109 ). SFAS 109 requires the recognition of deferred tax assets, net of applicable reserves, related to net operating loss carry-forwards and certain temporary differences. The standard requires recognition of a future tax benefit to the extent that realization of such benefit is more likely than not. Otherwise, a valuation allowance is applied.

During our development stage, we accumulated significant net operating losses which, among other things, generated significant deferred tax assets. At March 31, 2006, we had net deferred tax assets of \$112.4 million. At this time, because of our limited operating history, we have fully reserved these net deferred tax assets. If these net deferred tax assets become more likely than not realizable as defined by SFAS No. 109, we intend to appropriately reduce the deferred tax asset reserves.

### *Black-Scholes stock option valuation*

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 123(R), *Share Based Payment*. See further discussion below under *Recently Issued Accounting Standards*. We adopted this statement on January 1, 2006, under the modified prospective method and use the Black-Scholes valuation model to measure the fair value of equity instruments issued.

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The Black-Scholes valuation model uses assumptions of expected volatility, risk-free interest rates, the expected term of options granted, and expected rates of dividends. Management determines these assumptions by reviewing current market rates, making industry comparisons and reviewing conditions relevant to our Company.

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### *Allowance for Estimated Doubtful Accounts Receivable*

We evaluate our reserve for bad debts based on a specific review of customer accounts as well as management's prior experience with collection trends in the casino industry and current economic and business conditions.

A substantial portion of our outstanding receivables relates to casino credit play. Credit play represents a significant portion of the table games volume at Wynn Las Vegas. We maintain strict controls over the issuance of markers and aggressively pursue collection from those customers who fail to pay their marker balances timely. These collection efforts may include the mailing of statements and delinquency notices, personal contacts, the use of outside collection agencies, and litigation. Markers are generally legally enforceable instruments in the United States. Markers are not legally enforceable instruments in some foreign countries, but the United States assets of foreign customers may be used to satisfy judgments entered in the United States. At March 31, 2006, approximately 60% of our casino accounts receivable were owed by customers from foreign countries. The collectibility of markers given by foreign customers is affected by a number of factors including changes in currency exchange rates and economic conditions in the customers' home countries.

As our customer payment experience evolves, we will continue to refine our estimated reserve for bad debts. Accordingly, the associated provision for doubtful accounts charge may fluctuate. Because individual customer account balances can be significant, the reserve and the provision can change significantly between periods, as information about a certain customer becomes known or as changes in a region's economy or legal system occur.

### *Significant Judgmental Accruals*

We estimate liabilities for certain self-insurance, customer loyalty program reward redemptions, contingencies, claims and litigation and other items, as appropriate. Management determines the adequacy of these estimates by reviewing the expected trends and from industry experience and adjusts the assumptions utilized as necessary.

## **Recently Issued Accounting Standards**

In December 2004, the FASB issued SFAS No. 123(R). This statement is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* and supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services or incurs a liability in exchange for goods and services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. It requires an entity to measure the costs of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognize that cost over the service period. We adopted this statement on January 1, 2006 under the modified prospective method and use the Black-Scholes valuation model to value the equity instruments issued. In applying the modified prospective method, financial statements of prior periods presented do not reflect any adjusted amounts (i.e. prior periods do not include compensation cost calculated under the fair value method).

In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment* to provide interpretive guidance on SFAS No. 123(R) valuation methods, assumptions used in valuation models, and the interaction of SFAS No. 123(R) with existing SEC guidance. SAB No. 107 also requires the classification of stock compensation expense in the same financial statement line items as cash compensation,

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and will therefore impact our departmental expenses (and related operating margins), pre-opening costs and construction in progress for our development projects, and our general and administrative expenses (including corporate expenses).



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The adoption of SFAS No. 123(R) and the related interpretations resulted in the Company's elimination of approximately \$15.8 million of deferred compensation against additional paid-in capital and the recognition of approximately \$3.0 million (\$0.03 per share) of compensation cost related to stock options in the following divisions (amounts in thousands):

|                                 |          |
|---------------------------------|----------|
| Casino                          | \$ 651   |
| Rooms                           | 141      |
| Food & Beverage                 | 271      |
| Entertainment, retail and other | 60       |
| General and administrative      | 1,382    |
| Pre-opening expenses            | 488      |
|                                 | <hr/>    |
| Total                           | \$ 2,993 |
|                                 | <hr/>    |

See Note 2. Summary of Significant Accounting Policies in the notes to the condensed consolidated financial statements, for a description of other recently issued accounting pronouncements which are relevant to the Company but which we believe will not have a material impact on the Company.

