

SIMON PROPERTY GROUP INC /DE/
Form 10-Q
August 06, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

SIMON PROPERTY GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation or organization)

001-14469
(Commission File No.)

046-268599
(I.R.S. Employer Identification No.)

225 West Washington Street
Indianapolis, Indiana 46204
(Address of principal executive offices)

(317) 636-1600
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). **Yes** **No**

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

As of June 30, 2010, Simon Property Group, Inc. had 292,811,971 shares of common stock, par value \$0.0001 per share and 8,000 shares of Class B common stock, par value \$0.0001 per share outstanding.

Table of Contents

Simon Property Group, Inc. and Subsidiaries

Form 10-Q

INDEX

	Page
Part I Financial Information	
Item 1. Consolidated Financial Statements (Unaudited)	
<u>Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009</u>	<u>3</u>
<u>Consolidated Statements of Operations and Comprehensive Income for the three months and six months ended June 30, 2010 and 2009</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009</u>	<u>5</u>
<u>Condensed Notes to Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>Item 3. Qualitative and Quantitative Disclosures About Market Risk</u>	<u>30</u>
<u>Item 4. Controls and Procedures</u>	<u>30</u>
Part II Other Information	
<u>Item 1. Legal Proceedings</u>	<u>31</u>
<u>Item 1A. Risk Factors</u>	<u>31</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>31</u>
<u>Item 5. Other Information</u>	<u>31</u>
<u>Item 6. Exhibits</u>	<u>32</u>
<u>Signatures</u>	<u>33</u>

Table of Contents**Simon Property Group, Inc. and Subsidiaries**

*Unaudited Consolidated Balance Sheets
(Dollars in thousands, except share amounts)*

	June 30, 2010	December 31, 2009
ASSETS:		
Investment properties, at cost	\$ 25,296,870	\$ 25,336,189
Less accumulated depreciation	7,243,311	7,004,534
	18,053,559	18,331,655
Cash and cash equivalents	2,293,242	3,957,718
Tenant receivables and accrued revenue, net	343,588	402,729
Investment in unconsolidated entities, at equity	1,404,367	1,468,577
Deferred costs and other assets	1,168,360	1,155,587
Note receivable from related party	661,500	632,000
Total assets	\$ 23,924,616	\$ 25,948,266
LIABILITIES:		
Mortgages and other indebtedness	\$ 17,071,022	\$ 18,630,302
Accounts payable, accrued expenses, intangibles, and deferred revenues	920,778	987,530
Cash distributions and losses in partnerships and joint ventures, at equity	346,177	457,754
Other liabilities and accrued dividends	178,141	159,345
Total liabilities	18,516,118	20,234,931
Commitments and contingencies		
Limited partners' preferred interest in the Operating Partnership and noncontrolling redeemable interests in properties	82,997	125,815
Series I 6% convertible perpetual preferred stock, 19,000,000 shares authorized, 0 and 8,091,155 issued and outstanding, respectively, at liquidation value		404,558
EQUITY:		
Stockholders' equity		
Capital stock (850,000,000 total shares authorized, \$.0001 par value, 238,000,000 shares of excess common stock, 100,000,000 authorized shares of preferred stock):		
Series J 8 ³ / ₈ % cumulative redeemable preferred stock, 1,000,000 shares authorized, 796,948 issued and outstanding, with a liquidation value of \$39,847	45,540	45,704
Common stock, \$.0001 par value, 511,990,000 shares authorized, 296,815,422 and 289,866,711 issued	30	29

and outstanding, respectively		
Class B common stock, \$.0001 par value, 10,000 shares authorized, 8,000 issued and outstanding		
Capital in excess of par value	7,934,140	7,547,959
Accumulated deficit	(3,154,723)	(2,955,671)
Accumulated other comprehensive loss	(69,134)	(3,088)
Common stock held in treasury at cost, 4,003,451 and 4,126,440 shares, respectively	(166,436)	(176,796)
Total stockholders' equity	4,589,417	4,458,137
Noncontrolling interests	736,084	724,825
Total equity	5,325,501	5,182,962
Total liabilities and equity	\$ 23,924,616	\$ 25,948,266

The accompanying notes are an integral part of these statements.

Table of Contents**Simon Property Group, Inc. and Subsidiaries**

*Unaudited Consolidated Statements of Operations and Comprehensive Income
(Dollars in thousands, except per share amounts)*

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
REVENUE:				
Minimum rent	\$ 580,157	\$ 567,633	\$ 1,151,767	\$ 1,139,047
Overage rent	14,477	13,493	27,688	25,993
Tenant reimbursements	255,693	257,532	511,621	516,294
Management fees and other revenues	28,349	30,055	56,917	60,706
Other income	54,890	34,899	110,644	80,064
Total revenue	933,566	903,612	1,858,637	1,822,104
EXPENSES:				
Property operating	101,234	106,836	200,002	212,983
Depreciation and amortization	234,190	251,685	463,099	508,022
Real estate taxes	78,658	83,076	168,387	171,319
Repairs and maintenance	20,605	20,186	44,350	42,774
Advertising and promotion	22,282	19,823	41,118	38,329
Provision for credit losses	4,487	7,066	1,036	20,081
Home and regional office costs	26,744	26,670	44,059	52,833
General and administrative	5,627	5,310	10,739	9,358
Impairment charge		140,478		140,478
Transaction expenses	11,269		14,969	
Other	13,003	17,784	28,495	37,013
Total operating expenses	518,099	678,914	1,016,254	1,233,190
OPERATING INCOME	415,467	224,698	842,383	588,914
Interest expense	(261,463)	(244,443)	(525,422)	(470,479)
Loss on extinguishment of debt			(165,625)	
Income tax benefit of taxable REIT subsidiaries	510	143	308	2,666
Income from unconsolidated entities	10,614	5,494	28,196	11,039
Gain on sale or disposal of assets and interests in unconsolidated entities	20,024		26,066	
CONSOLIDATED NET INCOME (LOSS)	185,152	(14,108)	205,906	132,140
Net income attributable to noncontrolling interests	33,313	123	39,084	33,074
Preferred dividends	(665)	6,529	4,945	13,058
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 152,504	\$ (20,760)	\$ 161,877	\$ 86,008
BASIC EARNINGS PER COMMON SHARE:				
Net income (loss) attributable to common stockholders	\$ 0.52	\$ (0.08)	\$ 0.56	\$ 0.34

**DILUTED EARNINGS PER
COMMON SHARE:**

Net income (loss) attributable to common stockholders	\$ 0.52	\$ (0.08)	\$ 0.56	\$ 0.34
Consolidated Net Income (Loss)	\$ 185,152	\$ (14,108)	\$ 205,906	\$ 132,140
Unrealized gain (loss) on interest rate hedge agreements	15,368	13,198	19,980	(11,229)
Net loss on derivative instruments reclassified from accumulated other comprehensive loss into interest expense	(3,945)	(3,537)	(7,785)	(7,047)
Currency translation adjustments	(14,610)	7,590	(23,510)	(5,233)
Changes in available-for-sale securities and other	(46,762)	190,030	(67,952)	166,603
Comprehensive income	135,203	193,173	126,639	275,234
Comprehensive income attributable to noncontrolling interests	38,202	41,041	39,084	63,218
Comprehensive income attributable to common stockholders	\$ 97,001	\$ 152,132	\$ 87,555	\$ 212,016

The accompanying notes are an integral part of these statements.

