SIMON PROPERTY GROUP INC /DE/
Form 10-Q
August 05, 2011

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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, 2011

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 ý** **No o**

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 ý** **No o**

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

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

As of June 30, 2011, Simon Property Group, Inc. had 293,586,135 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.

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Simon Property Group, Inc. and Subsidiaries

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Simon Property Group, Inc. and Subsidiaries

Unaudited Consolidated Balance Sheets

(Dollars in thousands, except share amounts)

	June 30, 2011	December 31, 2010
ASSETS:		
Investment properties, at cost	**$ 27,496,266**	$ 27,508,735
Less accumulated depreciation	**8,097,828**	7,711,304
	19,398,438	19,797,431
Cash and cash equivalents	**789,713**	796,718
Tenant receivables and accrued revenue, net	**381,895**	426,736
Investment in unconsolidated entities, at equity	**1,345,912**	1,390,105
Deferred costs and other assets	**1,967,064**	1,795,439
Note receivable from related party	**651,000**	651,000
Total assets	**$ 24,534,022**	$ 24,857,429
LIABILITIES:		
Mortgages and other indebtedness	**$ 17,013,893**	$ 17,473,760
Accounts payable, accrued expenses, intangibles, and deferred revenues	**1,049,313**	993,738
Cash distributions and losses in partnerships and joint ventures, at equity	**606,526**	485,855
Other liabilities and accrued dividends	**205,028**	184,855
Total liabilities	**18,874,760**	19,138,208
Commitments and contingencies		
Limited partners' preferred interest in the Operating Partnership and noncontrolling redeemable interests in properties	**90,161**	85,469
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	**45,211**	45,375
Common stock, $.0001 par value, 511,990,000 shares authorized, 297,470,440 and 296,957,360 issued and outstanding, respectively	**30**	30
Class B common stock, $.0001 par value, 10,000 shares authorized, 8,000 issued and outstanding	**-**	-
Capital in excess of par value	**8,060,402**	8,059,852
Accumulated deficit	**(3,202,852)**	(3,114,571)
Accumulated other comprehensive income	**45,853**	6,530
Common stock held in treasury at cost, 3,884,305 and 4,003,451 shares, respectively	**(153,437)**	(166,436)
Total stockholders' equity	**4,795,207**	4,830,780
Noncontrolling interests	**773,894**	802,972
Total equity	**5,569,101**	5,633,752
Total liabilities and equity	**$ 24,534,022**	$ 24,857,429

The accompanying notes are an integral part of these statements.

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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,	
	2011	**2010**	**2011**	**2010**
REVENUE:				
Minimum rent	**$ 649,570**	$ 580,157	**$ 1,293,902**	$ 1,151,767
Overage rent	**21,980**	14,477	**39,121**	27,688
Tenant reimbursements	**285,623**	255,693	**567,048**	511,621
Management fees and other revenues	**31,259**	28,349	**61,751**	56,917
Other income	**52,429**	54,890	**98,913**	110,644
Total revenue	**1,040,861**	933,566	**2,060,735**	1,858,637
EXPENSES:				
Property operating	**109,025**	101,234	**208,567**	200,002
Depreciation and amortization	**261,298**	234,190	**527,608**	463,099
Real estate taxes	**93,424**	78,658	**186,688**	168,387
Repairs and maintenance	**24,657**	20,605	**55,492**	44,350
Advertising and promotion	**24,958**	22,282	**46,846**	41,118
Provision for credit losses	**274**	4,487	**1,679**	1,036
Home and regional office costs	**31,453**	26,744	**60,509**	44,059
General and administrative	**8,974**	5,627	**16,640**	10,739
Transaction expenses		11,269		14,969
Other	**19,226**	13,003	**38,244**	28,495
Total operating expenses	**573,289**	518,099	**1,142,273**	1,016,254
OPERATING INCOME	**467,572**	415,467	**918,462**	842,383
Interest expense	**(244,517)**	(261,463)	**(492,634)**	(525,422)
Loss on extinguishment of debt				(165,625)
Income tax (expense) benefit of taxable REIT subsidiaries	**(703)**	510	**(1,846)**	308
Income from unconsolidated entities	**13,821**	10,614	**32,441**	28,196
Gain on sale or disposal of assets and interests in unconsolidated entities	**14,349**	20,024	**13,765**	26,066
CONSOLIDATED NET INCOME	**250,522**	185,152	**470,188**	205,906
Net income attributable to noncontrolling interests	**44,567**	33,313	**83,987**	39,084
Preferred dividends	**834**	(665)	**1,669**	4,945
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	**$ 205,121**	$ 152,504	**$ 384,532**	$ 161,877
BASIC EARNINGS PER COMMON SHARE:				
Net income attributable to common stockholders	**$ 0.70**	$ 0.52	**$ 1.31**	$ 0.56
DILUTED EARNINGS PER COMMON SHARE:				
	$ 0.70	$ 0.52	**$ 1.31**	$ 0.56

Net income attributable to common stockholders				
Consolidated Net Income	**$ 250,522**	$ 185,152	**$ 470,188**	$ 205,906
Unrealized (loss) gain on derivative hedge agreements	**(7,740)**	7,478	**(19,023)**	4,410
Net loss on derivative instruments reclassified from accumulated other comprehensive loss into interest expense	**3,824**	3,945	**7,768**	7,785
Currency translation adjustments	**8,754**	(14,610)	**30,653**	(23,510)
Changes in available-for-sale securities and other	**25,713**	(46,762)	**27,954**	(67,952)
Comprehensive income	**281,073**	135,203	**517,540**	126,639
Comprehensive income attributable to noncontrolling interests	**49,743**	24,981	**92,016**	25,863
Comprehensive income attributable to common stockholders	**$ 231,330**	$ 110,222	**$ 425,524**	$ 100,776

The accompanying notes are an integral part of these statements.

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Simon Property Group, Inc. and Subsidiaries

Unaudited Consolidated Statements of Cash Flows

(Dollars in thousands)

	For the Six Months Ended June 30,	
	2011	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated Net Income	**$ 470,188**	$ 205,906
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	**544,415**	474,079
Loss on debt extinguishment		165,625
Gain on sale or disposal of assets and interests in unconsolidated entities	**(13,765)**	(26,066)
Straight-line rent	**(12,129)**	(10,545)
Equity in income of unconsolidated entities	**(32,441)**	(28,196)
Distributions of income from unconsolidated entities	**51,860**	48,584
Changes in assets and liabilities		
Tenant receivables and accrued revenue, net	**56,674**	68,113
Deferred costs and other assets	**(139,832)**	(96,022)
Accounts payable, accrued expenses, intangibles, deferred revenues and other liabilities	**(26,922)**	(24,317)
Net cash provided by operating activities	**898,048**	777,161
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions	**(11,976)**	(56,383)
Funding of loans to related parties		(29,500)
Capital expenditures, net	**(163,463)**	(128,678)
Net proceeds from sale of assets	**136,013**	5,811
Investments in unconsolidated entities	**(6,749)**	(155,236)
Purchase of marketable and non-marketable securities	**(10,228)**	(13,695)
Sale of marketable securities		26,175
Distributions of capital from unconsolidated entities and other	**203,314**	53,639
Net cash provided by (used in) investing activities	**146,911**	(297,867)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sales of common stock and other	**1,826**	3,472
Preferred stock redemptions		(10,994)
Distributions to noncontrolling interest holders in properties	**(23,846)**	(11,693)
Contributions from noncontrolling interest holders in properties	**52**	352
Preferred distributions of the Operating Partnership	**(958)**	(1,358)
Preferred dividends and distributions to stockholders	**(470,803)**	(352,154)
Distributions to limited partners	**(96,540)**	(69,764)
Loss on debt extinguishment		(165,625)
Mortgage and other indebtedness proceeds, net of transaction costs	**205,946**	2,296,533
Mortgage and other indebtedness principal payments	**(667,641)**	(3,832,539)
Net cash used in financing activities	**(1,051,964)**	(2,143,770)
DECREASE IN CASH AND CASH EQUIVALENTS	**(7,005)**	(1,664,476)
CASH AND CASH EQUIVALENTS, beginning of period	**796,718**	3,957,718

CASH AND CASH EQUIVALENTS, end of period	**$**	**789,713**	$	2,293,242

The accompanying notes are an integral part of these statements.

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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., 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. 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, 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, 2011, we owned or held an interest in 335 income-producing properties in the United States, which consisted of 159 regional malls, 58 Premium Outlets, 66 community/lifestyle centers, 36 properties acquired in the 2007 acquisition of The Mills Corporation, and 16 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, 2011, we had ownership interests in 45 shopping centers in Italy, eight Premium Outlets in Japan, two Premium Outlets in South Korea, and one Premium Outlet in Mexico.

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, 2011 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 2010 Annual Report on Form 10-K.

As of June 30, 2011, we consolidated 216 wholly-owned properties and 19 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 156 properties, or the joint venture properties, using the equity method of accounting. We manage the day-to-day operations of 91 of the 156 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 Italy, Japan, Korea, and Mexico comprise 56 of the remaining 65 joint venture 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 and that 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 83.0% and 83.3% for the six months ended June 30, 2011 and 2010, respectively. As of June 30, 2011 and December 31, 2010, our ownership interest in the Operating Partnership was 83.0% and 82.9%, respectively. We adjust the noncontrolling limited partners' interests at the end of each period to reflect their interest in the Operating Partnership.