**Item 3. 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.

*Interest Rate Risks*

Our primary exposure to market risk is interest rate risk associated with our debt facilities that bear interest based on floating rates. We attempt to manage interest rate risk by managing the mix of long-term fixed rate borrowings and variable rate borrowings, and using hedging activities. We cannot assure you that these risk management strategies will have the desired effect, and interest rate fluctuations could have a negative impact on our results of operations. We do not use derivative financial instruments, other financial instruments or derivative commodity instruments for trading or speculative purposes.

*Interest Rate Swap Information*

In 2003, 2004 and 2005, we entered into interest rate swap arrangements relating to certain of our floating-rate debt facilities. We account for these swaps under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ( SFAS No. 133 ), and its related interpretations.

*Wynn Las Vegas swaps*

During 2003, we entered into two interest rate swap arrangements to hedge the underlying interest rate risk on a total of \$825.0 million of borrowings under our previous Wynn Las Vegas, LLC credit facilities. On December 14, 2004, concurrent with the refinancing of Wynn Las Vegas, LLC's debt structure, we terminated these two interest rate swaps. As a result of the termination, we received a cash payment of approximately \$9.6 million in settlement of the related asset.

Concurrent with the refinancing, we entered into two new interest rate swap arrangements to hedge the underlying interest rate risk on a total of \$400.0 million of borrowings under the current Wynn Las Vegas, LLC term loan facility, which bears interest at LIBOR plus 2.125%. Under each of these two interest rate swap arrangements, we receive payments at a variable rate of LIBOR and pay a fixed rate of 3.793% on the \$200.0 million notional amount set forth in each of the swap instruments from February and March 2005, respectively, through December 2008. Although these interest rate swaps are highly effective economically in fixing the interest rate on these borrowings under the new term loan facility at approximately 5.9%, changes in fair value of these interest rate swaps for each reporting period are, and will continue to be, recorded as a component of other income (expense), net as the swaps do not qualify for hedge accounting.

**Table of Contents***Wynn Macau swaps*

On October 14, 2005, we entered into two interest rate swaps to hedge a portion of the underlying interest rate risk on future borrowings under Wynn Macau S.A.'s \$749 million senior term loan facility. Under the first swap agreement, we pay a fixed interest rate of 4.84% on borrowings estimated to be incurred under the senior term loan facility up to a maximum of approximately \$198.2 million, in exchange for receipts on the same amounts at a variable interest rate based on the applicable LIBOR at the time of payment. Under the second swap agreement, we pay a fixed interest rate of 4.77% on borrowings estimated to be incurred under the senior term loan facility up to a maximum of approximately HK\$1.1 billion (approximately US\$140.3 million), in exchange for receipts on the same amounts at a variable interest rate based on the applicable HIBOR at the time of payment. The term of both swap agreements is from November 28, 2005 through November 28, 2008.

These interest rate swaps are expected to be highly effective in fixing the interest rate on 50% of the U.S. dollar and 50% of the Hong Kong dollar borrowings under the senior bank facility at approximately 7.84% and 7.77%, respectively. However, changes in the fair values of these interest rate swaps for each reporting period recorded are, and will continue to be, recognized as a component of other income (expense), net as the swaps do not qualify for hedge accounting.

*Summary of Historical Fair Values*

The following table presents the historical asset or (liability) fair values of our interest rate swap arrangements (reflected in deposits and other assets or in other long-term liabilities as appropriate) as of March 31, 2006 and 2005 and as of December 31, 2005 and 2004 (amounts in thousands):

|   | Wynn Las Vegas<br>Interest Rate<br>Swaps | Wynn Macau<br>Interest<br>Rate<br>Swaps | Total Interest<br>Rate Swap Asset /<br>(Liability) |
|---|--|---|--|
| Asset / (liability) fair value at March 31, 2006    | \$ 13,878                                | \$ 1,202                                | \$ 15,080  |
| Asset / (liability) fair value at December 31, 2005 | \$ 10,523                                | \$ (1,788)                              | \$ 8,735   |
| Asset / (liability) fair value at March 31, 2005    | \$ 8,283                                 | \$                                      | \$ 8,283   |
| Asset / (liability) fair value at December 31, 2004 | \$ 583                                   | \$                                      | \$ 583   |

The fair value approximates the amount the Company would receive if these contracts were settled at the respective valuation dates. Fair value is estimated based upon current, and predictions of future, interest rate levels along a yield curve, the remaining duration of the instruments and other market conditions, and therefore, is subject to significant estimation and a high degree of variability of fluctuation between periods.