Table of Contents

Simon Property Group, Inc. and Subsidiaries
Unaudited Consolidated Statements of Cash Flows
(Dollars in thousands)

	For the Six Months Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated Net Income	\$ 205,906	\$ 132,140
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	474,079	511,832
Loss on debt extinguishment	165,625	
Impairment charge		140,478
Gain on sale or disposal of assets and interests in unconsolidated entities	(26,066)	
Straight-line rent	(10,545)	(14,482)
Equity in income of unconsolidated entities	(28,196)	(11,039)
Distributions of income from unconsolidated entities	48,584	53,922
Changes in assets and liabilities		
Tenant receivables and accrued revenue, net	68,113	86,919
Deferred costs and other assets	(96,022)	(26,856)
Accounts payable, accrued expenses, intangibles, deferred revenues and other liabilities	(24,317)	14,713
Net cash provided by operating activities	777,161	887,627
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions	(56,383)	
Funding of loans to related parties	(29,500)	(70,000)
Repayments on loans to related parties		4,700
Capital expenditures, net	(128,678)	(239,711)
Net proceeds from sale of assets	5,811	
Investments in unconsolidated entities	(155,236)	(12,988)
Purchase of marketable and non-marketable securities	(13,695)	(134,391)
Sale of marketable securities	26,175	
Distributions of capital from unconsolidated entities and other	53,639	68,448
Net cash used in investing activities	(297,867)	(383,942)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sales of common stock and other	3,472	1,639,579
Preferred stock redemptions	(10,994)	(87,689)
Distributions to noncontrolling interest holders in properties	(11,693)	(15,129)
Contributions from noncontrolling interest holders in properties	352	2,704
Preferred distributions of the Operating Partnership	(1,358)	(8,329)
Preferred dividends and distributions to stockholders	(352,154)	(67,361)
Distributions to limited partners	(69,764)	(11,889)
Loss on debt extinguishment	(165,625)	
Mortgage and other indebtedness proceeds, net of transaction costs	2,296,533	2,203,016
Mortgage and other indebtedness principal payments	(3,832,539)	(2,303,700)
Net cash (used in) provided by financing activities	(2,143,770)	1,351,202

(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,664,476)	1,854,887
CASH AND CASH EQUIVALENTS, beginning of period	3,957,718	773,544
CASH AND CASH EQUIVALENTS, end of period	\$ 2,293,242	\$ 2,628,431

The accompanying notes are an integral part of these statements.

Table of Contents

Simon Property Group, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

(Dollars in thousands, except share and per share amounts and where indicated in millions or billions)

1. Organization

Simon Property Group, Inc. is a Delaware corporation that operates as a self-administered and self-managed real estate investment trust, or REIT, under the Internal Revenue Code. Simon Property Group, L.P., or the Operating Partnership, is our majority-owned partnership subsidiary that owns all of our real estate properties. In these condensed notes to the unaudited consolidated financial statements, the terms "we", "us" and "our" refer to Simon Property Group, Inc., the Operating Partnership, and their subsidiaries.

We own, develop and manage retail real estate properties, which consist primarily of regional malls, Premium Outlets®, The Mills®, and community/lifestyle centers. As of June 30, 2010, we owned or held an interest in 318 income-producing properties in the United States, which consisted of 161 regional malls, 42 Premium Outlets, 66 community/lifestyle centers, 36 properties acquired in the 2007 acquisition of The Mills Corporation, or the Mills acquisition, and 13 other shopping centers or outlet centers in 41 states and Puerto Rico. Of the 36 properties acquired in the Mills portfolio, 16 of these properties are The Mills, 16 are regional malls, and four are community centers. Internationally, as of June 30, 2010, we had ownership interests in 52 European shopping centers (France, Italy and Poland), eight Premium Outlets in Japan, one Premium Outlet in Mexico, and one Premium Outlet in South Korea. On July 15, 2010, as discussed in Note 11, we and our joint venture partner sold our collective interests in Simon Ivanhoe S.à.r.l., or Simon Ivanhoe, which owned seven shopping centers located in France and Poland. We have also entered into a definitive agreement to acquire a portfolio of 21 outlet shopping centers as described in Note 9.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of all majority-owned subsidiaries, and all significant intercompany amounts have been eliminated. Due to the seasonal nature of certain operational activities, the results for the interim period ended June 30, 2010 are not necessarily indicative of the results to be expected for the full year.

These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and include all of the information and disclosures required by accounting principles generally accepted in the United States (GAAP) for interim reporting. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments necessary for fair presentation (including normal recurring accruals) have been included. The consolidated financial statements in this Form 10-Q should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2009 Annual Report on Form 10-K.

As of June 30, 2010, we consolidated 198 wholly-owned properties and 18 additional properties that are less than wholly-owned, but which we control or for which we are the primary beneficiary. We account for the remaining 164 properties, or the joint venture properties, using the equity method of accounting. We manage the day-to-day operations of 93 of the 164 joint venture properties, but have determined that our partner or partners have substantive participating rights with respect to the assets and operations of these joint venture properties. Our investments in joint ventures in Europe, Japan, Mexico, and Korea comprise 62 of the remaining 71 properties. The international properties are managed locally by joint ventures in which we share oversight responsibility with our partner. Additionally, we account for our investment in SPG-FCM Ventures, LLC, or SPG-FCM, which acquired The Mills Corporation and its wholly-owned subsidiary, The Mills Limited Partnership, collectively Mills, in April 2007, using the equity method of accounting. We have determined that SPG-FCM is not a variable interest entity (VIE) and that Farallon Capital Management, L.L.C., or Farallon, our joint venture partner, has substantive participating rights with respect to the assets and operations of SPG-FCM pursuant to the applicable partnership agreements.

We allocate net operating results of the Operating Partnership after preferred distributions to third parties and to us based on the partners' respective weighted average ownership interests in the Operating Partnership. Net operating results of the Operating Partnership attributed to third parties are reflected in net income attributable to noncontrolling interests. Our weighted average ownership interest in the Operating Partnership was 83.3% and 81.6%

Table of Contents

for the six months ended June 30, 2010 and 2009, respectively. As of June 30, 2010 and December 31, 2009, our ownership interest in the Operating Partnership was 83.3% and 83.2%, respectively. We adjust the limited partners' interests at the end of each period to reflect their interest in the Operating Partnership.

Preferred distributions of the Operating Partnership represent distributions on outstanding preferred units at the time of declaration of partnership interests held by limited partners, or preferred units, and are included in net income attributable to noncontrolling interests.

Reclassifications

We made certain reclassifications of prior period amounts in the consolidated financial statements to conform to the 2010 presentation. These reclassifications had no impact on previously reported net income available to common stockholders or earnings per share.