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Preferred distributions of the Operating Partnership are accrued at declaration and represent distributions on outstanding preferred units 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 2011 presentation. These reclassifications had no impact on previously reported net income attributable 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 market deposits or securities. 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 are 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 investments in Capital Shopping Centres Group PLC, or CSCG, and Capital & Counties Properties PLC, or CAPC, are accounted for as available-for-sale securities. These investments are adjusted to their quoted market price, including a related foreign exchange component, with corresponding adjustment in other comprehensive income (loss). At June 30, 2011, we owned 35.4 million shares each of CSCG and of CAPC. At June 30, 2011, the market value of our investments in CSCG and CAPC was $226.3 million and $111.6 million, respectively, with an aggregate net unrealized gain on these investments of approximately $106.0 million. The market value of our investments in CSCG and CAPC at December 31, 2010 was $228.4 million and $82.4 million, respectively, with an aggregate unrealized gain of $79.0 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 subject to the deferral provisions. Changes in value of these securities and changes in 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, 2011 and December 31, 2010, we also had investments of $24.9 million which must be used to fund the debt service requirements of mortgage debt related to investment properties sold 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.

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At June 30, 2011 and December 31, 2010, we had an investment of $72.4 million in a non-marketable security that we account for under the cost method. We regularly evaluate this investment for any other-than-temporary impairment in its estimated fair value and determined that no adjustment in the carrying value was required.

Net unrealized gains recorded in other comprehensive income (loss) as of June 30, 2011 and December 31, 2010 were approximately $107.2 million and $79.3 million, respectively, and represent the valuation and related currency adjustments for our marketable securities. As of June 30, 2011, we do not consider any of the declines in value 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.

Loans Held for Investment

From time to time, we may make investments in mortgage loans or mezzanine loans of third parties that own and operate commercial real estate assets located in the United States. Mortgage loans are secured, in part, by mortgages recorded against the underlying properties which are not owned by us. Mezzanine loans are secured, in part, by pledges of ownership interests of the entities that own the underlying real estate. Loans held for investment are carried at cost, net of any premiums or discounts which are accreted or amortized over the life of the related loan receivable utilizing the effective interest method. We evaluate the collectability of both interest and principal of each of these loans quarterly to determine whether the value has been impaired. A loan is deemed to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the amount of the loss accrual is calculated by comparing the carrying amount of the loan held for investment to its estimated realizable value.

At June 30, 2011 and December 31, 2010, we had investments in six mortgage and mezzanine loans with an aggregate carrying value of $397.0 million and $395.9 million, respectively. These loans mature at various dates through October 2012 with a weighted average maturity of approximately seven months. Certain of these loans require interest-only payments while others require payments of interest and principal based on a 30 year amortization. Interest rates on these loans are fixed between 5.5% and 7.0% per annum with a weighted average interest rate of approximately 5.9% and approximate market rates for instruments of similar quality and duration. During the six months ended June 30, 2011, we recorded $13.9 million in interest income earned from loans held for investment. Payments on each of these loans were current as of June 30, 2011.

In addition, in May of 2011, we entered into a secured loan as the lender to fund the construction of a retail asset with a total commitment of up to $98.0 million. The loan primarily bears interest at 7.0% and matures on May 20, 2013 with two available one-year extensions. At June 30, 2011 the amount drawn on the loan was $1.3 million.

Fair Value Measurements

We hold marketable securities that totaled $564.0 million and $511.3 million at June 30, 2011 and December 31, 2010, 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 $16.4 million and $27.6 million at June 30, 2011 and December 31, 2010, respectively, a gross asset balance of $2.6 million at June 30, 2011 and a nominal asset value at December 31, 2010. We also have interest rate cap agreements with nominal asset values.

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 measured using level 1 and level 2 inputs. Note 9 includes a discussion of the fair values recorded in purchase accounting using level 2 and level 3 inputs. Level 3 inputs to our purchase accounting include our estimations of net operating results of the property, capitalization rates and discount rates.

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Noncontrolling Interests and Temporary Equity

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

	As of June 30, 2011	As of December 31, 2010
Limited partners' interests in the Operating Partnership	**$ 970,796**	$ 983,887
Nonredeemable noncontrolling deficit interests in properties, net	**(196,902)**	(180,915)
Total noncontrolling interests reflected in equity	**$ 773,894**	$ 802,972

Net income attributable to noncontrolling interests (which includes nonredeemable noncontrolling interests in consolidated properties, limited partners' interests in the Operating Partnership and preferred distributions payable by 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 from comprehensive income attributable to common stockholders.

A rollforward of noncontrolling interests is as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Noncontrolling interests, beginning of period	**$ 771,152**	$ 705,107	**$ 802,972**	$ 724,825
Net income attributable to noncontrolling interests after preferred distributions	**44,088**	33,173	**83,029**	37,726
Distributions to noncontrolling interest holders	**(49,993)**	(39,459)	**(120,386)**	(80,474)
Other comprehensive income (loss) allocable to noncontrolling interests:				
Unrealized (loss) gain on derivative hedge agreements	**(1,294)**	1,284	**(3,194)**	1,198
Net loss on derivative instruments reclassified from accumulated comprehensive income into interest expense	**647**	657	**1,318**	1,302
Currency translation adjustments	**1,489**	(2,431)	**5,228**	(3,836)
Changes in available-for-sale securities and other	**4,334**	(7,842)	**4,677**	(11,885)
	5,176	(8,332)	**8,029**	(13,221)
Adjustment to limited partners' interest from (decreased) increased ownership in the Operating Partnership	**(947)**	(9,263)	**(6,585)**	11,343
Units issued to limited partners		54,557	**202**	57,852
Units exchanged for common shares	**(3,712)**	(300)	**(5,923)**	(2,568)
Other	**8,130**	601	**12,556**	601
Noncontrolling interests, end of period	**$ 773,894**	$ 736,084	**$ 773,894**	$ 736,084

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, anticipated future debt issuances, 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,

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including forward starting 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, 2011, we had the following outstanding interest rate derivatives related to interest rate risk:

Interest Rate Derivative	*Number of Instruments*	*Notional Amount*
Interest Rate Swaps	9	$1.5 billion
Interest Rate Caps	3	$383.2 million

The carrying value of our interest rate swap agreements, at fair value, is a net liability balance of $13.0 million at June 30, 2011, of which $15.5 million is included in other liabilities and accrued dividends and $2.5 million is included in deferred costs and other assets. The carrying value of our interest rate swap agreements was a net liability balance of $19.5 million at December 31, 2010. The interest rate cap agreements were of no net value at June 30, 2011 and December 31, 2010 and we generally do not apply hedge accounting to these arrangements.

We are also exposed to fluctuations in foreign exchange rates on financial instruments which are denominated in foreign currencies, primarily in Japan and Italy. We use currency forward contracts to manage our exposure to changes in foreign exchange rates on certain Yen and Euro-denominated receivables and net investments. Currency forward contracts involve fixing the Yen:USD or Euro:USD 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. Approximately ¥4.0 billion remains as of June 30, 2011 for all forward contracts. We entered into Yen:USD forward contracts during 2009 for approximately ¥3 billion that we received through April 2011 and we entered into Yen:USD forward contracts during 2010 for ¥1.7 billion that we expect to receive through October 2012. In 2011, we entered into additional Yen:USD forward contracts for approximately ¥3.8 billion that we expect to receive through October 1, 2013. The June 30, 2011 net liability balance related to these forwards was $0.8 million, of which $0.9 million is included in other liabilities and accrued dividends and $0.1 million is included in deferred costs and other assets. We have reported the changes in fair value for these forward contracts in earnings. The underlying currency adjustments on the foreign-denominated receivables are also reported in income and generally offset the amounts in earnings for these forward contracts.

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 $51.3 million and $40.1 million as of June 30, 2011 and December 31, 2010, respectively.

Transaction Expenses

We expense acquisition, potential acquisition and disposition related costs as they are incurred. During the six months ended June 30, 2010, we incurred costs for the acquisition of Prime Outlets Acquisition Company, or the Prime acquisition, and other potential acquisitions, as further discussed in Note 9. These expenses are included within transaction expenses in the accompanying statements of operations and comprehensive income and totaled $11.3 million and $15.0 million during the three and six month periods ended June 30, 2010, respectively. No transaction expenses were incurred during 2011.

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

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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.

