

SIMON PROPERTY GROUP INC /DE/  
Form 10-Q  
August 04, 2017  
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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, 2017

SIMON PROPERTY GROUP, INC.

SIMON PROPERTY GROUP, L.P.

(Exact name of registrant as specified in its charter)

Delaware	001 14469	04 6268599
(Simon Property Group, Inc.)	(Simon Property Group, Inc.)	(Simon Property Group, Inc.)
Delaware	001-36110	34-1755769
(Simon Property Group, L.P.)	(Simon Property Group, L.P.)	(Simon Property Group, L.P.)
(State of incorporation or organization)	(Commission File No.)	(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.

Simon Property Group, Inc. Yes No Simon Property Group, L.P. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Simon Property Group, Inc. Yes No Simon Property Group, L.P. Yes No

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

Simon Property Group, Inc.:

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

Simon Property Group, L.P.:

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

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

Simon Property Group, Inc.

Simon Property Group, L.P.

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

Simon Property Group, Inc.    Yes    No    Simon Property Group, L.P.    Yes    No

As of June 30, 2017, Simon Property Group, Inc. had 310,834,778 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. Simon Property Group, L.P. has no common stock outstanding.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarterly period ended June 30, 2017 of Simon Property Group, Inc., a Delaware corporation, and Simon Property Group, L.P., a Delaware limited partnership. Unless stated otherwise or the context otherwise requires, references to “Simon” mean Simon Property Group, Inc. and references to the “Operating Partnership” mean Simon Property Group, L.P. References to “we,” “us” and “our” mean collectively Simon, the Operating Partnership and those entities/subsidiaries owned or controlled by Simon and/or the Operating Partnership.

Simon is a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. We are structured as an umbrella partnership REIT under which substantially all of our business is conducted through the Operating Partnership, Simon’s majority owned partnership subsidiary, for which Simon is the general partner. As of June 30, 2017, Simon owned an approximate 86.8% ownership interest in the Operating Partnership, with the remaining 13.2% ownership interest owned by limited partners. As the sole general partner of the Operating Partnership, Simon has exclusive control of the Operating Partnership’s day to day management.

We operate Simon and the Operating Partnership as one business. The management of Simon consists of the same members as the management of the Operating Partnership. As general partner with control of the Operating Partnership, Simon consolidates the Operating Partnership for financial reporting purposes, and Simon has no material assets or liabilities other than its investment in the Operating Partnership. Therefore, the assets and liabilities of Simon and the Operating Partnership are the same on their respective financial statements.

We believe that combining the quarterly reports on Form 10-Q of Simon and the Operating Partnership into this single report provides the following benefits:

- enhances investors’ understanding of Simon and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined presentation since substantially all of the disclosure in this report applies to both Simon and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

We believe it is important for investors to understand the few differences between Simon and the Operating Partnership in the context of how we operate as a consolidated company. The primary difference is that Simon itself does not conduct business, other than acting as the general partner of the Operating Partnership and issuing equity or equity related instruments from time to time. In addition, Simon itself does not incur any indebtedness, as all debt is incurred by the Operating Partnership or entities/subsidiaries owned or controlled by the Operating Partnership.

The Operating Partnership holds, directly or indirectly, substantially all of our assets, including our ownership interests in our joint ventures. The Operating Partnership conducts substantially all of our business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity issuances by Simon, which are contributed to the capital of the Operating Partnership in exchange for, in the case of common stock issuances by Simon, common units of partnership interest in the Operating Partnership, or units, or, in the case of preferred stock issuances by Simon, preferred units of partnership interest in the Operating Partnership, or preferred units, the Operating Partnership, directly or indirectly, generates the capital required by our business through its operations, the incurrence of indebtedness, proceeds received from the disposition of certain properties and joint ventures and the issuance of units or preferred units to third parties.