*Interest Rate Sensitivity*

For the three months ended March 31, 2006, we incurred approximately \$42.3 million in interest. Certain amounts of our outstanding indebtedness for the period was based upon a variable, LIBOR or HIBOR rates plus a premium. A 1% increase in the variable rates would have increased our interest cost for the three months ended March 31, 2006 by approximately \$165,000.

*Foreign Currency Risks*

The currency delineated in Wynn Macau's concession agreement with the government of Macau is the Macau pataca. The Macau pataca, which is not a freely convertible currency, is linked to the Hong Kong dollar, and in many cases the two are used interchangeably in Macau. The Hong Kong dollar is linked to the U.S. dollar and the exchange rate between these two currencies has remained relatively stable over the past several years. However, the exchange linkages of the Hong Kong dollar and the Macau pataca, and the Hong Kong dollar and the U.S. dollar, are subject to potential changes due to, among other things, changes in Chinese governmental policies and international economic and political developments.

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Certain Asian countries have publicly asserted their desire to eliminate the linkage of the Hong Kong dollar to the U.S. dollar. As a result, the Hong Kong dollar and the Macau pataca may not be linked to the U.S. dollar in the future, which may result in severe fluctuations in the exchange rate for these currencies. We also cannot assure you that the current rate of exchange fixed by the applicable monetary authorities for these currencies will remain at the same level.

Because many of Wynn Macau's payment and expenditure obligations are in Macau patacas, in the event of unfavorable Macau pataca or Hong Kong dollar rate changes, Wynn Macau's obligations, as denominated in U.S. dollars, would increase. In addition, because we expect that most of the revenues for any casino that Wynn Macau operates in Macau will be in Hong Kong dollars, we are subject to foreign exchange risk with respect to the exchange rate between the Hong Kong dollar and the U.S. dollar. Also, if any of our Macau-related entities incur U.S. dollar-denominated debt, fluctuations in the exchange rates of the Macau pataca or the Hong Kong dollar, in relation to the U.S. dollar, could have adverse effects on Wynn Macau's ability to service its debt, its results of operations and its financial condition. We have not yet determined whether we will engage in hedging activities to protect against foreign currency risk.

### **Item 4. Controls and Procedures**

(a) *Disclosure Controls and Procedures.* The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in Internal Control Over Financial Reporting.* At December 31, 2005, the Company's controls over the formal designation, documentation and the continual evaluation and assessment of its derivative instruments were not adequately designed to determine that derivative instruments were not appropriately documented or accounted for in accordance with Statement of Financial Accounting Standards No. 133: *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) in order to have hedge accounting treatment. Consequently, during the quarter ended March 31, 2006, the Company adopted requirements for additional consultation and review policies and procedures intended to ensure that derivative instruments, when entered into, are properly documented and accounted for in accordance with SFAS 133. Other than to address this issue, there have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****Part II - OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Debentures Conversions*

The Debentures are currently convertible at each holder's option into shares of the Company's common stock at a conversion price of \$23.00 per share (equivalent to 43.4782 shares per \$1,000 principal amount). During the first quarter of 2006, we issued shares of common stock upon conversion of Debentures, as set forth below:

| <u>Date</u>                      | <u>Principal Amount of<br/>Debentures Converted</u> | <u>Number of Shares Issued<br/>Upon Conversion</u> |
|----------------------------------|---|--|
| February 17, 2006                | \$ 1,480,000  | 64,347   |
| February 23, 2006                | \$ 1,000,000  | 43,478   |
| February 24, 2006                | \$ 1,296,000  | 56,347   |
| March 10, 2006                   | \$ 549,000  | 23,869   |
| March 16, 2006                   | \$ 9,804,000  | 426,260  |
| <b>Total conversions through</b> |   |  |
| <b>March 31, 2006</b>            | <b>\$ 14,129,000</b>                                | <b>614,301</b>                                     |

The shares of Common Stock were issued in reliance upon the exemption from registration provided in Section 3(a)(9) of the Securities Act of 1933, as amended. No commission or other remuneration was paid or given directly or indirectly for soliciting these transactions.