		For the Three Months Ended June 30,		*For the Six Months Ended June 30,*	
		2011	*2010*	*2011*	*2010*
Net Income available to Common Stockholders	**Basic**	**$ 205,121**	$ 152,504	**$ 384,532**	$ 161,877
Effect of dilutive securities:					
Impact to General Partner's interest in Operating Partnership from all dilutive securities and options		**51**	125	**29**	28
Net Income available to Common Stockholders	**Diluted**	**$ 205,172**	$ 152,629	**$ 384,561**	$ 161,905
Weighted Average Shares Outstanding	**Basic**	**293,367,771**	292,323,804	**293,224,782**	289,241,342
Effect of stock options		**34,582**	289,931	**127,905**	302,932
Weighted Average Shares Outstanding	**Diluted**	**293,402,353**	292,613,735	**293,352,687**	289,544,274

For the six months ended June 30, 2011, potentially dilutive securities include stock options, convertible preferred stock, units that are exchangeable for common stock and long-term incentive performance, or LTIP, units granted under our long-term incentive performance programs that are convertible into units and exchangeable for common stock. The only securities that had a dilutive effect for the three and six months ended June 30, 2011 and 2010 were stock options. 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 of properties. We held joint venture ownership interests in 100 properties in the United States as of June 30, 2011 and 101 properties as of December 31, 2010. We also held an interest in a joint venture which owned 45 shopping centers in Italy as of June 30, 2011 and December 31, 2010. At June 30, 2011, we also held interests in eight joint venture properties in Japan, two joint venture properties in South Korea, and one joint venture property in Mexico. 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. We and our partners in these joint ventures may initiate these provisions at any time (subject to any applicable lock up or similar 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.

In May 2010, Opry Mills, a property in which we have a 50% interest through our SPG-FCM joint venture, sustained significant flood damage and remains closed. Insurance proceeds of $50 million have been funded by the insurers and remediation work has been completed. The excess insurance carriers (those providing coverage above $50 million) have denied the joint venture's claim for additional proceeds (of up to $150 million) to pay further amounts for restoration costs and business interruption losses. We have obtained additional financing of $120 million from the existing mortgage lenders, and in April 2011 commenced rebuilding the center with an expected opening in the spring of 2012. We and our lenders are continuing our efforts through pending litigation to recover our losses under the insurance policies for Opry Mills and we believe recovery is probable, but no assurances can be made in that regard.

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Loans to SPG-FCM

The Operating Partnership has a loan to SPG-FCM with an outstanding balance of $651.0 million as of June 30, 2011 and December 31, 2010. During the six month periods ended June 30, 2011 and 2010, we recorded approximately $4.9 million and $4.8 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 7, 2012.

International Joint Venture Investments

We conduct our international operations through joint venture arrangements and account for all of our international joint venture investments using the equity method of accounting.

Italian Joint Venture. We have a 49% ownership interest in Gallerie Commerciali Italia, or GCI, a joint venture with Auchan S.A. The carrying amount of our investment in GCI was $346.6 million and $330.1 million as of June 30, 2011 and December 31, 2010, respectively, including all related components of accumulated other comprehensive income (loss).

Asian Joint Ventures. We conduct our international Premium Outlet operations in Japan through a joint venture with Mitsubishi Estate Co., Ltd. We have a 40% ownership interest in this joint venture. The carrying amount of our investment in this joint venture was $331.1 million and $340.8 million as of June 30, 2011 and December 31, 2010, respectively, including all related components of accumulated other comprehensive income (loss). We conduct our international Premium Outlet operations in Korea through a joint venture with Shinsegae International Co. We have a 50% ownership interest in this joint venuture. The carrying amount of our investment in this joint venture was $39.7 million and $35.7 million as of June 30, 2011 and December 31, 2010, respectively, including all related components of accumulated other comprehensive income (loss).

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Summary Financial Information

A summary of our investments in joint ventures and share of income from such joint ventures follows. Balance sheet information for the joint ventures is as follows:

	June 30, 2011	*December 31, 2010*
BALANCE SHEETS		
Assets:		
Investment properties, at cost	**$ 21,599,545**	$ 21,236,594
Less accumulated depreciation	**5,465,111**	5,126,116
	16,134,434	16,110,478
Cash and cash equivalents	**770,698**	802,025
Tenant receivables and accrued revenue, net	**350,440**	353,719
Investment in unconsolidated entities, at equity	**142,406**	158,116
Deferred costs and other assets	**526,054**	525,024
Total assets	**$ 17,924,032**	$ 17,949,362
Liabilities and Partners' (Deficit) Equity:		
Mortgages and other indebtedness	**$ 16,223,218**	$ 15,937,404
Accounts payable, accrued expenses, intangibles, and deferred revenue	**759,565**	748,245
Other liabilities	**943,137**	961,284
Total liabilities	**17,925,920**	17,646,933
Preferred units	**67,450**	67,450
Partners' (deficit) equity	**(69,338)**	234,979
Total liabilities and partners' (deficit) equity	**$ 17,924,032**	$ 17,949,362
Our Share of:		
Partners' (deficit) equity	**$ (13,882)**	$ 146,578
Add: Excess Investment	**753,268**	757,672
Our net Investment in Joint Ventures	**$ 739,386**	$ 904,250

"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.

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	For the Three Months Ended June 30,		*For the Six Months Ended June 30,*	
	2011	***2010***	***2011***	***2010***
STATEMENTS OF OPERATIONS				
Revenue:				
Minimum rent	**$ 493,100**	$ 485,304	**$ 972,350**	$ 979,118
Overage rent	**30,007**	25,159	**62,010**	56,337
Tenant reimbursements	**231,059**	230,039	**459,606**	464,615
Other income	**49,808**	52,687	**91,449**	98,727
Total revenue	**803,974**	793,189	**1,585,415**	1,598,797
Operating Expenses:				
Property operating	**154,328**	155,272	**306,304**	309,733
Depreciation and amortization	**191,471**	197,047	**381,198**	396,084
Real estate taxes	**63,986**	60,586	**126,710**	130,699
Repairs and maintenance	**20,375**	26,065	**42,953**	53,774
Advertising and promotion	**13,970**	13,613	**29,694**	30,223
Provision for credit losses	**3,063**	565	**4,676**	1,439
Other	**63,765**	60,092	**109,348**	105,181
Total operating expenses	**510,958**	513,240	**1,000,883**	1,027,133
Operating Income	**293,016**	279,949	**584,532**	571,664
Interest expense	**(215,585)**	(218,018)	**(426,472)**	(435,181)
Loss from unconsolidated entities	**(2,205)**	(602)	**(2,122)**	(1,041)
Gain on sale or disposal of assets (net) and interests in unconsolidated entities	**15,506**	39,761	**15,506**	39,761
Net Income	**$ 90,732**	$ 101,090	**$ 171,444**	$ 175,203
Third-Party Investors' Share of Net Income	**$ 56,455**	$ 58,653	**$ 106,470**	$ 103,689
Our Share of Net Income	**34,277**	42,437	**64,974**	71,514
Amortization of Excess Investment	**(12,703)**	(11,486)	**(24,780)**	(22,981)
Our Share of Gain on Sale or Disposal of Assets (net)	**(7,753)**	(20,337)	**(7,753)**	(20,337)
Income from Unconsolidated Entities	**$ 13,821**	$ 10,614	**$ 32,441**	$ 28,196

6. Debt

Unsecured Debt

Our unsecured debt currently consists of $9.6 billion of senior unsecured notes of the Operating Partnership and $860.0 million outstanding under an unsecured revolving credit facility, or Credit Facility. The Credit Facility has a borrowing capacity of $3.9 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 an annual facility fee of 40 basis points on the total borrowing capacity. The Credit Facility also includes a money market competitive bid feature, which allows participating lenders to bid on amounts outstanding at then current market rates of interest for up to 50% of amounts available under the facility.

The total outstanding balance of the Credit Facility as of June 30, 2011 was $860.0 million, and the maximum outstanding balance during the six months ended June 30, 2011 was $860.4 million. The June 30, 2011 balance included $275.0 million (U.S. dollar equivalent) of Yen-denominated borrowings. During the six months ended June 30, 2011, the weighted average outstanding balance on the Credit Facility was approximately $857.6 million. Letters of credit of approximately $36.0 million were outstanding under the Credit Facility as of June 30, 2011.

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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 August 9, 2010, the Operating Partnership commenced a cash tender offer for any and all senior unsecured notes of three outstanding series with maturity dates ranging from May 2013 to August 2014. The total principal amount of the notes accepted for purchase on August 17, 2010 was approximately $1.33 billion, with a weighted average duration of 3.5 years and a weighted average coupon of 6.06%. The Operating Partnership purchased the tendered notes with cash on hand and the proceeds from an offering of $900.0 million of 4.375% senior unsecured notes that closed on August 16, 2010. The senior notes are due on March 1, 2021. We recorded a $185.1 million charge to earnings in the third quarter of 2010 as a result of the tender offer.

During the six months ended June 30, 2011, the Operating Partnership redeemed at par $382.8 million of senior unsecured notes with fixed rates ranging from 5.38% to 8.25%.

Secured Debt

Total secured indebtedness was $6.5 billion at June 30, 2011 and $6.6 billion at December 31, 2010. During the six months ended June 30, 2011, we repaid $120.6 million in mortgage loans with a weighted average interest rate of 6.99% unencumbering two properties.

Covenants

Our unsecured debt contains financial covenants and other non-financial covenants. If we were to fail to comply with these covenants, after the expiration of the applicable cure periods, the debt maturity could be accelerated or other remedies could be sought by the lender including adjustments to the applicable interest rate. As of June 30, 2011, we are in compliance with all covenants of our unsecured debt.