The presentation of stockholders’ equity, partners’ equity and noncontrolling interests are the main areas of difference between the consolidated financial statements of Simon and those of the Operating Partnership. The differences between stockholders’ equity and partners’ equity result from differences in the equity issued at the Simon and

Operating Partnership levels. The units held by limited partners in the Operating Partnership are accounted for as partners' equity in the Operating Partnership's financial statements and as noncontrolling interests in Simon's financial statements. The noncontrolling interests in the Operating Partnership's financial statements include the interests of unaffiliated partners in various consolidated partnerships. The noncontrolling interests in Simon's financial statements include the same noncontrolling interests at the Operating Partnership level and, as previously stated, the units held by limited partners of the Operating Partnership. Although classified differently, total equity of Simon and the Operating Partnership is the same.

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To help investors understand the differences between Simon and the Operating Partnership, this report provides:

- separate consolidated financial statements for Simon and the Operating Partnership;
- a single set of condensed notes to such consolidated financial statements that includes separate discussions of noncontrolling interests and stockholders' equity or partners' equity, accumulated other comprehensive income (loss) and per share and per unit data, as applicable;
- a combined Management's Discussion and Analysis of Financial Condition and Results of Operations section that also includes discrete information related to each entity; and
- separate Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds sections related to each entity.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of Simon and the Operating Partnership in order to establish that the requisite certifications have been made and that Simon and the Operating Partnership are each compliant with Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 and 18 U.S.C. §1350. The separate discussions of Simon and the Operating Partnership in this report should be read in conjunction with each other to understand our results on a consolidated basis and how management operates our business.

In order to highlight the differences between Simon and the Operating Partnership, the separate sections in this report for Simon and the Operating Partnership specifically refer to Simon and the Operating Partnership. In the sections that combine disclosure of Simon and the Operating Partnership, this report refers to actions or holdings of Simon and the Operating Partnership as being "our" actions or holdings. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and joint ventures, holds assets and incurs debt, we believe that reference to "we," "us" or "our" in this context is appropriate because the business is one enterprise and we operate substantially all of our business through the Operating Partnership.

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Simon Property Group, Inc.

Simon Property Group, L.P.

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Simon Property Group, Inc.

Unaudited Consolidated Balance Sheets

(Dollars in thousands, except share amounts)

	June 30, 2017	December 31, 2016
<b>ASSETS:</b>		
Investment properties, at cost	\$ 35,695,397	\$ 35,226,089
Less - accumulated depreciation	11,378,345	10,865,754
	24,317,052	24,360,335
Cash and cash equivalents	488,614	560,059
Tenant receivables and accrued revenue, net	640,080	664,619
Investment in unconsolidated entities, at equity	2,321,111	2,367,583
Investment in Klépierre, at equity	1,830,484	1,797,394
Deferred costs and other assets	1,368,625	1,353,588
Total assets	\$ 30,965,966	\$ 31,103,578
<b>LIABILITIES:</b>		
Mortgages and unsecured indebtedness	\$ 23,422,685	\$ 22,977,104
Accounts payable, accrued expenses, intangibles, and deferred revenues	1,205,267	1,214,022
Cash distributions and losses in partnerships and joint ventures, at equity	1,370,333	1,359,738
Other liabilities	492,143	455,040
Total liabilities	26,490,428	26,005,904
Commitments and contingencies		
Limited partners' preferred interest in the Operating Partnership and noncontrolling redeemable interests in properties	184,379	137,762
<b>EQUITY:</b>		
Stockholders' Equity		
Capital stock (850,000,000 total shares authorized, \$0.0001 par value, 238,000,000 shares of excess common stock, 100,000,000 authorized shares of preferred stock):		
Series J 83/8% cumulative redeemable preferred stock, 1,000,000 shares authorized, 796,948 issued and outstanding with a liquidation value of \$39,847	43,241	43,405
Common stock, \$0.0001 par value, 511,990,000 shares authorized, 319,929,605 and 319,823,322 issued and outstanding, respectively	32	32
Class B common stock, \$0.0001 par value, 10,000 shares authorized, 8,000 issued and outstanding	—	—
Capital in excess of par value	9,587,026	9,523,086
Accumulated deficit	(4,731,402)	(4,459,387)
Accumulated other comprehensive loss	(103,872)	(114,126)
Common stock held in treasury, at cost, 9,094,827 and 6,756,748 shares, respectively	(1,068,310)	(682,562)
Total stockholders' equity	3,726,715	4,310,448
Noncontrolling interests	564,444	649,464
Total equity	4,291,159	4,959,912
Total liabilities and equity	\$ 30,965,966	\$ 31,103,578

The accompanying notes are an integral part of these statements.