3. Significant Accounting Policies***Cash and Cash Equivalents***

We consider all highly liquid investments purchased with an original maturity of 90 days or less to be cash and cash equivalents. Cash equivalents are carried at cost, which approximates fair value. Cash equivalents generally consist of commercial paper, bankers acceptances, Eurodollars, repurchase agreements, and money markets. Our gift card programs are administered by banks. We collect gift card funds at the point of sale and then remit those funds to the banks for further processing. As a result, cash and cash equivalents, as of June 30, 2010, include a balance of \$35.7 million related to these gift card programs which we do not consider available for general working capital purposes. Financial instruments that potentially subject us to concentrations of credit risk include our cash and cash equivalents and our trade accounts receivable. We place our cash and cash equivalents with institutions with high credit quality. However, at certain times, such cash and cash equivalents may be in excess of FDIC and SIPC insurance limits.

Marketable and Non-Marketable Securities

Marketable securities consist primarily of the investments of our captive insurance subsidiaries, available-for-sale securities, our deferred compensation plan investments, and certain investments held to fund the debt service requirements of debt previously secured by investment properties that have been sold.

The types of securities included in the investment portfolio of our captive insurance subsidiaries typically include U.S. Treasury or other U.S. government securities as well as corporate debt securities with maturities ranging from less than 1 to 10 years. These securities are classified as available-for-sale and are valued based upon quoted market prices or other observable inputs when quoted market prices are not available. The amortized cost of debt securities, which approximates fair value, held by our captive insurance subsidiaries is adjusted for amortization of premiums and accretion of discounts to maturity. Changes in the values of these securities are recognized in accumulated other comprehensive income (loss) until the gain or loss is realized or until any unrealized loss is deemed to be other-than-temporary. We review any declines in value of these securities for other-than-temporary impairment and consider the severity and duration of any decline in value. To the extent an other-than-temporary impairment is deemed to have occurred, an impairment charge is recorded and a new cost basis is established. Subsequent changes are then recognized through other comprehensive income (loss) unless another other-than-temporary impairment is deemed to have occurred.

Our investment in shares of common stock of Liberty International PLC, or Liberty, was also accounted for as an available-for-sale security. Effective at the close of business May 7, 2010, Liberty completed a demerger in which it was separated into two companies, Capital Shopping Centres Group PLC, or CSCG, and Capital & Counties Properties PLC, or CAPC. Liberty shareholders acquired the same number of shares of CSCG and CAPC as they owned in Liberty. Our interests in CSCG and CAPC are adjusted to their quoted market price, including a related foreign exchange component. On May 7, 2010 we owned 35.4 million shares of Liberty at a carrying cost of £4.52 per share. As a result of the demerger of Liberty, at June 30, 2010, we owned 35.4 million shares of CSCG at a carrying cost of £3.03 per share, and 35.4 million shares of CAPC at a carrying cost of £0.94 per share. The mark-to-market adjustment from March 31, 2010 through June 30, 2010 was a \$44.9 million decrease in the value of our investments with a corresponding adjustment in other comprehensive income (loss). The carrying value of our investments in CSCG and CAPC was \$166.0 million and \$57.8 million, respectively, at June 30, 2010. Our aggregate net unrealized

Table of Contents

loss on these investments was approximately \$8.0 million at June 30, 2010. The carrying value of our investment in Liberty at December 31, 2009 was \$290.0 million with an unrealized gain of \$58.2 million.

Our insurance subsidiaries are required to maintain statutory minimum capital and surplus as well as maintain a minimum liquidity ratio. Therefore, our access to these securities may be limited. Our deferred compensation plan investments are classified as trading securities and are valued based upon quoted market prices. The investments have a matching liability as the amounts are fully payable to the employees that earned the compensation. Changes in value of these securities and changes to the matching liability to employees are both recognized in earnings and, as a result, there is no impact to consolidated net income. As of June 30, 2010 and December 31, 2009, we also had investments of \$24.9 million and \$51.7 million, respectively, which must be used to fund the debt service requirements of mortgage debt related to investment properties that previously collateralized the debt. These investments are classified as held-to-maturity and are recorded at amortized cost as we have the ability and intent to hold these investments to maturity.

We have an investment of \$70 million in a non-marketable security that we account for under the cost method. We regularly evaluate this investment for any other-than-temporary decline in its estimated fair value.

Net unrealized (losses) gains as of June 30, 2010 and December 31, 2009 were approximately (\$8.6) million and \$59.4 million, respectively, and represented the valuation and related currency adjustments for our marketable securities. As of June 30, 2010, we do not consider the decline in value of any of our marketable and non-marketable securities to be an other-than-temporary impairment, as these market value declines, if any, have existed for a short period of time, and, in the case of debt securities, we have the ability and intent to hold these securities to maturity.

Fair Value Measurements

We hold marketable securities that total \$413.4 million and \$464.1 million at June 30, 2010 and December 31, 2009, respectively, and are considered to have Level 1 fair value inputs. In addition, we have derivative instruments which are classified as having Level 2 inputs which consist primarily of interest rate swap agreements and foreign currency forward contracts with a gross liability balance of \$23.0 million and \$13.0 million at June 30, 2010 and December 31, 2009, respectively, and a gross asset balance of \$18.1 million and \$0.3 million, respectively. We also have interest rate cap agreements with a minimal asset value. Level 1 fair value inputs are quoted prices for identical items in active, liquid and visible markets such as stock exchanges. Level 2 fair value inputs are observable information for similar items in active or inactive markets, and appropriately consider counterparty creditworthiness in the valuations. Level 3 fair value inputs reflect our best estimate of inputs and assumptions market participants would use in pricing an asset or liability at the measurement date. The inputs are unobservable in the market and significant to the valuation estimate. Note 6 includes a discussion of the fair value of debt.

Noncontrolling Interests and Temporary Equity

Details of the carrying amount of our noncontrolling interests are as follows:

	<i>As of June 30, 2010</i>	<i>As of December 31, 2009</i>
Limited partners' interests in the Operating Partnership	\$ 908,997	\$ 892,603
Nonredeemable noncontrolling deficit interests in properties, net	(172,913)	(167,778)
Total noncontrolling interests reflected in equity	\$ 736,084	\$ 724,825

Net income (loss) attributable to noncontrolling interests (which includes nonredeemable noncontrolling interests in consolidated properties, limited partners' interests in the Operating Partnership and preferred distributions of the Operating Partnership) is a component of consolidated net income. In addition, the individual components of other comprehensive income (loss) are presented in the aggregate for both controlling and noncontrolling interests, with the portion attributable to noncontrolling interests deducted to arrive at comprehensive income (loss) attributable to common stockholders.