At June 30, 2011, we or our subsidiaries are the borrowers under 90 non-recourse mortgage notes secured by mortgages on 90 properties, including 11 separate pools of cross-defaulted and cross-collateralized mortgages encumbering a total of 48 properties. Under these cross-default provisions, a default under any mortgage included in the cross-defaulted pool may constitute a default under all mortgages within that pool and may lead to acceleration of the indebtedness due on each property within the pool. Certain of our secured debt contains financial and other non-financial covenants which are specific to the properties which serve as collateral for that debt. If the borrower fails to comply with these covenants, the lender could accelerate the debt and enforce its right against their collateral. At June 30, 2011, the applicable borrowers under these non-recourse mortgage notes were in compliance with all covenants where non-compliance could individually, or giving effect to applicable cross-default provisions, have a material adverse effect on our financial condition, results of operations or cash flows.

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 $14.3 billion and $14.8 billion as

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of June 30, 2011 and December 31, 2010, respectively. The fair values of these financial instruments and the related discount rate assumptions as of June 30, 2011 and December 31, 2010 are summarized as follows:

	June 30, 2011	*December 31, 2010*
Fair value of fixed-rate mortgages and other indebtedness	**$ 15,722**	$ 16,087
Weighted average discount rates assumed in calculation of fair value for fixed-rate mortgages	**4.23%**	4.46%

7. Equity

During the first six months of 2011, we issued 364,854 shares of common stock to 17 limited partners in exchange for an equal number of units.

Stock Based Compensation

The Compensation Committee of our Board of Directors, or the Board, awarded 78,046 shares of restricted stock to employees on February 24, 2011 under The Simon Property Group, L.P. 1998 Stock Incentive Plan, or the Plan, at a fair market value of $105.64 per share, and the Compensation Committee awarded an additional 35,000 shares of restricted stock on May 4, 2011 at a fair market value of $115.59 per share. On May 19, 2011, our non-employee Directors were awarded 6,100 shares of restricted stock under the Plan at a fair market value of $116.24 per share as a result of their re-election to our Board. The fair market value of the restricted stock awarded on February 24, 2011 is being recognized as expense over the three-year vesting service period. The fair market value of the restricted stock awarded on May 4, 2011 is being recognized as expense over the four-year vesting service period. The fair market value of the restricted stock awarded on May 19, 2011 to our non-employee Directors is being recognized as expense over the one-year vesting service period.

On March 16, 2010, the Compensation Committee of our Board approved three long-term incentive performance programs, or the 2010 LTIP programs, for certain senior executive officers. Awards under the 2010 LTIP programs take the form of LTIP units, a form of limited partnership interest issued by the Operating Partnership. During the performance period, participants are entitled to receive on the LTIP units awarded to them distributions equal to 10% of the regular quarterly distributions paid on a unit of the Operating Partnership. As a result, we account for these LTIP units as participating securities under the two-class method of computing earnings per share. Awarded LTIP units will be considered earned, in whole or in part, depending upon the extent to which the applicable total shareholder return, or TSR, benchmarks, as defined, are achieved during the performance period and, once earned, will become the equivalent of units after a two year service-based vesting period, beginning after the end of the performance period. Awarded LTIP units not earned are forfeited.

The 2010 LTIP programs have one, two and three year performance periods, which end on December 31, 2010, 2011 and 2012, respectively. During July 2011, the Compensation Committee approved a three-year long-term incentive performance program, or the 2011-2013 LTIP program, and awarded LTIP units to certain senior executive officers. The 2011-2013 LTIP program has a three year performance period ending on December 31, 2013. 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 2010 LTIP program awards have an aggregate grant date fair value, adjusted for estimated forfeitures, 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. The 2011-2013 LTIP program awards have an aggregate grant date fair value of $35.0 million, adjusted for estimated forfeitures. Grant date fair values were 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 values are being amortized into expense over the period from the grant date to the date at which the awards, if any, become vested. In 2011, the Compensation Committee determined that 133,673 LTIP units were earned under the one-year 2010 LTIP program and will vest in two equal installments in 2012 and 2013.

On July 6, 2011, in connection with the execution of an employment agreement, the Compensation Committee granted our Chairman and CEO David Simon a one-time retention award in the form of 1,000,000 LTIP units. The

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award vests in one-third increments on the day prior to the sixth, seventh and eighth anniversaries of grant, subject to continued employment. The grant date fair value of the retention award was $120.3 million which is being recognized as expense over the eight-year vesting period on a straight-line basis.

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:

	Preferred Stock	*Common Stock*	*Accumulated Other Comprehensive Income*	*Capital in Excess of Par Value*	*Accumulated Deficit*	*Common Stock Held in Treasury*	*Noncontrolling interests*	*Total Equity*
January 1, 2011	$ 45,375	$ 30	$ 6,530	$ 8,059,852	$ (3,114,571)	$ (166,436)	$ 802,972	$ 5,633,752
Exchange of limited partner units for common shares				5,923			(5,923)	
Issuance of limited partner units							202	202
Common shares retired				(6,385)				(6,385)
Other	(164)			(5,573)	(3,679)	12,999	12,556	16,139
Adjustment to limited partners' interest from increased ownership in the Operating Partnership				6,585			(6,585)	
Distributions to common stockholders and limited partners, excluding Operating Partnership preferred interests					(470,803)		(96,540)	(567,343)
Distributions to other noncontrolling interest partners							(23,846)	(23,846)
Comprehensive income, excluding preferred distributions on temporary equity preferred units of $958			39,323		386,201		91,058	516,582
June 30, 2011	$ 45,211	$ 30	$ 45,853	$ 8,060,402	$ (3,202,852)	$ (153,437)	$ 773,894	$ 5,569,101

8. Commitments and Contingencies

Litigation

We are involved from time-to-time in various legal proceedings that arise in the ordinary course of our business, including, but not limited to commercial disputes, environmental matters, and litigation in connection with transactions including acquisitions and divestitures. We believe that such litigation, claims and administrative proceedings will not have a material adverse impact on our financial position or our results of operations. We record a liability when a loss is considered probable and the amount can be reasonably estimated.

Guarantees of Indebtedness

Joint venture debt is the liability of the joint venture and is typically secured by the joint venture property, which is non-recourse to us. As of June 30, 2011 and December 31, 2010, the Operating Partnership guaranteed joint venture related mortgage or other indebtedness of $30.9 million and $60.7 million, respectively. Mortgages guaranteed by us are secured by the property of the joint venture and that property could be sold in order to satisfy the outstanding obligation.

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9. Real Estate Acquisitions and Dispositions

During the six months ended June 30, 2011, we disposed of our interests in two retail properties for a net gain of $7.2 million. Additionally on June 28, 2011 we sold Prime Outlets Jeffersonville for $134.0 million, resulting in a net gain of $6.6 million. These gains are included in gain on sale or disposal of assets and interests in unconsolidated entities in the accompanying statements of operations and comprehensive income.

On July 19, 2011 we acquired a 100% ownership interest in ABQ Uptown, a lifestyle center located in Albuquerque, New Mexico, for a purchase price of $86.0 million.

On August 30, 2010, we completed the Prime acquisition, adding 21 outlet centers, including a center located in Puerto Rico, which was acquired on May 13, 2010. The transaction was valued at approximately $2.3 billion, including the assumption of existing mortgage indebtedness of $1.2 billion and the repayment of $310.7 million of preexisting mortgage loans at closing. We paid consideration comprised of approximately 80% cash and 20% in units of the Operating Partnership. We issued approximately 1.7 million units with an issuance date fair value of approximately $154.5 million. We funded the cash portion of this acquisition through draws on the Credit Facility.

We recorded our acquisition of these 21 outlet centers using the acquisition method of accounting. Tangible and intangible assets and liabilities were established based on their estimated fair values at the date of acquisition. The results of operations of the acquired properties have been included in our consolidated results from the date of acquisition. The purchase price allocations were finalized during the second quarter. No significant adjustments were made to the previously reported purchase price allocations.

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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 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, 2011, we owned or held an interest in 335 income-producing properties in the United States, which consisted of 159 regional malls, 58 Premium Outlets, 66 community/lifestyle centers, 36 properties acquired in the 2007 acquisition of The Mills Corporation, or Mills, and 16 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, 2011, we had ownership interests in 45 shopping centers in Italy, eight Premium Outlets in Japan, two Premium Outlets in South Korea, and one Premium Outlet in Mexico.

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 utilizing 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:

- 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 provision of energy services,

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 investments in loans, including those made to related entities.

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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 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 $0.75 during the first six months of 2011 to $1.31 from $0.56 for the same period last year. The increase in diluted earnings per share was primarily attributable to a $165.6 million, or $0.48 per diluted share, loss on extinguishment of debt related to our senior unsecured notes tender offer during the first quarter of 2010, improved operating performance and core business fundamentals in 2011, the impact of our acquisition activity, and a decrease in interest expense due to the repayment of debt and lower interest rates.