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Simon Property Group, Inc.

Unaudited Consolidated Statements of Operations and Comprehensive Income

(Dollars in thousands, except per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
<b>REVENUE:</b>				
Minimum rent	\$ 851,552	\$ 822,224	\$ 1,698,350	\$ 1,640,760
Overage rent	29,764	31,250	57,967	60,167
Tenant reimbursements	380,527	367,062	759,442	738,676
Management fees and other revenues	31,367	34,478	61,914	67,878
Other income	68,338	60,366	129,638	144,614
Total revenue	1,361,548	1,315,380	2,707,311	2,652,095
<b>EXPENSES:</b>				
Property operating	107,371	104,756	211,419	207,817
Depreciation and amortization	322,396	303,585	633,228	604,199
Real estate taxes	113,415	107,505	220,073	216,929
Repairs and maintenance	21,700	22,842	47,301	48,907
Advertising and promotion	36,496	33,172	72,444	68,210
Provision for credit losses	2,659	4,944	7,870	8,608
Home and regional office costs	36,476	40,326	79,455	78,933
General and administrative	13,074	15,125	27,075	29,989
Other	21,812	23,889	45,627	44,366
Total operating expenses	675,399	656,144	1,344,492	1,307,958
<b>OPERATING INCOME</b>	686,149	659,236	1,362,819	1,344,137
Interest expense	(207,174)	(213,995)	(405,373)	(433,185)
Loss on extinguishment of debt	(128,618)	—	(128,618)	—
Income and other taxes	(5,990)	(7,115)	(2,470)	(22,301)
Income from unconsolidated entities	92,017	84,990	161,101	175,616
Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net	4,989	4,209	4,989	26,897
<b>CONSOLIDATED NET INCOME</b>	441,373	527,325	992,448	1,091,164
Net income attributable to noncontrolling interests	58,549	71,102	131,053	153,111
Preferred dividends	834	834	1,669	1,669
<b>NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS</b>	\$ 381,990	\$ 455,389	\$ 859,726	\$ 936,384
<b>BASIC AND DILUTED EARNINGS PER COMMON SHARE:</b>				
Net income attributable to common stockholders	\$ 1.23	\$ 1.45	\$ 2.75	\$ 3.01
Consolidated Net Income	\$ 441,373	\$ 527,325	\$ 992,448	\$ 1,091,164
Unrealized loss on derivative hedge agreements	(21,545)	(320)	(22,798)	(15,095)
	2,439	3,199	5,059	142,538

Net loss reclassified from accumulated other comprehensive loss into earnings				
Currency translation adjustments	16,745	(3,492)	29,892	17,441
Changes in available-for-sale securities and other	(1,152)	171	(463)	12,062
Comprehensive income	437,860	526,883	1,004,138	1,248,110
Comprehensive income attributable to noncontrolling interests	58,065	72,858	132,490	177,285
Comprehensive income attributable to common stockholders	\$ 379,795	\$ 454,025	\$ 871,648	\$ 1,070,825

The accompanying notes are an integral part of these statements.

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Simon Property Group, Inc.