*Dividend Restrictions*

We have never declared or paid cash dividends on any shares of our common stock. We currently intend to retain all available funds and any future consolidated earnings to fund the development and growth of our business and therefore do not anticipate paying any cash dividends.

Wynn Resorts, Limited is a holding company and, as a result, its ability to pay dividends is dependent on its subsidiaries' ability to provide funds to it. Restrictions imposed by Wynn Resorts, Limited subsidiaries' debt instruments significantly restrict certain key subsidiaries holding a majority of our assets, including Wynn Las Vegas, LLC and Wynn Macau, S.A. from making dividends or distributions to Wynn Resorts, Limited. Specifically, Wynn Las Vegas, LLC and certain of its subsidiaries are restricted under the indenture governing the First Mortgage Notes from making certain restricted payments, as defined in the indenture. These restricted payments include the payment of dividends or distributions to any direct or indirect holders of equity interests of Wynn Las Vegas, LLC. These restricted payments cannot be made unless certain financial and non-financial criteria have been satisfied. In addition, the terms of the other loan agreements of Wynn Las Vegas, LLC and Wynn Macau, S.A. contain similar restrictions; provided that the Wynn Macau, S.A. loan documents permit distribution of the proceeds of subconcession sales.



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**Item 6. Exhibits**

(a) Exhibits

**EXHIBIT INDEX**

| <u>Exhibit No.</u> | <u>Description</u>  |
|--------------------|---|
| 3.1                | Second Amended and Restated Articles of Incorporation of the Registrant. (1)  |
| 3.2                | Third Amended and Restated Bylaws of the Registrant, as amended. (2)  |
| 10.1               | First Amendment to Employment Agreement, dated as of February 3, 2006, between Wynn Las Vegas, LLC and Andrew Pascal. (3)   |
| 10.2               | Subconcession Sale Agreement, dated as of March 4, 2006, between Wynn Resorts, Limited, Wynn Resorts (Macau), S.A. and Publishing and Broadcasting, Ltd. (4)  |
| 10.3               | Third Amendment to Credit Agreement, dated as of March 15, 2006, among Wynn Las Vegas, LLC, the Wynn Amendment Parties (as defined therein) and Deutsche Bank Trust Company Americas, as administrative agent on behalf of the lenders (as defined therein. (4) |
| 10.4               | Third Amendment to Master Disbursement Agreement, dated as of March 13, 2006, between Wynn Las Vegas, LLC and Deutsche Bank Trust Company Americas. (4)   |
| 10.5               | Description of Performance Based Incentive Plan Bonus Criteria for Calendar Year 2006. (5)  |
| *10.6              | Commitment to Pay Project Costs, dated as of March 31, 2006, by and between Wynn Resorts, Limited in favor of Deutsche Bank Trust Company Americas, as administrative agent, and US Bank National Association, as Trustee.                                      |
| *10.7              | Employment Agreement, dated as of October 1, 2005, between Wynn Las Vegas, LLC and Matt Maddox.   |
| *31.1              | Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a - 14(a) and Rule 15d - 14(a).  |
| *31.2              | Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a - 14(a) and Rule 15d - 14(a).  |
| *32.1              | Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350.  |

\* Filed herewith.

- (1) Previously filed with Amendment No. 4 to the Form S-1 filed by the Registrant on October 7, 2002 (File No. 333-90600) and incorporated herein by reference.
- (2) Previously filed with the Quarterly Report on Form 10-Q filed by the Registrant on December 9, 2002 and incorporated herein by reference.
- (3) Previously filed with the Current Report on Form 8-K filed by the Registrant on February 9, 2006 and incorporated herein by reference.
- (4) Previously filed with the Annual Report on Form 10-K filed by the Registrant on March 16, 2006 and incorporated herein by reference.
- (5) Previously filed with the Current Report on Form 8-K filed by the Registrant on March 29, 2006 and incorporated herein by reference.



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**SIGNATURE**

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

**WYNN RESORTS, LIMITED**

Dated: May 10, 2006

By: */s/* JOHN STRZEMP  
**John Strzemp**  
**Executive Vice President and Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**