Core business fundamentals during the first six months of 2011 improved from the economic environment that existed during the first six months of 2010. Total sales per square foot, or psf, increased 9.4% from June 30, 2010 to $513 psf at June 30, 2011 for our portfolio of Regional Malls and Premium Outlets. Average base minimum rent psf increased 2.8% to $39.70 psf as of June 30, 2011, from $38.62 psf as of June 30, 2010. Releasing spreads remained positive as we were able to lease available square feet at higher rents than the expiring rental rates on a same space basis resulting in a releasing spread (based on total tenant payments base minimum rent plus common area maintenance) of $4.60 psf as of June 30, 2011, representing a 9.1% increase over expiring payments as of June 30, 2010. Ending occupancy was 93.5% as of June 30, 2011, as compared to 93.1% as of June 30, 2010, an increase of 40 basis points.

Our effective overall borrowing rate at June 30, 2011 decreased 18 basis points to 5.52% as compared to 5.70% at June 30, 2010. This decrease was primarily due to a $0.2 billion decrease in our fixed rate debt ($14.3 billion at June 30, 2011 as compared to $14.5 billion at June 30, 2010) and a decrease in the effective overall borrowing rate on fixed rate debt of 17 basis points (6.06% at June 30, 2011 as compared to 6.23% at June 30, 2010). At June 30, 2011, the weighted average years to maturity of our consolidated indebtedness was approximately 5.6 years as compared to approximately 5.9 years at December 31, 2010. Our financing activities for the six months ended June 30, 2011, included the redemption at par of $382.8 million of senior unsecured notes with fixed rates ranging from 5.38% to 8.25%.

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United States Portfolio Data

The portfolio data discussed in this overview includes the following key operating statistics: ending occupancy, average base minimum rent per square foot, and total 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 related to community/lifestyle centers, the properties acquired from the Mills Corporation in 2007, or the Mills, from our other U.S. operations. We also do not include any properties located outside of the United States. During 2011, we made changes to the method and presentation of certain of our operational statistics as defined below.

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.

	June 30, 2011	*June 30, 2010*	*%/basis point Change(1)*
U.S. Regional Malls and Premium Outlets:(2)			
Ending Occupancy			
Consolidated	**94.0%**	93.7%	+30 bps
Unconsolidated	**91.7%**	91.2%	+50 bps
Total Portfolio	**93.5%**	93.1%	+40 bps
Average Base Minimum Rent per Square Foot			
Consolidated	**$ 38.16**	$ 37.11	2.8%
Unconsolidated	**$ 44.62**	$ 43.23	3.2%
Total Portfolio	**$ 39.70**	$ 38.62	2.8%
Total Sales per Square Foot			
Consolidated	**$ 502**	$ 461	8.9%
Unconsolidated	**$ 556**	$ 498	11.6%
Total Portfolio	**$ 513**	$ 469	9.4%
The Mills:			
Ending Occupancy	**93.4%**	93.5%	-10 bps
Average Base Minimum Rent per Square Foot	**$ 20.12**	$ 19.57	2.8%
Total Sales per Square Foot	**$ 429**	$ 386	11.1%
Mills Regional Malls:			
Ending Occupancy	**88.2%**	88.8%	-60 bps
Average Base Minimum Rent per Square Foot	**$ 34.77**	$ 35.10	-0.9%
Total Sales per Square Foot	**$ 402**	$ 380	5.8%
Community/Lifestyle Centers:			
Ending Occupancy	**91.9%**	91.6%	+30 bps
Average Base Minimum Rent per Square Foot	**$ 13.54**	$ 13.36	1.3%

(1) Percentages may not recalculate due to rounding. Percentage and basis point changes are representative of the change from the comparable prior period.

(2) For comparative purposes, U.S. Regional Malls and Premium Outlets statistical data do not include the properties acquired in connection with the acquisition of Prime Outlets Acquisition Company, or the Prime acquisition. As of June 30, 2011, the ending occupancy rate of the Premium Outlets acquired in the Prime acquisition was 95.7%, average base minimum rent psf was $26.48, and total sales psf were $444.

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Ending Occupancy Levels and Average Base Minimum Rent per Square Foot. Ending occupancy is the percentage of gross leasable area, or GLA, which is leased as of the last day of the reporting period. We include all company owned space except for regional mall anchors and regional mall majors in the calculation. Base minimum rent per square foot is the average base minimum rent charge in effect for the reporting period for all tenants that would qualify to be included in ending occupancy.

Total Sales per Square Foot. Total sales include total reported retail tenant sales at owned GLA (for mall and freestanding stores with less than 10,000 square feet) in the regional malls and all reporting tenants at the Premium Outlets and the Mills. Retail sales at owned GLA affect revenue and profitability levels because sales determine the amount of minimum rent that can be charged, the percentage rent realized, and the recoverable expenses (common area maintenance, real estate taxes, etc.) that tenants can afford to pay.

International Property Data

The following are selected key operating statistics for certain of our international properties.

	June 30, 2011	*June 30, 2010*	*%/basis point Change*
Italian Shopping Centers:(1)			
Ending Occupancy	**98.6%**	94.9%	+370 bps
Comparable Sales per Square Foot	**€ 391**	€ 381	2.6%
Average Base Minimum Rent per Square Foot	**€ 27.31**	€ 28.00	-2.5%
International Premium Outlets:(1)(2)			
Ending Occupancy	**99.3%**	99.6%	-30 bps
Comparable Sales per Square Foot	**¥ 86,292**	¥ 90,507	-4.7%
Average Base Minimum Rent per Square Foot	**¥ 4,847**	¥ 4,749	2.1%

(1) Information supplied by the managing venture partner.

(2) Does not include our centers in Mexico (Premium Outlets Punta Norte), South Korea (Yeoju and Paju Premium Outlets), or Sendai-Izumi Premium Outlets in Japan as the property was closed for repair due to damages from the earthquake in Japan in March 2011. The center re-opened on June 17, 2011.

Results of Operations

In addition to the activity discussed above in the "Results Overview" section, the following acquisitions, dispositions and openings of consolidated properties affected our consolidated results from continuing operations in the comparative periods:

During the first six months of 2011, we disposed of one of our other retail properties.

On June 28, 2011, we sold Prime Outlets Jeffersonville.

During 2010, we disposed of one regional mall, one community center, and one other retail property.

On August 30, 2010, we completed the Prime acquisition, acquiring 21 outlet centers, including a center located in Puerto Rico, which was acquired on May 13, 2010.

On August 10, 2010, we acquired a controlling interest in a regional mall.

In addition to the activities discussed in "Results Overview," the following acquisitions, dispositions and openings of joint venture properties affected our income from unconsolidated entities in the comparative periods:

During the first six months of 2011, we disposed of one of our regional malls.

On March 17, 2011, we and our partner, Shinsegae International Co., opened Paju Premium Outlets, a 328,000 square foot outlet center in Paju, South Korea.

During 2010, we disposed of one of our other retail properties.

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On July 15, 2010, we and our partner sold our collective interests in a joint venture which owned seven shopping centers located in France and Poland.

On May 28, 2010, we acquired an additional ownership interest of approximately 19% in Houston Galleria, located in Houston, Texas thereby increasing our interest from 31.5% to 50.4%.

On April 29, 2010, Gallerie Commerciali Italia, or GCI, an Italian joint venture in which we hold a 49% ownership interest, sold its 40% interest in Porta di Roma for €71 million.

On March 25, 2010, GCI opened Catania, a 642,000 square foot shopping center in Sicily, Italy.

On March 2, 2010, GCI opened Argine, a 300,000 square foot shopping center in Naples, Italy.

For the purposes of the following comparison between the six months ended June 30, 2011 and 2010, the above transactions are referred to as the property transactions. In the following discussions of our results of operations, "comparable" refers to properties open and operating throughout the periods in both 2011 and 2010.

Three Months Ended June 30, 2011 vs. Three Months Ended June 30, 2010

Minimum rents increased $69.4 million during the 2011 period, of which the property transactions accounted for $55.2 million of the increase. Comparable rents increased $14.2 million, or 2.5%. The increase in comparable rents was primarily attributable to a $16.1 million increase in base minimum rents and a $2.5 million increase in comparable rents from carts, kiosks, and other temporary tenants, offset by a $3.4 million decrease in straight-line rents and a $1.0 million decline in the fair market value of in-place leases. Overage rents increased $7.5 million, or 51.8%, as a result of an increase related to the property transactions of $3.9 million and an increase in tenant sales during 2011.

Tenant reimbursements increased $29.9 million, due to a $19.0 million increase attributable to the property transactions and a $10.9 million, or 4.4%, increase in the comparable properties primarily due to increases to the fixed reimbursement related to common area maintenance as well as increased real estate tax recoveries.

Depreciation and amortization expense increased $27.1 million primarily due to the additional depreciable assets acquired in the Prime acquisition in August 2010.

Real estate tax expense increased $14.8 million of which the property transactions accounted for $5.3 million with the remaining increase primarily caused by higher tax payments in 2011.

Repairs and maintenance expense increased $4.1 million of which the property transactions accounted for $1.6 million and the comparable properties increased $2.5 million primarily due to increased general repairs at the properties.

Provision for credit losses decreased $4.2 million due to a reduction in the number of tenants in default of their required lease payments and favorable collection trends.