Unaudited Consolidated Statements of Cash Flows

(Dollars in thousands)

	For the Six Months Ended	
	June 30,	2016
	2017	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Consolidated Net Income	\$ 992,448	\$ 1,091,164
Adjustments to reconcile consolidated net income to net cash provided by operating activities —		
Depreciation and amortization	675,608	642,646
Loss on debt extinguishment	128,618	—
Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net	(4,989)	(26,897)
Straight-line rent	(11,970)	(25,866)
Equity in income of unconsolidated entities	(161,101)	(175,616)
Distributions of income from unconsolidated entities	161,833	163,679
Changes in assets and liabilities —		
Tenant receivables and accrued revenue, net	46,748	58,992
Deferred costs and other assets	(29,289)	(16,846)
Accounts payable, accrued expenses, intangibles, deferred revenues and other liabilities	11,677	(17,305)
Net cash provided by operating activities	1,809,583	1,693,951
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions	(87,741)	(307,223)
Funding of loans to related parties	(49,668)	—
Repayments of loans to related parties	—	8,207
Capital expenditures, net	(318,948)	(383,460)
Cash impact from the consolidation of properties	7,536	38,980
Net proceeds from sale of assets	—	36,433
Investments in unconsolidated entities	(93,459)	(172,802)
Purchase of marketable and non-marketable securities	(3,837)	(4,636)
Distributions of capital from unconsolidated entities and other	296,007	303,659
Net cash used in investing activities	(250,110)	(480,842)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from sales of common stock and other, net of transaction costs	(164)	(164)
Purchase of shares related to stock grant recipients' tax withholdings	(2,789)	(4,146)
Purchase of treasury stock and limited partner units	(396,169)	—
Distributions to noncontrolling interest holders in properties	(6,150)	(5,251)
Contributions from noncontrolling interest holders in properties	236	260
Preferred distributions of the Operating Partnership	(958)	(957)
Distributions to stockholders and preferred dividends	(1,094,925)	(1,000,333)
Distributions to limited partners	(165,741)	(159,242)
Loss on debt extinguishment	(128,618)	—
Proceeds from issuance of debt, net of transaction costs	5,749,137	7,442,218

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Repayments of debt	(5,584,777)	(7,302,347)
Net cash used in financing activities	(1,630,918)	(1,029,962)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(71,445)	183,147
CASH AND CASH EQUIVALENTS, beginning of period	560,059	701,134
CASH AND CASH EQUIVALENTS, end of period	\$ 488,614	\$ 884,281

The accompanying notes are an integral part of these statements.

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Simon Property Group, L.P.

Unaudited Consolidated Balance Sheets

(Dollars in thousands, except unit amounts)

	June 30, 2017	December 31, 2016
<b>ASSETS:</b>		
Investment properties, at cost	\$ 35,695,397	\$ 35,226,089
Less — accumulated depreciation	11,378,345	10,865,754
	24,317,052	24,360,335
Cash and cash equivalents	488,614	560,059
Tenant receivables and accrued revenue, net	640,080	664,619
Investment in unconsolidated entities, at equity	2,321,111	2,367,583
Investment in Klépierre, at equity	1,830,484	1,797,394
Deferred costs and other assets	1,368,625	1,353,588
Total assets	\$ 30,965,966	\$ 31,103,578
<b>LIABILITIES:</b>		
Mortgages and unsecured indebtedness	\$ 23,422,685	\$ 22,977,104
Accounts payable, accrued expenses, intangibles, and deferred revenues	1,205,267	1,214,022
Cash distributions and losses in partnerships and joint ventures, at equity	1,370,333	1,359,738
Other liabilities	492,143	455,040
Total liabilities	26,490,428	26,005,904
Commitments and contingencies		
Preferred units, various series, at liquidation value, and noncontrolling redeemable interests in properties	184,379	137,762
<b>EQUITY:</b>		
Partners' Equity		
Preferred units, 796,948 units outstanding. Liquidation value of \$39,847	43,241	43,405
General Partner, 310,842,778 and 313,074,574 units outstanding, respectively	3,683,474	4,267,043
Limited Partners, 47,272,794 and 47,276,095 units outstanding, respectively	560,180	644,348
Total partners' equity	4,286,895	4,954,796
Nonredeemable noncontrolling interests in properties, net	4,264	5,116
Total equity	4,291,159	4,959,912
Total liabilities and equity	\$ 30,965,966	\$ 31,103,578

The accompanying notes are an integral part of these statements.