Table of Contents

A rollforward of noncontrolling interests is as follows:

	<i>For the Three Months Ended June 30,</i>		<i>For the Six Months Ended June 30,</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Noncontrolling interest, beginning of period	\$ 705,107	\$ 521,274	\$ 724,825	\$ 488,969
Net income (loss) attributable to noncontrolling interests after preferred distributions	33,173	(4,029)	37,726	24,745
Distributions to noncontrolling interestholders	(39,459)	(39,771)	(80,474)	(97,696)
Other Comprehensive income (loss) allocable to noncontrolling interests:				
Unrealized gain (loss) on interest rate hedge agreements	2,598	3,083	3,802	(1,341)
Net loss on derivative instruments reclassified from accumulated comprehensive income (loss) into interest expense	(657)	(614)	(1,302)	(1,296)
Currency translation adjustments	(2,431)	1,554	(3,836)	(916)
Changes in available-for-sale securities and other	(7,842)	36,895	(11,885)	33,697
	(8,332)	40,918	(13,221)	30,144
Adjustment to limited partners' interest from increased ownership in the Operating Partnership	(9,263)	155,755	11,343	188,065
Units issued to limited partners	54,557	27,239	57,852	74,830
Units converted to common shares	(300)	(3,014)	(2,568)	(12,973)
Other	601	(2,309)	601	(21)
Noncontrolling interest, end of period	\$ 736,084	\$ 696,063	\$ 736,084	\$ 696,063

Derivative Financial Instruments

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. We use a variety of derivative financial instruments in the normal course of business primarily to manage or hedge the risks associated with our indebtedness and interest payments. Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps and caps. We require that hedging derivative instruments be highly effective in reducing the risk exposure that they are designated to hedge. As a result, there was no significant ineffectiveness from any of our derivative activities during the period. We formally designate any instrument that meets these hedging criteria as a hedge at the inception of the derivative contract. We have no credit-risk-related hedging or derivative activities.

As of June 30, 2010, we had the following outstanding interest rate derivatives related to interest rate risk:

<i>Interest Rate Derivative</i>	<i>Number of Instruments</i>	<i>Notional Amount</i>
Interest Rate Swaps	4	\$693.3 million
Interest Rate Caps	3	\$386.7 million

The carrying value of our interest rate swap agreements, at fair value, is included within other liabilities and was \$22.5 million and \$13.0 million at June 30, 2010 and December 31, 2009, respectively. At December 31, 2009, we also had interest rate swaps with a carrying value of \$0.3 million within deferred costs and other assets. The interest rate cap agreements were of no net value at June 30, 2010 and December 31, 2009 and we generally do not apply hedge accounting to these arrangements. The total gross accumulated other comprehensive loss related to our derivative activities, including our share of the other comprehensive loss from joint venture properties, approximated \$40.1 million and \$52.3 million as of June 30, 2010 and December 31, 2009, respectively.

We are also exposed to fluctuations in foreign exchange rates on financial instruments which are denominated in foreign currencies, primarily in Japan and Europe. We use currency forward contracts to manage our exposure to changes in foreign exchange rates on certain Yen and Euro-denominated receivables and investments. Currency forward contracts involve fixing the USD-Yen or USD-Euro exchange rate for delivery of a specified amount of foreign currency on a specified date. The currency forward contracts are typically cash settled in US dollars for their fair value at or close to their settlement date. We entered into USD-Yen forward contracts during 2009 for approximately ¥3 billion that we expect to receive through April 2011 at an average exchange rate of 97.1 USD:JPY.

Table of Contents

We entered into USD-Yen forward contracts during 2010 for an additional ¥1.7 billion that we expect to receive through October 2012 at an average exchange rate of 89.0 USD:JPY. Approximately ¥2.0 billion remains as of June 30, 2010 for both the 2009 and 2010 contracts. The June 30, 2010 liability balance related to these forwards was \$0.5 million and is included in other liabilities and accrued dividends. We have reflected the changes in fair value for these forward contracts in earnings. The underlying currency adjustments on the foreign-denominated receivables are also reflected in income and generally offset the amounts in earnings for these forward contracts. We entered into a USD-Euro forward contract during the first quarter of 2010 for approximately €95.0 million at an exchange rate of 1.41 EUR:USD as a net investment hedge. The changes in fair value of the net investment hedge, which matures on July 31, 2010, are recorded to other comprehensive income (loss), of which the total amount was \$18.0 million as of June 30, 2010, and is included in deferred costs and other assets.

4. Per Share Data

We determine basic earnings per share based on the weighted average number of shares of common stock outstanding during the period and we consider any participating securities for purposes of applying the two-class method. We determine diluted earnings per share based on the weighted average number of shares of common stock outstanding combined with the incremental weighted average shares that would have been outstanding assuming all potentially dilutive common shares were converted into shares at the earliest date possible. The following table sets forth the computation of our basic and diluted earnings per share.

	<i>For the Three Months Ended June 30,</i>		<i>For the Six Months Ended June 30,</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Net Income (Loss) available to Common Stockholders Basic	\$ 152,504	\$ (20,760)	\$ 161,877	\$ 86,008
Effect of dilutive securities:				
Impact to General Partner's interest in Operating Partnership from all dilutive securities and options	125		28	14
Net Income (Loss) available to Common Stockholders Diluted	\$ 152,629	\$ (20,760)	\$ 161,905	\$ 86,022
Weighted Average Shares Outstanding Basic	292,323,804	268,289,545	289,241,342	251,151,636
Effect of stock options	289,931		302,932	259,551
Effect of contingently issuable shares from stock dividends				1,542,294
Weighted Average Shares Outstanding Diluted	292,613,735	268,289,545	289,544,274	252,953,481

For the six months ended June 30, 2010, potentially dilutive securities include stock options, convertible preferred stock, units that are exchangeable for common stock, units granted under our long-term incentive performance programs and preferred units that are convertible into common units or exchangeable for our preferred stock. The only securities that had a dilutive effect for the three and six months ended June 30, 2010 were stock options. For the six months ended June 30, 2009, the only securities that had a dilutive effect were stock options and contingently issuable shares from stock dividends. All potentially dilutive securities were excluded from the calculation of diluted earnings per share for the three months ended June 30, 2009 because the effect of their conversion would have been anti-dilutive to net loss attributable to common stockholders. We accrue dividends when they are declared.

5. Investment in Unconsolidated Entities*Real Estate Joint Ventures*

Joint ventures are common in the real estate industry. We use joint ventures to finance properties, develop new properties, and diversify our risk in a particular property or portfolio. We held joint venture ownership interests in 102 properties in the United States as of June 30, 2010 and 103 properties as of December 31, 2009. We also held interests in two joint ventures which owned 52 European shopping centers as of June 30, 2010 and 51 as of December 31, 2009. At June 30, 2010, we also held interests in eight joint venture properties in Japan, one joint venture property in Mexico, and one joint venture property in South Korea. We account for these joint venture properties using the equity method of accounting.

Substantially all of our joint venture properties are subject to rights of first refusal, buy-sell provisions, or other sale or marketing rights for partners which are customary in real estate joint venture agreements and the industry. Our partners in these joint ventures may initiate these provisions at any time (subject to any applicable lock up or similar

Table of Contents

restrictions), which could result in either the sale of our interest or the use of available cash or borrowings to acquire a joint venture interest from our partner.