Home and regional office expense increased $4.7 million primarily due to increased personnel costs.

General and administrative expense increased $3.3 million as a result of increased incentive compensation costs.

During the three months ended June 30, 2010, we incurred $11.3 million in transaction expenses related to costs associated with acquisition related activities.

Other expenses increased $6.2 million of which the property transactions accounted for $3.7 million and the comparable properties accounted for $2.5 million primarily related to an increase in legal and professional fees.

Interest expense decreased $16.9 million primarily related to the net impact from the repayment of four unsecured notes in 2011, repayment of mortgages at two properties and the purchases of senior unsecured notes in the January 2010 and August 2010 tender offers, offset by the result of new or refinanced debt at several properties including debt associated with the Prime acquisition and new unsecured debt.

During the three months ended June 30, 2011, we disposed of our interest in an unconsolidated regional mall and sold Prime Outlets Jeffersonville for an aggregate gain of $14.3 million. During the second quarter of 2010, we recognized a $20.0 million gain primarily as a result of the sale of Porta di Roma by GCI.

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Net income attributable to noncontrolling interests increased $11.3 million primarily due to an increase in the income of the Operating Partnership.

Six Months Ended June 30, 2011 vs. Six Months Ended June 30, 2010

Minimum rents increased $142.1 million during the 2011 period, of which the property transactions accounted for $112.0 million of the increase. Comparable rents increased $30.1 million, or 2.7%. The increase in comparable rents was primarily attributable to a $28.9 million increase in base minimum rents and a $5.6 million increase in comparable rents from carts, kiosks, and other temporary tenants, offset by a $2.6 million decrease in straight-line rents and a $1.8 million decline in the fair market value of in-place leases. Overage rents increased $11.4 million, or 41.3%, as a result of an increase related to the property transactions of $7.7 million and an increase in tenant sales during 2011.

Tenant reimbursements increased $55.4 million, due to a $38.5 million increase attributable to the property transactions and a $16.9 million, or 3.4%, increase in the comparable properties primarily due to increases to the fixed reimbursement related to common area maintenance.

Total other income decreased $11.7 million, principally as a result of the result of the following:

a decrease in lease settlement income of $20.3 million due to a higher number of terminated leases in 2010,

offset by an increase in interest income of $4.0 million,

a $2.3 million increase in land sale activity, and

a $2.3 million increase in net other activity.

Depreciation and amortization expense increased $64.5 million primarily due to the additional depreciable assets acquired in the Prime acquisition in August 2010.

Real estate tax expense increased $18.3 million of which the property transactions accounted for $11.3 million with the remaining increase primarily caused by higher tax payments in 2011.

Repairs and maintenance expense increased $11.1 million of which the property transactions accounted for $4.3 million and the comparable properties increased $6.8 million primarily due to increased general repairs at the properties and snow removal costs.

Home and regional office expense increased $16.5 million primarily due to a favorable settlement from a legacy incentive compensation plan as we transitioned to our current programs in the first quarter of 2010 as well as marginally higher personnel costs and long-term incentive compensation costs in 2011.

General and administrative expense increased $5.9 million primarily as a result of increased performance compensation costs.

During the six months ended June 30, 2010, we incurred $15.0 million in transaction expenses related to costs associated with acquisition related activities.

Other expenses increased $9.7 million of which the property transactions accounted for $6.4 million and the comparable properties accounted for $3.3 million primarily related to an increase in legal and professional fees.

Interest expense decreased $32.8 million primarily related to the repayment of four unsecured notes in 2011, repayment of mortgages at two properties and the purchases of senior unsecured notes in the January 2010 and August 2010 tender offers, offset by the result of new or refinanced debt at several properties including debt associated with the Prime acquisition and new unsecured debt.

During 2010, we incurred a loss on extinguishment of debt of $165.6 million related to the unsecured note tender offer.

During the six months ended June 30, 2011, we disposed of our interest in an unconsolidated regional mall and an other retail property and sold Prime Outlets Jeffersonville for an aggregate net gain of $13.8 million. During the six months ended June 30, 2010, we recognized a $26.1 million gain primarily as a result of the sale of Porta di Roma by GCI.

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Net income attributable to noncontrolling interests increased $44.9 million primarily due to an increase in the income of the Operating Partnership.

Preferred dividends decreased $3.3 million as a result of the conversion and redemption of the remaining Series I 6% Convertible Perpetual Preferred Stock in the second quarter of 2010.

Liquidity and Capital Resources

Because we generate revenues primarily from long-term leases, our financing strategy relies primarily on long-term fixed rate debt. We manage our floating rate debt to be at or below 15-25% of total outstanding indebtedness by negotiating interest rates for each financing or refinancing based on current market conditions. Floating rate debt currently comprises approximately 12% of our total consolidated debt at June 30, 2011. We also enter into interest rate protection agreements as appropriate to assist in managing our interest rate risk. We derive most of our liquidity from leases that generate positive net cash flow from operations and distributions of capital from unconsolidated entities that totaled $1.1 billion during the six months ended June 30, 2011. In addition, an unsecured revolving credit facility, or Credit Facility, provides an alternative source of liquidity as our cash needs vary from time to time.

Our balance of cash and cash equivalents decreased $7.0 million during the first six months of 2011 to $789.7 million as of June 30, 2011 as further discussed in "Cash Flows" below.

On June 30, 2011, we had available borrowing capacity of approximately $3.0 billion under the Credit Facility, net of outstanding borrowings of $860.0 million and letters of credit of $36.0 million. For the six months ended June 30, 2011, the maximum amount outstanding under the Credit Facility was $860.4 million and the weighted average amount outstanding was approximately $857.6 million. The weighted average interest rate was 1.81% for the six months ended June 30, 2011.

We and the Operating Partnership have historically had access to public equity and long term unsecured debt markets and access to private equity from institutional investors at the property level.

Our business model requires us to regularly access the debt and equity capital markets to raise funds for acquisition, development and redevelopment activity, and to refinance maturing debt. We believe we have sufficient cash on hand and availability under the Credit Facility to address our debt maturities and capital needs through 2012.

As discussed further in "Financing and Debt" below, we conducted two cash tender offers for several outstanding series of unsecured notes during 2010. On January 12, 2010, we commenced a tender offer to purchase ten outstanding series of notes. We subsequently purchased $2.3 billion of notes on January 26, 2010. The purchase of the notes was primarily funded with proceeds from the sale of $2.25 billion of senior unsecured notes issued on January 25, 2010. Additionally, on August 9, 2010, we commenced a tender offer to purchase three outstanding series of notes. We subsequently purchased $1.33 billion of tendered notes on August 17, 2010. The purchase of the notes was primarily funded with proceeds from the sale of $900.0 million of senior unsecured notes issued on August 16, 2010. As a result of the tenders, we extended the weighted average duration of our senior unsecured notes portfolio from 6.8 years to 7.5 years and slightly decreased the weighted average interest rate of our senior unsecured notes portfolio.

Loans to SPG-FCM

As part of the Mills acquisition in 2007, the Operating Partnership made loans to SPG-FCM Ventures, LLC, or SPG-FCM, and Mills which were used by SPG-FCM and Mills to repay loans and other obligations of Mills. As of June 30, 2011 and December 31, 2010, the outstanding balance of our remaining loan to SPG-FCM was $651.0 million. During the quarters ended June 30, 2011 and 2010, we recorded approximately $4.9 million and $4.8 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 7, 2012.

Cash Flows

Our net cash flow from operating activities and distributions of capital from unconsolidated entities for the six months ended June 30, 2011 totaled $1.1 billion. In addition, we had net repayments from all of our debt financing and

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repayment activities of $461.7 million in 2011. These activities are further discussed below in "Financing and Debt." During the 2011 period, we or the Operating Partnership also:

- paid stockholder dividends and unitholder distributions totaling $565.7 million,
- paid preferred stock dividends and preferred unit distributions totaling $2.6 million,
- funded consolidated capital expenditures of $163.5 million (includes development and other costs of $35.9 million, renovation and expansion costs of $41.4 million, and tenant costs and other operational capital expenditures of $86.2 million), and
- funded investments in unconsolidated entities of $6.7 million and acquired additional interests in unconsolidated entities for $12.0 million.

In general, we anticipate that cash generated from operations will be sufficient to meet operating expenses, monthly debt service, recurring capital expenditures, and distributions to stockholders necessary to maintain our REIT qualification on a long-term basis. In addition, we expect to be able to obtain capital for nonrecurring capital expenditures, such as acquisitions, major building renovations and expansions, as well as for scheduled principal maturities on outstanding indebtedness, from:

- excess cash generated from operating performance and working capital reserves,
- borrowings on the Credit Facility,
- additional secured or unsecured debt financing, or
- additional equity raised in the public or private markets.

We expect to generate positive cash flow from operations in 2011, and we consider these projected cash flows in our sources and uses of cash. These cash flows are principally derived from rents paid by our retail tenants, many of whom are still recovering from the recent economic downturn. A significant deterioration in projected cash flows from operations could cause us to increase our reliance on available funds from the Credit Facility, curtail planned capital expenditures, or seek other additional sources of financing as discussed above.