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Simon Property Group, L.P.

Unaudited Consolidated Statements of Operations and Comprehensive Income

(Dollars in thousands, except per unit amounts)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
REVENUE:				
Minimum rent	\$ 851,552	\$ 822,224	\$ 1,698,350	\$ 1,640,760
Overage rent	29,764	31,250	57,967	60,167
Tenant reimbursements	380,527	367,062	759,442	738,676
Management fees and other revenues	31,367	34,478	61,914	67,878
Other income	68,338	60,366	129,638	144,614
Total revenue	1,361,548	1,315,380	2,707,311	2,652,095
EXPENSES:				
Property operating	107,371	104,756	211,419	207,817
Depreciation and amortization	322,396	303,585	633,228	604,199
Real estate taxes	113,415	107,505	220,073	216,929
Repairs and maintenance	21,700	22,842	47,301	48,907
Advertising and promotion	36,496	33,172	72,444	68,210
Provision for credit losses	2,659	4,944	7,870	8,608
Home and regional office costs	36,476	40,326	79,455	78,933
General and administrative	13,074	15,125	27,075	29,989
Other	21,812	23,889	45,627	44,366
Total operating expenses	675,399	656,144	1,344,492	1,307,958
OPERATING INCOME	686,149	659,236	1,362,819	1,344,137
Interest expense	(207,174)	(213,995)	(405,373)	(433,185)
Loss on extinguishment of debt	(128,618)	—	(128,618)	—
Income and other taxes	(5,990)	(7,115)	(2,470)	(22,301)
Income from unconsolidated entities	92,017	84,990	161,101	175,616
Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net	4,989	4,209	4,989	26,897
CONSOLIDATED NET INCOME	441,373	527,325	992,448	1,091,164
Net income (loss) attributable to noncontrolling interests	74	565	(170)	1,294
Preferred unit requirements	1,313	1,313	2,626	2,626
NET INCOME ATTRIBUTABLE TO UNITHOLDERS	\$ 439,986	\$ 525,447	\$ 989,992	\$ 1,087,244
NET INCOME ATTRIBUTABLE TO UNITHOLDERS ATTRIBUTABLE TO:				
General Partner	\$ 381,990	455,389	\$ 859,726	\$ 936,384
Limited Partners	57,996	70,058	130,266	150,860
Net income attributable to unitholders	\$ 439,986	\$ 525,447	\$ 989,992	\$ 1,087,244
BASIC AND DILUTED EARNINGS PER UNIT:				

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Net income attributable to unitholders	\$ 1.23	\$ 1.45	\$ 2.75	\$ 3.01
Consolidated net income	\$ 441,373	\$ 527,325	\$ 992,448	\$ 1,091,164
Unrealized loss on derivative hedge agreements	(21,545)	(320)	(22,798)	(15,095)
Net loss reclassified from accumulated other comprehensive loss into earnings	2,439	3,199	5,059	142,538
Currency translation adjustments	16,745	(3,492)	29,892	17,441
Changes in available-for-sale securities and other	(1,152)	171	(463)	12,062
Comprehensive income	437,860	526,883	1,004,138	1,248,110
Comprehensive income attributable to noncontrolling interests	397	565	1,072	1,294
Comprehensive income attributable to unitholders	\$ 437,463	\$ 526,318	\$ 1,003,066	\$ 1,246,816

The accompanying notes are an integral part of these statements.

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Simon Property Group, L.P.