Loans to SPG-FCM

As part of the Mills acquisition, the Operating Partnership made loans to SPG-FCM and Mills which were used by SPG-FCM and Mills to repay loans and other obligations of Mills, including the redemption of preferred stock, during 2007. As of June 30, 2010 and December 31, 2009, the outstanding balance of our remaining loan to SPG-FCM was \$661.5 million and \$632.0 million, respectively. During the six months ended June 30, 2010 and 2009, we recorded approximately \$4.8 million and \$4.5 million in interest income (net of inter-entity eliminations), related to this loan, respectively. The loan bears interest at a rate of LIBOR plus 275 basis points and matures on June 8, 2011, with an option to extend for one year.

International Joint Venture Investments

European Joint Ventures. We conduct our international operations in Europe through joint ventures. The carrying amount of our total combined investment in these two joint venture investments was \$278.3 million and \$298.8 million as of June 30, 2010 and December 31, 2009, respectively, including all related components of accumulated other comprehensive income (loss). We have a 49% ownership interest in Gallerie Commerciali Italia, or GCI, and as of June 30, 2010 we held a 50% interest in Simon Ivanhoe. As discussed further in Note 11, on July 15, 2010 we and our joint venture partner, Ivanhoe Cambridge Inc., or Ivanhoe Cambridge, sold our collective interests in Simon Ivanhoe to Unibail-Rodamco.

Asian Joint Ventures. We conduct our international Premium Outlet operations in Japan through a joint venture with Mitsubishi Estate Co., Ltd. The carrying amount of our investment in this Premium Outlet joint venture in Japan was \$314.2 million and \$302.2 million as of June 30, 2010 and December 31, 2009, respectively, including all related components of accumulated other comprehensive income (loss). We have a 40% ownership in these Japan Premium Outlets. As of June 30, 2010 and December 31, 2009, respectively, our investment in our Premium Outlet in Korea, for which we hold a 50% ownership interest, approximated \$27.1 million and \$26.1 million including all related components of accumulated other comprehensive income (loss).

We account for all of our international joint venture investments using the equity method of accounting.

Table of Contents**Summary Financial Information**

A summary of our investments in joint ventures and share of income from such joint ventures follows. We condensed into separate line items major captions of the statements of operations for joint venture interests sold or consolidated. Consolidation occurs when we acquire an additional interest in the joint venture and as a result, gain control of the property or become the primary beneficiary of a VIE. Balance sheet information for the joint ventures is as follows:

	<i>June 30, 2010</i>	<i>December 31, 2009</i>
BALANCE SHEETS		
Assets:		
Investment properties, at cost	\$ 21,227,152	\$ 21,555,729
Less accumulated depreciation	4,820,356	4,580,679
	16,406,796	16,975,050
Cash and cash equivalents	802,650	771,045
Tenant receivables and accrued revenue, net	399,128	364,968
Investment in unconsolidated entities, at equity	165,048	235,173
Deferred costs and other assets	485,445	477,223
Total assets	\$ 18,259,067	\$ 18,823,459
Liabilities and Partners' Equity:		
Mortgages and other indebtedness	\$ 16,069,893	\$ 16,549,276
Accounts payable, accrued expenses, intangibles, and deferred revenue	755,785	834,668
Other liabilities	928,664	920,596
Total liabilities	17,754,342	18,304,540
Preferred units	67,450	67,450
Partners' equity	437,275	451,469
Total liabilities and partners' equity	\$ 18,259,067	\$ 18,823,459
Our Share of:		
Partners' equity	\$ 254,458	\$ 316,800
Add: Excess Investment	803,732	694,023
Our net Investment in Joint Ventures	\$ 1,058,190	\$ 1,010,823

Table of Contents

"Excess Investment" represents the unamortized difference of our investment over our share of the equity in the underlying net assets of the joint ventures acquired. We amortize excess investment over the life of the related properties, typically no greater than 40 years, and the amortization is included in the reported amount of income from unconsolidated entities.

	<i>For the Three Months Ended June 30,</i>		<i>For the Six Months Ended June 30,</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
STATEMENTS OF OPERATIONS				
Revenue:				
Minimum rent	\$ 485,304	\$ 490,889	\$ 979,118	\$ 957,566
Overage rent	25,159	30,358	56,337	50,937
Tenant reimbursements	230,039	239,202	464,615	476,644
Other income	52,687	40,663	98,727	78,907
Total revenue	793,189	801,112	1,598,797	1,564,054
Operating Expenses:				
Property operating	155,272	162,385	309,733	311,325
Depreciation and amortization	197,047	198,025	396,084	385,488
Real estate taxes	60,586	63,385	130,699	132,774
Repairs and maintenance	26,065	24,912	53,774	50,635
Advertising and promotion	13,613	14,636	30,223	28,931
Provision for credit losses	565	4,960	1,439	15,387
Other	60,092	51,878	105,181	88,193
Total operating expenses	513,240	520,181	1,027,133	1,012,733
Operating Income	279,949	280,931	571,664	551,321
Interest expense	(218,018)	(221,269)	(435,181)	(440,420)
(Loss) income from unconsolidated entities	(602)	1,555	(1,041)	787
Gain on sale or disposal of assets (net) and interests in unconsolidated entities	39,761		39,761	
Net Income	\$ 101,090	\$ 61,217	\$ 175,203	\$ 111,688
Third-Party Investors' Share of Net Income	\$ 58,653	\$ 41,711	\$ 103,689	\$ 72,890
Our Share of Net Income	42,437	19,506	71,514	38,798
Amortization of Excess Investment	(11,486)	(14,012)	(22,981)	(27,759)
Our Share of Gain on Sale or Disposal of Assets (net)	(20,337)		(20,337)	
Income from Unconsolidated Entities	\$ 10,614	\$ 5,494	\$ 28,196	\$ 11,039

6. Debt*Unsecured Debt*

Our unsecured debt currently consists of \$10.8 billion of senior unsecured notes of the Operating Partnership and \$500.0 million outstanding under our unsecured revolving credit facility, or the Credit Facility. The Credit Facility has a borrowing capacity of \$3.85 billion and contains an accordion feature allowing the maximum borrowing capacity to expand to \$4.0 billion. The Credit Facility matures on March 31, 2013. The base interest on the Credit Facility is LIBOR plus 210 basis points and includes a facility fee of 40 basis points.

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The total outstanding balance of the Credit Facility as of June 30, 2010 was \$500.0 million, and the maximum outstanding balance during the six months ended June 30, 2010 was \$500.0 million. The June 30, 2010 balance included \$443.0 million (U.S. dollar equivalent) of Euro and Yen-denominated borrowings. During the six months ended

Table of Contents

June 30, 2010, the weighted average outstanding balance on the Credit Facility was approximately \$456.3 million. As further discussed in Note 11, a portion of the proceeds from the sale of our interest in Simon Ivanhoe was used to repay the €167.4 million (approximately \$215 million) principal balance on the Euro tranche of the Credit Facility.