Financing and Debt

Unsecured Debt

At June 30, 2011 our unsecured debt consisted of $9.6 billion of senior unsecured notes of the Operating Partnership and $860.0 million outstanding under the Credit Facility. The Credit Facility has a borrowing capacity of $3.9 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 an annual facility fee of 40 basis points based on the total borrowing capacity. The Credit Facility also includes a money market competitive bid feature, which allows participating lenders to bid on amounts outstanding at then current market rates of interest for up to 50% of amounts available under the facility.

The total outstanding balance of the Credit Facility as of June 30, 2011 was $860.0 million, and the maximum outstanding balance during the six months ended June 30, 2011 was $860.4 million. During the six months ended June 30, 2011, the weighted average outstanding balance on the Credit Facility was approximately $857.6 million. The outstanding balance as of June 30, 2011 includes $275.0 million (U.S.

dollar equivalent) of Yen-denominated borrowings. Letters of credit of approximately $36.0 million were outstanding under the Credit Facility as of June 30, 2011.

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.

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On August 9, 2010, the Operating Partnership commenced a cash tender offer for any and all senior unsecured notes of three outstanding series with maturity dates ranging from May 2013 to August 2014. The total principal amount of the notes accepted for purchase on August 17, 2010 was approximately $1.33 billion, with a weighted average duration of 3.5 years and a weighted average coupon of 6.06%. The Operating Partnership purchased the tendered notes with cash on hand and the proceeds from an offering of $900.0 million of 4.375% senior unsecured notes that closed on August 16, 2010. The senior notes are due on March 1, 2021. We recorded a $185.1 million charge to earnings in the third quarter of 2010 as a result of the tender offer.

During the six months ended June 30, 2011, the Operating Partnership redeemed at par $382.8 million of senior unsecured notes with fixed rates ranging from 5.38% to 8.25%.

Secured Debt

Total secured indebtedness was $6.5 billion at June 30, 2011 and $6.6 billion at December 31, 2010. During the six months ended June 30, 2011, we repaid $120.6 million in mortgage loans with a weighted average interest rate of 6.99% unencumbering two properties.

Covenants

Our unsecured debt contains financial covenants and other non-financial covenants. If we were to fail to comply with these covenants, after the expiration of the applicable cure periods, the debt maturity could be accelerated or other remedies could be sought by the lender including adjustments to the applicable interest rate. As of June 30, 2011, we are in compliance with all covenants of our unsecured debt.

At June 30, 2011, we or our subsidiaries are the borrowers under 90 non-recourse mortgage notes secured by mortgages on 90 properties, including 11 separate pools of cross-defaulted and cross-collateralized mortgages encumbering a total of 48 properties. Under these cross-default provisions, a default under any mortgage included in the cross-defaulted pool may constitute a default under all mortgages within that pool and may lead to acceleration of the indebtedness due on each property within the pool. Certain of our secured debt contains financial and other non-financial covenants which are specific to the properties which serve as collateral for that debt. If the borrower fails to comply with these covenants, the lender could accelerate the debt and enforce its right against their collateral. At June 30, 2011, the applicable borrowers under these non-recourse mortgage notes were in compliance with all covenants where non-compliance could individually, or giving effect to applicable cross-default provisions, have a material adverse effect on our financial condition, results of operations or cash flows.

Summary of Financing

Our consolidated debt, adjusted to reflect outstanding derivative instruments, and the effective weighted average interest rates as of June 30, 2011, and December 31, 2010, consisted of the following (dollars in thousands):

Debt Subject to	*Adjusted Balance as of June 30, 2011*	*Effective Weighted Average Interest Rate*	*Adjusted Balance as of December 31, 2010*	*Effective Weighted Average Interest Rate*
Fixed Rate	**$ 15,011,423**	**6.02%**	$ 15,471,545	6.05%
Variable Rate	**2,002,470**	**1.84%**	2,002,215	1.93%
	$ 17,013,893	**5.52%**	$ 17,473,760	5.58%

As of June 30, 2011, we had $691.6 million of notional amount fixed rate swap agreements that have a weighted average fixed pay rate of 2.79% and a weighted average variable receive rate of 0.48%. As of June 30, 2011, the net effect of these agreements effectively converted $691.6 million of variable rate debt to fixed rate debt.

Contractual Obligations and Off-Balance Sheet Arrangements.

There have been no material changes to our outstanding capital expenditure and lease commitments previously disclosed in our 2010 Annual Report on Form 10-K.

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In regards to long-term debt arrangements, the following table summarizes the material aspects of these future obligations on our consolidated indebtedness as of June 30, 2011, for the remainder of 2011 and subsequent years thereafter (dollars in thousands) assuming the obligations remain outstanding through initial maturities:

	2011	*2012-2013*	*2014-2016*	*After 2016*	*Total*
Long-Term Debt(1)	$ 229,471	$ 4,132,482	$ 6,602,618	$ 6,048,007	$ 17,012,578
Interest Payments(2)	$ 471,507	$ 1,697,637	$ 1,806,630	$ 1,770,565	$ 5,746,339

(1) Represents principal maturities only and therefore, excludes net premiums of $1,315.

(2) Variable rate interest payments are estimated based on the LIBOR rate at June 30, 2011.

In May of 2011, we entered into a secured loan as the lender to fund the construction of a retail asset with a total commitment of up to $98.0 million. The loan primarily bears interest at 7.0% and matures on May 20, 2013 with two available one-year extensions. At June 30, 2011 the amount drawn on the loan was $1.3 million.

Our off-balance sheet arrangements consist primarily of our investments in joint ventures which are common in the real estate industry and are described in Note 5 of the notes to the accompanying financial statements. 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 guarantee the joint venture debt. As of June 30, 2011, the Operating Partnership had guaranteed $30.9 million of the total joint venture related mortgage or other indebtedness of $6.7 billion then outstanding. We may elect to fund cash needs of a joint venture through equity contributions (generally on a basis proportionate to our ownership interests), advances or partner loans, although such fundings are not required contractually or otherwise.

Acquisitions and Dispositions

Buy-sell provisions are common in real estate partnership agreements. Most of our partners are institutional investors who have a history of direct investment in retail real estate. We or our partners in our joint venture properties may initiate these provisions (subject to any applicable lock up or similar restrictions). If we determine it is in our stockholders' best interests for us to purchase the joint venture interest and we believe we have adequate liquidity to execute the purchase without hindering our cash flows, then we may initiate these provisions or elect to buy. If we decide to sell any of our joint venture interests, we expect to use the net proceeds to reduce outstanding indebtedness or to reinvest in development, redevelopment, or expansion opportunities.

Acquisitions. We had no consolidated property acquisitions during the six months ended June 30, 2011.

On July 19, 2011 we acquired a 100% ownership interest in ABQ Uptown, a 224,000 square foot lifestyle center located in Albuquerque, New Mexico for a purchase price of $86.0 million.

Dispositions. We continue to pursue the disposition of properties that no longer meet our strategic criteria or that are not the primary retail venue within their trade area. During the six months ended June 30, 2011, we disposed of one of our other retail properties and our interest in an unconsolidated regional mall for a net gain of $7.2 million. Additionally, on June 28, 2011 we sold Prime Outlets Jeffersonville for $134.0 million, resulting in a net gain of $6.6 million.

Development Activity

New Domestic Development, Expansions and Renovations. On June 30, 2011, we entered into a joint venture with Tanger Factory Outlet Centers, Inc. for the development, construction, leasing and management of an upscale outlet center south of Houston, Texas. We have a 50% interest in this venture and anticipate that construction will begin in August of 2011.

During 2010, we began construction on Merrimack Premium Outlets located in Merrimack, New Hampshire. This new center, which will be wholly owned by us, is expected to open in the second quarter of 2012. The estimated cost of this project is $145.0 million, and the carrying amount of the construction in progress as of June 30, 2011 was $64.8 million. Other than this project, our share of other 2011 new developments is not significant.

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In addition to new development, we incur costs related to construction for significant renovation and expansion projects at our properties. During 2011 we expect to reinstitute our redevelopment and expansion initiatives which were previously reduced given the downturn in the economy. We expect our share of development costs for 2011 related to renovation or expansion initiatives to be approximately $350.0 million compared to approximately $124.0 million in 2010.

We expect to fund these capital projects with cash flows from operations. Our estimated stabilized return on invested capital ranges between 8-12% for all of our new development, expansion and renovation projects.

International Development Activity. We typically reinvest net cash flow from our international investments to fund future international development activity. We believe this strategy mitigates some of the risk of our initial investment and our exposure to changes in foreign currencies. We have also funded most of our foreign investments with local currency-denominated borrowings that act as a natural hedge against fluctuations in exchange rates. Currently, our consolidated net income exposure to changes in the volatility of the Euro, Yen, Won, and other foreign currencies is not material. We expect our share of international development costs for 2011 will be approximately $100.0 million at current FX rates, primarily funded through reinvested joint venture cash flow and construction loans.