Unaudited Consolidated Statements of Cash Flows

(Dollars in thousands)

	For the Six Months Ended	
	June 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Consolidated Net Income	\$ 992,448	\$ 1,091,164
Adjustments to reconcile consolidated net income to net cash provided by operating activities —		
Depreciation and amortization	675,608	642,646
Loss on debt extinguishment	128,618	—
Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net	(4,989)	(26,897)
Straight-line rent	(11,970)	(25,866)
Equity in income of unconsolidated entities	(161,101)	(175,616)
Distributions of income from unconsolidated entities	161,833	163,679
Changes in assets and liabilities —		
Tenant receivables and accrued revenue, net	46,748	58,992
Deferred costs and other assets	(29,289)	(16,846)
Accounts payable, accrued expenses, intangibles, deferred revenues and other liabilities	11,677	(17,305)
Net cash provided by operating activities	1,809,583	1,693,951
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions	(87,741)	(307,223)
Funding of loans to related parties	(49,668)	—
Repayments of loans to related parties	—	8,207
Capital expenditures, net	(318,948)	(383,460)
Cash impact from the consolidation of properties	7,536	38,980
Net proceeds from sale of assets	—	36,433
Investments in unconsolidated entities	(93,459)	(172,802)
Purchase of marketable and non-marketable securities	(3,837)	(4,636)
Distributions of capital from unconsolidated entities and other	296,007	303,659
Net cash used in investing activities	(250,110)	(480,842)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of units and other	(164)	(164)
Purchase of units related to stock grant recipients' tax withholdings	(2,789)	(4,146)
Purchase of limited partner units	(396,169)	—
Distributions to noncontrolling interest holders in properties	(6,150)	(5,251)
Contributions from noncontrolling interest holders in properties	236	260
Partnership distributions	(1,261,624)	(1,160,532)
Loss on debt extinguishment	(128,618)	—
Mortgage and unsecured indebtedness proceeds, net of transaction costs	5,749,137	7,442,218
Mortgage and unsecured indebtedness principal payments	(5,584,777)	(7,302,347)
Net cash used in financing activities	(1,630,918)	(1,029,962)



(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(71,445)	183,147
CASH AND CASH EQUIVALENTS, beginning of period	560,059	701,134
CASH AND CASH EQUIVALENTS, end of period	\$ 488,614	\$ 884,281

The accompanying notes are an integral part of these statements.

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Simon Property Group, Inc.  
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Condensed Notes to Consolidated Financial Statements  
(Unaudited)  
(Dollars in thousands, except share, per share, unit and per unit amounts  
and where indicated in millions or billions)

1. Organization

Simon Property Group, Inc. is a Delaware corporation that operates as a self-administered and self-managed real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. REITs will generally not be liable for U.S. federal corporate income taxes as long as they distribute not less than 100% of their REIT taxable income. Simon Property Group, L.P. is our majority-owned Delaware partnership subsidiary that owns all of our real estate properties and other assets. In these condensed notes to the consolidated financial statements, unless stated otherwise or the context otherwise requires, references to "Simon" mean Simon Property Group, Inc. and references to the "Operating Partnership" mean Simon Property Group, L.P. References to "we," "us" and "our" mean collectively Simon, the Operating Partnership and those entities/subsidiaries owned or controlled by Simon and/or the Operating Partnership. Unless otherwise indicated, these condensed notes to consolidated financial statements apply to both Simon and the Operating Partnership. According to the Operating Partnership's partnership agreement, the Operating Partnership is required to pay all expenses of Simon.

We own, develop and manage premier shopping, dining, entertainment and mixed-use destinations, which consist primarily of malls, Premium Outlets®, and The Mills®. As of June 30, 2017, we owned or held an interest in 207 income producing properties in the United States, which consisted of 108 malls, 68 Premium Outlets, 14 Mills, four lifestyle centers, and 13 other retail properties in 37 states and Puerto Rico. Internationally, as of June 30, 2017, we had ownership interests in nine Premium Outlets in Japan, four Premium Outlets in South Korea, two Premium Outlets in Canada, two Premium Outlets in Malaysia and one Premium Outlet in Mexico. We also own an interest in eight Designer Outlet properties in Europe and one Designer Outlet property in Canada, of which six properties are consolidated. Of the eight properties in Europe, two are located in Italy, two are located in the Netherlands and one each is located in Austria, Germany, France and the United Kingdom. As of June 30, 2017, we also owned a 20.7% equity stake in Klépierre SA, or Klépierre, a publicly traded, Paris based real estate company which owns, or has an interest in, shopping centers located in 16 countries in Europe.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of all controlled 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, 2017 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 the combined 2016 Annual Report on Form 10 K of Simon and the Operating Partnership.