On January 12, 2010, the Operating Partnership commenced a cash tender offer for any and all senior unsecured notes of ten outstanding series with maturity dates ranging from 2011 to March 2013. The total principal amount of the notes accepted for purchase on January 26, 2010 was approximately \$2.3 billion, with a weighted average duration of 2.0 years and a weighted average coupon of 5.76%. The Operating Partnership purchased the tendered notes with cash on hand and the proceeds from an offering of \$2.25 billion of senior unsecured notes that closed on January 25, 2010. The senior notes offering was comprised of \$400.0 million of 4.20% notes due 2015, \$1.25 billion of 5.65% notes due 2020 and \$600.0 million of 6.75% notes due 2040. The weighted average duration of the notes offering was 14.4 years and the weighted average coupon was 5.69%. We recorded a \$165.6 million charge to earnings in the first quarter of 2010 as a result of the tender offer.

On March 18, 2010, the Operating Partnership repaid a \$300.0 million senior unsecured note, which had a fixed rate of 4.875%.

On June 15, 2010, the Operating Partnership repaid a \$400.0 million senior unsecured note, which had a fixed rate of 4.60%.

Secured Debt

Total secured indebtedness was \$5.7 billion and \$6.6 billion at June 30, 2010 and December 31, 2009, respectively. During the six months ended June 30, 2010, we repaid \$792.8 million in mortgage loans, unencumbering three properties with a weighted average interest rate of 4.86%.

On May 13, 2010, we acquired a property located in Barceloneta, Puerto Rico subject to an existing \$75.2 million mortgage loan. The loan matures on May 1, 2014 and bears interest at LIBOR plus 225 basis points with a LIBOR floor of 1.50%.

Fair Value of Debt

The carrying value of our variable-rate mortgages and other loans approximates their fair values. We estimate the fair values of consolidated fixed-rate mortgages using cash flows discounted at current borrowing rates and other indebtedness using cash flows discounted at current market rates. We estimate the fair values of consolidated fixed-rate unsecured notes using quoted market prices, or, if no quoted market prices are available, we use quoted market prices for securities with similar terms and maturities. The book value of our consolidated fixed-rate mortgages and other indebtedness, excluding those with an associated fixed to floating swap, was \$14.5 billion and \$16.1 billion as of June 30, 2010 and December 31, 2009, respectively. The fair values of financial instruments and our related discount rate assumptions used in the estimation of fair value for our consolidated fixed-rate mortgages and other indebtedness as of June 30, 2010 and December 31, 2009 are summarized as follows:

	<i>June 30, 2010</i>	<i>December 31, 2009</i>
Fair value of fixed-rate mortgages and other indebtedness	\$ 15,719	\$ 16,580
Weighted average discount rates assumed in calculation of fair value for fixed-rate mortgages	5.28%	6.11%

7. Equity

During the first six months of 2010, we issued 166,608 shares of common stock to thirty-seven limited partners in exchange for an equal number of units.

On May 13, 2010, the Operating Partnership issued 77,798 units to the owners of Prime Outlets Acquisition Company in connection with the acquisition of a property located in Barceloneta, Puerto Rico.

As of the end of the first quarter of 2010 and through April 14, 2010, holders of our Series I 6% Convertible Perpetual Preferred Stock, or Series I Preferred Stock, and holders of the Operating Partnership's 6% Series I Convertible Perpetual Preferred Units, or Series I Preferred Units, could elect to convert their Series I Preferred Stock

Table of Contents

into shares of our common stock or Series I Preferred Units into units of the Operating Partnership or Series I Preferred Stock. The optional conversion election resulted from the closing sale price of our common stock exceeding the applicable trigger price per share for a period of 20 trading days in the last 30 trading days of the prior quarter. Each share of Series I Preferred Stock and Series I Preferred Unit was convertible into common stock or units at a conversion ratio of .847495.

On March 17, 2010, we announced that we would redeem all of the outstanding shares of our Series I Preferred Stock and the Operating Partnership's Series I Preferred Units on April 16, 2010. The redemption price was equal to the liquidation value per share plus accumulated and unpaid dividends through the redemption date or \$50.4917 per share or unit.

Through the redemption date of April 16, 2010, holders of Series I Preferred Stock converted 7,871,276 shares of Series I Preferred Stock into 6,670,589 shares of our common stock and holders of Series I Preferred Units converted 1,017,480 Series I Preferred Units into 862,292 units of the Operating Partnership at a conversion ratio of .847495. We redeemed the remaining 219,879 shares of Series I Preferred Stock for \$50.4917 per share for an aggregate cash redemption payment of \$11.1 million including accrued dividends.

Stock Based Compensation

The Compensation Committee of our Board of Directors, or the Board, awarded 1,449 shares of restricted stock as part of the 2008 stock incentive program created under The Simon Property Group, L.P. 1998 Stock Incentive Plan, or the Plan, to employees on April 1, 2010 at a fair market value of \$85.01 per share, and a special award of 113,403 on March 16, 2010 at a fair market value of \$84.18 per share. On May 6, 2010, our non-employee Directors were awarded 8,137 shares of restricted stock under the Plan at a fair market value of \$84.88 per share. The fair market value of the restricted stock awarded on March 16 and April 1, 2010 is being recognized as expense over the four-year vesting service period. The fair market value of the restricted stock awarded on May 6, 2010 is being recognized as expense over a one-year vesting service period. We issued shares held in treasury to make the awards.

On March 16, 2010, the Compensation Committee of our Board approved a Long-Term Incentive Performance Program, or LTIP Program, for certain of our senior executive officers. Awards under the LTIP Program take the form of LTIP Units, a form of limited partnership interest issued by the Operating Partnership. Awarded LTIP Units will be forfeited, in whole or in part, depending on the extent to which our total stockholder return, or TSR, as defined, over the performance period exceeds certain performance targets. During the performance period, participants are entitled to receive 10% of the regular quarterly distributions paid on a unit of the Operating Partnership. As a result, we account for these LTIP awards as participating securities under the two-class method of computing earnings per share. Awarded LTIP Units will be considered earned depending upon the extent to which the applicable TSR benchmarks are achieved during the performance period and, once earned, will become the equivalent of units of limited partnership interest of the Operating Partnership after a two year service-based vesting period, beginning after the end of the performance period. Units are exchangeable for shares of our common stock on a one-for-one basis, or cash, as selected by us.

The Compensation Committee awarded LTIP Units under three LTIP Programs having one, two and three year performance periods, which end on December 31, 2010, 2011 and 2012. We refer to these three programs as the one, two and three year 2010 LTIP Programs, or the 2010 LTIP Programs. After the end of each performance period, any earned LTIP Units will then be subject to service-based vesting over a period of two years. One-half of the earned LTIP Units will vest on January 1 of each of the second and third years following the end of the applicable performance period, subject to the participant maintaining employment with us through those dates.

The awards made pursuant to the 2010 LTIP Programs have an aggregate grant date fair value, adjusted for estimated forfeitures and as determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, of \$7.2 million for the one-year program, \$14.8 million for the two-year program and \$23.0 million for the three-year program. Grant date fair value was estimated based upon the results of a Monte Carlo model, and the resulting expense will be recorded regardless of whether the TSR benchmarks are achieved. The grant date fair value is being amortized into expense over the period from the grant date to the date at which the awards, if any, become vested. During the six months ended June 30, 2010, we recognized \$6.2 million of compensation expense under the LTIP Programs.