Tosu Premium Outlets Phase III, a 52,000 square foot expansion to the Tosu Premium Outlet located in Fukuoka, Japan, opened on July 14, 2011. Ami Premium Outlets Phase II, a 93,000 square foot expansion to the Ami Premium Outlet located in Ami, Japan, is under construction. The projected net cost of these projects is ¥6.8 billion, of which our share is approximately ¥2.7 billion, or $33.5 million based on Yen:USD exchange rates.

On March 17, 2011, Paju Premium Outlets, a 328,000 square foot center located in Seoul, South Korea, opened to the public. The net cost of this project was KRW 115.1 billion, of which our share is approximately KRW 57.5 billion, or $52.1 million based on KRW:USD exchange rates.

Johor Premium Outlets, a 173,000 square foot center located in Johor, Malaysia is under construction. We have a 50% interest in this joint venture. The projected net cost of this project is approximately MYR 153 million, of which our share is approximately MYR 77 million, or $25.2 million based on MYR:USD exchange rates.

On May 23, 2011, we and our partner, Calloway Real Estate Investment Trust, signed a Letter of Intent to develop a Premium Outlet Center in Canada. The center will be located near Toronto. Construction is expected to start in the spring of 2012.

Dividends

We paid a common stock dividend of $0.80 per share in the second quarter of 2011. We are required to pay a minimum level of dividends to maintain our status as a REIT. Our dividends and the Operating Partnership's limited partner distributions typically exceed our net income generated in any given year primarily because of depreciation, which is a non-cash expense. Future dividends and distributions of the Operating Partnership will be determined by our Board of Directors based on actual results of operations, cash available for dividends and limited partner distributions, and what may be required to maintain our status as a REIT.

Forward-Looking Statements

Certain statements made in this section or elsewhere in this report may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained, and it is possible that our actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks and uncertainties. Such factors include, but are not limited to: our ability to meet debt service requirements, the availability of financing, changes in our credit rating, changes in market rates of interest and foreign exchange rates for foreign currencies, the ability to hedge interest rate risk, risks associated with the acquisition, development and expansion of properties, general risks related to retail real estate, the liquidity of real estate investments, environmental liabilities, international, national, regional and local economic climates, changes in market rental rates, trends in the retail industry, relationships with anchor tenants, the inability to collect rent due to the bankruptcy or insolvency of tenants or otherwise, risks relating to joint venture properties, costs of common area maintenance, competitive market forces, risks related to international activities, insurance costs and coverage, terrorist activities, changes in economic and market conditions and maintenance of our status as a real estate investment trust. We discussed these and other risks and uncertainties under

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the heading "Risk Factors" in our most recent Annual Report on Form 10-K. We may update that discussion in our Quarterly Reports on Form 10-Q, but otherwise we undertake no duty or obligation to update or revise these forward-looking statements, whether as a result of new information, future developments, or otherwise.

Non-GAAP Financial Measure Funds from Operations

Industry practice is to evaluate real estate properties in part based on funds from operations, or FFO. We consider FFO to be a key measure of our operating performance that is not specifically defined by accounting principles generally accepted in the United States, or GAAP. We believe that FFO is helpful to investors because it is a widely recognized measure of the performance of REITs and provides a relevant basis for comparison among REITs. We also use this measure internally to measure the operating performance of our portfolio.

We determine FFO based on the definition set forth by the National Association of Real Estate Investment Trusts, or NAREIT, as consolidated net income computed in accordance with GAAP:

- excluding real estate related depreciation and amortization,
- excluding gains and losses from extraordinary items and cumulative effects of accounting changes,
- excluding gains and losses from the sales of previously depreciated retail operating properties,
- plus the allocable portion of FFO of unconsolidated entities accounted for under the equity method of accounting based upon economic ownership interest, and
- all determined on a consistent basis in accordance with GAAP.

We have adopted NAREIT's clarification of the definition of FFO that requires us to include the effects of nonrecurring items not classified as extraordinary, cumulative effect of accounting changes, or a gain or loss resulting from the sale of previously depreciated operating properties. We include in FFO gains and losses realized from the sale of land, outlot buildings, marketable and non-marketable securities, and investment holdings of non-retail real estate. However, you should understand that our computation of FFO might not be comparable to FFO reported by other REITs and that FFO:

- does not represent cash flow from operations as defined by GAAP,
- should not be considered as an alternative to consolidated net income determined in accordance with GAAP as a measure of operating performance, and
- is not an alternative to cash flows as a measure of liquidity.

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The following schedule reconciles total FFO to consolidated net income and diluted net income per share to diluted FFO per share.

	For the Three Months Ended June 30,		*For the Six Months Ended June 30,*	
	2011	***2010***	***2011***	***2010***
(in thousands)				
Funds from Operations	**$ 582,967**	$ 487,662	**$ 1,153,610**	$ 813,220
Increase in FFO from prior period	**19.5%**	55.7%	**41.9%**	2.9%
Consolidated Net Income	**$ 250,522**	$ 185,152	**$ 470,188**	$ 205,906
Adjustments to Arrive at FFO:				
Depreciation and amortization from consolidated properties	**257,770**	230,724	**520,316**	456,154
Simon's share of depreciation and amortization from unconsolidated entities	**94,376**	95,850	**187,757**	192,729
Gain on sale or disposal of assets and interests in unconsolidated entities	**(14,349)**	(20,024)	**(13,765)**	(26,066)
Net income attributable to noncontrolling interest holders in properties	**(1,939)**	(2,560)	**(4,050)**	(5,223)
Noncontrolling interests portion of depreciation and amortization	**(2,100)**	(2,005)	**(4,210)**	(3,977)
Preferred distributions and dividends	**$ (1,313)**	$ 525	**$ (2,626)**	$ (6,303)
Funds from Operations	**$ 582,967**	$ 487,662	**$ 1,153,610**	$ 813,220
FFO Allocable to Simon Property	**483,590**	406,314	**957,041**	677,239
Diluted net income per share to diluted FFO per share reconciliation:				
Diluted net income per share	**$ 0.70**	$ 0.52	**$ 1.31**	$ 0.56
Depreciation and amortization from consolidated Properties and our share of depreciation and amortization from unconsolidated affiliates, net of noncontrolling interests portion of depreciation and amortization	**0.99**	0.93	**1.99**	1.85
Gain on sale or disposal of assets and interests in unconsolidated entities	**(0.04)**	(0.06)	**(0.04)**	(0.07)
Impact of additional dilutive securities for FFO per share		(0.01)		(0.02)
Diluted FFO per share	**$ 1.65**	$ 1.38	**$ 3.26**	$ 2.32

During the six months ended June 30, 2010, FFO includes a $165.6 million loss on extinguishment of debt associated with the unsecured notes tender offer, reducing FFO per share by $0.47.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

Sensitivity Analysis. We disclosed a comprehensive qualitative and quantitative analysis regarding market risk in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2010 Annual Report on Form 10-K. There have been no material changes in the assumptions used or results obtained regarding market risk since December 31, 2010.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting. There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f)) that occurred during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II Other Information

Item 1. Legal Proceedings

We are involved from time-to-time in various legal proceedings that arise in the ordinary course of our business, including, but not limited to commercial disputes, environmental matters, and litigation in connection with transactions including acquisitions and divestitures. We believe that such litigation, claims and administrative proceedings will not have a material adverse impact on our financial position or our results of operations. We record a liability when a loss is considered probable and the amount can be reasonably estimated.

Item 1A. Risk Factors

Through the period covered by this report, there were no significant changes to the Risk Factors disclosed in "Part 1: Business" of our 2010 Annual Report on Form 10-K.

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

During the quarter ended June 30, 2011, we issued a total of 229,501 shares of our common stock to limited partners of the Operating Partnership in exchange for an equal number of units in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

There were no reportable purchases of equity securities during the quarter ended June 30, 2011.

Item 5. Other Information

During the quarter covered by this report, the Audit Committee of Simon Property Group, Inc.'s Board of Directors approved certain audit-related, tax compliance, tax consulting and due diligence services to be provided by Ernst & Young, LLP, our independent registered public accounting firm. This disclosure is made pursuant to Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002.

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Item 6. Exhibits

Exhibit Number	*Exhibit Descriptions*
10.1*	Amendment to Simon Property Group, L.P. 1998 Stock Incentive Plan dated July 6, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 7, 2011).
10.2*	Employment Agreement between Simon Property Group, Inc. and David Simon effective as of July 6, 2011 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed July 7, 2011).
10.3*	Certificate of Designation of Series CEO LTIP Units of Simon Property Group, L.P. (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed July 7, 2011).
10.4*	Simon Property Group Series CEO LTIP Unit Award Agreement (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed July 7, 2011).
10.5*	Certificate of Designation of Series 2011 LTIP Units of Simon Property Group, L.P. (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed July 7, 2011).
10.6*	Form of Simon Property Group Series 2011 LTIP Unit Award Agreement (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed July 7, 2011).
31.1	Certification by the Chief Executive Officer pursuant to rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**

*
Represents a management contract, or compensatory plan, contract or arrangement required to be filed pursuant to Regulation S-K.

**
Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

SIMON PROPERTY GROUP, INC.

/s/ STEPHEN E. STERRETT

Stephen E. Sterrett
Executive Vice President and Chief Financial Officer

Date: August 5, 2011