As of June 30, 2017, we consolidated 134 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 81 properties, or the joint venture properties, as well as our investments in Klépierre, Aéropostale, and HBS Global Properties, or HBS, using the equity method of accounting, as we have determined we have significant influence over their operations. We manage the day to day operations of 58 of the 81 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 Japan, South Korea, Mexico, Malaysia, Germany, Canada, and the United Kingdom comprise 19 of the remaining 23 properties. These international properties are managed by joint ventures in which we share control.

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Preferred distributions of the Operating Partnership are accrued at declaration and represent distributions on outstanding preferred units of partnership interests, or preferred units, and are included in net income attributable to noncontrolling interests. We allocate net operating results of the Operating Partnership after preferred distributions to limited partners and to Simon based on the partners' respective weighted average ownership interests in the Operating Partnership. Net operating results of the Operating Partnership attributable to limited partners are reflected in net income attributable to noncontrolling interests. Simon's weighted average ownership interest in the Operating Partnership was 86.8% and 86.1% for the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and December 31, 2016, Simon's ownership interest in the Operating Partnership was 86.8% and 86.9%, respectively. We adjust the noncontrolling limited partners' interests at the end of each period to reflect their interest in the net assets of the Operating Partnership.

Preferred unit requirements in the Operating Partnership's accompanying consolidated statements of operations and comprehensive income represent distributions on outstanding preferred units and are recorded when declared.

### 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 of high credit quality. However, at certain times, such cash and cash equivalents are in excess of Federal Deposit Insurance Corporation and Securities Investor Protection Corporation 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. At June 30, 2017 and December 31, 2016, we had marketable securities of \$160.9 million and \$156.2 million, respectively, generally accounted for as available-for-sale, which are adjusted to their quoted market price with a corresponding adjustment in other comprehensive income (loss). Net unrealized gains recorded in accumulated other comprehensive income (loss) as of June 30, 2017 and December 31, 2016 were approximately \$14.9 million and \$15.4 million, respectively, and represent the valuation adjustments for our marketable securities.

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 year 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.

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

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matching liability as the amounts are fully payable to the employees that earned the compensation. Changes in value of these securities and changes to the matching liability to employees are both recognized in earnings and, as a result, there is no impact to consolidated net income.

At June 30, 2017 and December 31, 2016, we had investments of \$213.4 million and \$210.5 million, respectively, in non marketable securities that we account for under the cost method. We regularly evaluate these investments for any other-than-temporary impairment in their estimated fair value and determined that no material adjustment in the carrying value was required for the three or six months ended June 30, 2017.

Fair Value Measurements

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. We have no investments for which fair value is measured on a recurring basis using Level 3 inputs.

The marketable securities we held at June 30, 2017 and December 31, 2016 were primarily classified as having Level 1 fair value inputs. In addition, we had derivative instruments which were classified as having Level 2 inputs, which consist primarily of foreign currency forward contracts and interest rate swap agreements with a gross liability balance of \$7.2 million at June 30, 2017 and a gross asset value of \$11.9 million and \$43.9 million at June 30, 2017 and December 31, 2016, respectively.

Note 6 includes a discussion of the fair value of debt measured using Level 2 inputs. Notes 5 and 9 include discussions of the fair values recorded in purchase accounting using Level 2 and Level 3 inputs. Level 3 inputs to our purchase accounting and impairment analyses include our estimations of net operating results of the property, capitalization rates and discount rates.

Noncontrolling Interests

Simon

Details of the carrying amount of Simon's noncontrolling interests are as follows:

	As of June 30, 2017	As of December 31, 2016
Limited partners' interests in the Operating Partnership	\$ 560,180	\$ 644,348

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Nonredeemable noncontrolling interests in properties, net	4,264	5,116
Total noncontrolling interests reflected in equity	\$ 564,444	\$ 649,464

Net income attributable to noncontrolling interests (which includes nonredeemable and redeemable noncontrolling interests in consolidated properties, limited partners' interests in the Operating Partnership and preferred distributions payable by the Operating Partnership on its outstanding preferred units) 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.