Table of Contents*Changes in Equity*

The following table provides a reconciliation of the beginning and ending carrying amounts of total equity, equity attributable to common stockholders and equity attributable to noncontrolling interests:

	<i>Preferred Stock</i>	<i>Common Stock</i>	<i>Accumulated Other Comprehensive Income (Loss)</i>	<i>Capital in Excess of Par Value</i>	<i>Accumulated Deficit</i>	<i>Common Stock Held in Treasury</i>	<i>Noncontrolling interests</i>	<i>Total Equity</i>
January 1, 2010	\$ 45,704	\$ 29	\$ (3,088)	\$ 7,547,959	\$ (2,955,671)	\$ (176,796)	\$ 724,825	\$ 5,182,962
Conversion of limited partner units				2,568			(2,568)	
Series I preferred unit conversion to limited partner units							50,874	50,874
Series I preferred stock conversion to common stock		1		393,563				393,564
Issuance of limited partner units							6,978	6,978
Other	(164)			1,393	(13,720)	10,360	601	(1,530)
Adjustment to limited partners' interest from increased ownership in the Operating Partnership				(11,343)			11,343	
Distributions to common shareholders and limited partners, excluding Operating Partnership preferred interests					(352,154)		(69,764)	(421,918)
Distributions to other noncontrolling interest partners							(10,710)	(10,710)
Comprehensive income, excluding preferred distributions on temporary equity preferred units of \$1,358			(66,046)		166,822		24,505	125,281
June 30, 2010	\$ 45,540	\$ 30	\$ (69,134)	\$ 7,934,140	\$ (3,154,723)	\$ (166,436)	\$ 736,084	\$ 5,325,501

8. Commitments and Contingencies*Litigation*

There have been no material developments with respect to the pending litigation disclosed in our 2009 Annual Report on Form 10-K and no new material developments or litigation have arisen since those disclosures were made.

We are involved in various legal proceedings that arise in the ordinary course of our business. We believe that such routine litigation, claims and administrative proceedings will not have a material adverse impact on our financial position, results of operations or cash flows. We record a contingent liability when a loss is considered probable and the amount can be reasonably estimated.

Guarantees of Indebtedness

Our joint ventures typically fund their cash needs through secured debt financings obtained by and in the name of the joint venture entity. The joint venture debt is secured by a first mortgage, is without recourse to the joint venture partners, and does not represent a liability of the partners, except to the extent the partners or their affiliates expressly

Table of Contents

guarantee the joint venture debt. As of June 30, 2010, the Operating Partnership had guaranteed \$48.0 million of the total joint venture related mortgage or other indebtedness of \$6.6 billion then outstanding.

9. Real Estate Acquisitions and Dispositions

During the six months ended June 30, 2010, we disposed of one regional mall, one community center, two other retail properties, a non-retail building and our interest in an international joint venture property for an aggregate net gain of \$26.1 million.

During the six months ended June 30, 2010, we completed two acquisitions. On May 13, 2010, we acquired a property located in Barceloneta, Puerto Rico from Prime Outlets Acquisition Company and on May 28, 2010, we acquired an additional interest of approximately 19% in Houston Galleria, located in Houston, Texas thereby increasing our interest from 31.5% to 50.4%. The total cost of the acquisitions was approximately \$385 million, including the assumption of existing indebtedness.

We entered into a definitive agreement in December 2009 to acquire a portfolio of outlet shopping centers from Prime Outlets Acquisition Company and certain of its affiliated entities, subject to existing fixed rate indebtedness and outstanding preferred stock. Our definitive agreement was subsequently amended to allow for the acquisition of Prime's operating shopping center in Barceloneta, Puerto Rico, and to remove one of Prime's operating properties and two of its development sites from the transaction. The portfolio to be acquired from Prime consists of 21 outlet centers located primarily in major metropolitan markets (including the asset in Puerto Rico which we acquired on May 13, 2010). We will pay aggregate consideration consisting of cash and units of approximately \$0.7 billion for the owners' interests. The acquisition is subject to several closing conditions relating to certain of the existing financing arrangements. The Federal Trade Commission is currently reviewing the transaction and we are cooperating with that review. Although we expect to acquire the remaining Prime properties later in the year, we cannot predict the outcome of the FTC review or when it will be completed.

10. Recently Issued Accounting Pronouncement

On January 1, 2010, we adopted the amendment on the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs). This amendment requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE. The amendment also requires an enterprise to continuously reassess whether it must consolidate a VIE. Additionally, the amendment requires enhanced disclosures about an enterprise's involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the enterprise's financial statements. Finally, an enterprise will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. The adoption of this amendment did not have a significant impact on our financial position, results of operations, or cash flows.

11. Subsequent Events

On July 15, 2010, we and our partner in Simon Ivanhoe, Ivanhoe Cambridge, sold our collective interests in Simon Ivanhoe which owned seven shopping centers located in France and Poland to Unibail-Rodamco. The joint venture partners received net consideration of €422.5 million for their interests after the repayment of all joint venture debt, subject to certain post-closing adjustments. Our share of the gain on sale of our interests in Simon Ivanhoe is approximately \$280 million. A portion of the proceeds were used to repay the €167.4 million (approximately \$215 million) principal balance on the Euro tranche of the Credit Facility.

Table of Contents

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

You should read the following discussion in conjunction with the financial statements and notes thereto included in this report.

Overview

Simon Property Group, Inc., or Simon Property, is a Delaware corporation that operates as a self-administered and self-managed real estate investment trust, or REIT, under the Internal Revenue Code. To qualify as a REIT, among other things, a company must distribute at least 90 percent of its taxable income to its stockholders annually. Taxes are paid by stockholders on ordinary dividends received and any capital gains distributed. Most states also follow this federal treatment and do not require REITs to pay state income tax. Simon Property Group, L.P., or the Operating Partnership, is a majority-owned partnership subsidiary that owns all of our real estate properties. In this discussion, the terms "we", "us" and "our" refer to Simon Property Group, Inc. and its subsidiaries.

We own, develop, and manage retail real estate properties, which consist primarily of regional malls, Premium Outlets®, The Mills®, and community/lifestyle centers. As of June 30, 2010, we owned or held an interest in 318 income-producing properties in the United States, which consisted of 161 regional malls, 42 Premium Outlets, 66 community/lifestyle centers, 36 properties acquired in the 2007 acquisition of The Mills Corporation, or Mills, and 13 other shopping centers or outlet centers in 41 states and Puerto Rico. Of the 36 properties in the Mills portfolio, 16 of these properties are The Mills, 16 are regional malls, and four are community centers. Internationally, as of June 30, 2010, we had ownership interests in 52 European shopping centers (France, Italy and Poland), eight Premium Outlets in Japan, one Premium Outlet in Mexico, and one Premium Outlet in South Korea. On July 15, 2010, we and our joint venture partner sold our collective interests in Simon Ivanhoe S.à.r.l., or Simon Ivanhoe, which owned seven shopping centers located in France and Poland. We also have entered into a definitive agreement to acquire a portfolio of 21 outlet shopping centers as described in Note 9 of the notes to the accompanying financial statements.

We generate the majority of our revenues from leases with retail tenants including:

Base minimum rents,

Overage and percentage rents based on tenants' sales volume, and

Recoveries of substantially all of our recoverable expenditures, which consist of property operating, real estate taxes, repair and maintenance, and advertising and promotional expenditures.

Revenues of our management company, after intercompany eliminations, consist primarily of management fees that are typically based upon the revenues of the property being managed.

We seek growth in earnings, funds from operations, or FFO, and cash flows by enhancing the profitability and operation of our properties and investments. We seek to accomplish this growth through the following:

Focusing on leasing to increase revenues and using economies of scale to reduce operating expenses,

Expanding and re-tenanting existing franchise locations at competitive market rates,

Selectively acquiring high quality real estate assets or portfolios of assets, and

Selling non-core assets.

We also grow by generating supplemental revenues from the following activities:

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Establishing our malls as leading market resource providers for retailers and other businesses and consumer-focused corporate alliances, including: payment systems (such as handling fees relating to the sales of bank-issued prepaid cards), national marketing alliances, static and digital media initiatives, business development, sponsorship, and events,

Offering property operating services to our tenants and others, including waste handling and facility services, and the sale of energy,

Selling or leasing land adjacent to our shopping center properties, commonly referred to as "outlots" or "outparcels," and

Generating interest income on cash deposits and loans made to related entities.

We focus on high quality real estate across the retail real estate spectrum. We expand or renovate to enhance profitability and market share of existing assets when we believe the investment of our capital meets our risk-reward

Table of Contents

criteria. We selectively develop new properties in metropolitan areas that exhibit strong population and economic growth.

We routinely review and evaluate acquisition opportunities based on their ability to complement our portfolio. Our international strategy includes partnering with established real estate companies and financing international investments with local currency to minimize foreign exchange risk.

To support our growth, we employ a three-fold capital strategy:

Provide the capital necessary to fund growth,

Maintain sufficient flexibility to access capital in many forms, both public and private, and

Manage our overall financial structure in a fashion that preserves our investment grade credit ratings.

Results Overview

Diluted earnings per common share increased \$0.22 during the first six months of 2010, or 64.7%, to \$0.56 from \$0.34 for the same period last year. Significant factors contributing to the year-over-year change included:

improved operating performance and favorable movement of core business fundamentals,

a gain on sale of assets and interests in unconsolidated entities of \$26.1 million, or \$0.07 per diluted share,

a \$140.5 million, or \$0.45 per diluted share, other-than-temporary impairment charge related to our investment in Liberty International PLC, or Liberty, recorded in the first six months of 2009 due to the significance and duration of the decline in quoted fair value, including related currency exchange component, below the carrying value of the securities, and

a \$165.6 million, or \$0.48 per diluted share, debt extinguishment charge recorded during the first quarter of 2010 related to our senior unsecured notes tender offer.

Core business fundamentals during the first six months of 2010 improved from the difficult economic environment that existed during the first six months of 2009. Comparable sales per square foot, or psf, increased to \$474 psf, or 3.9%, for our Regional Malls and Premium Outlets. Average base rents increased 0.3% to \$38.62 psf as of June 30, 2010, from \$38.49 psf as of June 30, 2009. Leasing spreads remained positive as we were able to lease available square feet at higher rents than the expiring rental rates resulting in a leasing spread of \$0.50 psf as of June 30, 2010, representing a 1.2% increase over expiring rents. Occupancy was 93.1% as of June 30, 2010, as compared to 92.3% as of June 30, 2009, an increase of 80 basis points.

Our effective overall borrowing rate at June 30, 2010 increased 13 basis points to 5.70% as compared to 5.57% at June 30, 2009. This increase was primarily due to an increase in our effective overall borrowing rate on variable rate debt of 62 basis points (1.83% at June 30, 2010 as compared to 1.21% at June 30, 2009) as a result of increased borrowing spreads and LIBOR floors. This increase was offset in part by a \$941.5 million decrease in our portfolio of fixed rate debt. At June 30, 2010, the weighted average years to maturity of our consolidated indebtedness was approximately 5.6 years as compared to December 31, 2009 of approximately 4.1 years. Our financing activities for the six months ended June 30, 2010, included:

completing a cash tender offer for any and all senior unsecured notes of ten outstanding series with maturity dates ranging from 2011 to March 2013. The total principal amount of the notes accepted for purchase on January 26, 2010 was approximately \$2.3 billion, with a weighted average duration of 2.0 years and a weighted coupon of 5.76%. The Operating Partnership purchased the tendered notes with cash on hand and the proceeds from an offering of \$2.25 billion of senior unsecured notes which closed on January 25, 2010. The senior notes offering was comprised of \$400.0 million of 4.20% notes due 2015, \$1.25 billion of 5.65% notes due 2020 and \$600.0 million of 6.75% notes due 2040. The weighted average

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duration of the notes offering was 14.4 years and the weighted average coupon was 5.69%. We reported a \$165.6 million loss on extinguishment of debt in the first quarter of 2010 as a result of the tender offer.

increasing our borrowings on our unsecured revolving credit facility, or Credit Facility, to \$500.0 million during the six months ended June 30, 2010.

redeeming a \$300.0 million maturing unsecured note which had a fixed rate of 4.875%.

redeeming a \$400.0 million maturing unsecured note which had a fixed rate of 4.60%.

Table of Contents

unencumbering three properties by repaying \$792.8 million in mortgage loans with a weighted average interest rate of 4.86%.

acquiring a property located in Barceloneta, Puerto Rico on May 13, 2010 subject to an existing \$75.2 million variable-rate mortgage, which matures on May 1, 2014 and bears interest at a rate of LIBOR plus 225 basis points with a LIBOR floor of 1.50%.

United States Portfolio Data

The portfolio data discussed in this overview includes the following key operating statistics: occupancy, average base rent per square foot, and comparable sales per square foot for our domestic assets. We include acquired properties in this data beginning in the year of acquisition and remove properties sold in the year disposed. For comparative purposes, we separate the information below related to community/lifestyle centers, the Mills properties and Mills Regional Malls, from our other U.S. operations. We also do not include any properties located outside of the United States. The following table sets forth these key operating statistics for:

properties that are consolidated in our consolidated financial statements,

properties we account for under the equity method of accounting as joint ventures, and

the foregoing two categories of properties on a total portfolio basis.

	<i>June 30, 2010</i>	<i>June 30, 2009</i>	<i>%/basis point Change(1)</i>
<u>U.S. Regional Malls and Premium Outlets:</u>			
<i>Occupancy</i>			
Consolidated	93.7%	92.8%	+90 bps
Unconsolidated	91.2%	90.9%	+30 bps
Total Portfolio	93.1%	92.3%	+80 bps
<i>Average Base Rent per Square Foot</i>			
Consolidated	\$ 37.11	\$ 36.83	0.8%
Unconsolidated	\$ 43.23	\$ 43.41	-0.4%
Total Portfolio	\$ 38.62	\$ 38.49	0.3%
<i>Comparable Sales Per Square Foot</i>			