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A rollforward of nonredeemable noncontrolling interests is as follows:

	For the Three Months Ended Ended June 30,		For the Six Months Ended Ended June 30,	
	2017	2016	2017	2016
Noncontrolling interests, beginning of period	\$ 621,738	\$ 771,957	\$ 649,464	\$ 744,905
Net income attributable to noncontrolling interests after preferred distributions and income attributable to redeemable noncontrolling interests in consolidated properties	58,393	70,739	131,338	152,198
Distributions to noncontrolling interest holders	(83,680)	(76,716)	(167,901)	(160,444)
Other comprehensive (loss) income allocable to noncontrolling interests:				
Unrealized (loss) gain on derivative hedge agreements	(2,837)	381	(2,981)	(1,722)
Net loss (gain) reclassified from accumulated other comprehensive loss into earnings	322	(1,417)	668	18,729
Currency translation adjustments	2,181	3,087	3,799	5,783
Changes in available-for-sale securities and other	(150)	(295)	(49)	1,385
	(484)	1,756	1,437	24,175
Adjustment to limited partners' interest from change in ownership in the Operating Partnership	(35,100)	(13,822)	(68,335)	(18,965)
Units exchanged for common shares	(1,341)	(69,989)	(1,353)	(70,005)
Long-term incentive performance units	4,853	12,101	19,558	24,162
Contributions by noncontrolling interests, net, and other	65	260	236	260
Noncontrolling interests, end of period	\$ 564,444	\$ 696,286	\$ 564,444	\$ 696,286

### The Operating Partnership

Our evaluation of the appropriateness of classifying the Operating Partnership's common units of partnership interest, or units, held by Simon and the Operating Partnership's limited partners within permanent equity considered several significant factors. First, as a limited partnership, all decisions relating to the Operating Partnership's operations and distributions are made by Simon, acting as the Operating Partnership's sole general partner. The decisions of the general partner are made by Simon's Board of Directors or management. The Operating Partnership has no other governance structure. Secondly, the sole asset of Simon is its interest in the Operating Partnership. As a result, a share of common stock of Simon, or common stock, if owned by the Operating Partnership, is best characterized as being



similar to a treasury share and thus not an asset of the Operating Partnership.

Limited partners of the Operating Partnership have the right under the Operating Partnership's partnership agreement to exchange their units for shares of common stock or cash, as selected by Simon as the sole general partner. Accordingly, we classify units held by limited partners in permanent equity because Simon may elect to issue shares of common stock to limited partners exercising their exchange rights rather than using cash. Under the Operating Partnership's partnership agreement, the Operating Partnership is required to redeem units held by Simon only when Simon has repurchased shares of common stock. We classify units held by Simon in permanent equity because the decision to redeem those units would be made by Simon.

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Net income attributable to noncontrolling interests (which includes nonredeemable and redeemable noncontrolling interests in consolidated properties) is a component of consolidated net income.

A rollforward of nonredeemable noncontrolling interests is as follows:

	For the Three Months Ended June 30, 2017		For the Six Months Ended June 30, 2016	
Noncontrolling nonredeemable interests in properties, net — beginning of period	\$ 4,647	\$ 3,459	\$ 5,116	\$ 3,456
Net income attributable to noncontrolling nonredeemable interests	397	682	1,072	1,339
Distributions to noncontrolling nonredeemable interestholders	(845)	(548)	(2,160)	(1,202)
Contributions by noncontrolling interests, net, and other	65	260	236	260
Noncontrolling nonredeemable interests in properties, net — end of period	\$ 4,264	\$ 3,853	\$ 4,264	\$ 3,853

## Accumulated Other Comprehensive Income (Loss)

## Simon

The changes in components of Simon's accumulated other comprehensive income (loss) consisted of the following net of noncontrolling interest as of June 30, 2017:

	Currency translation adjustments	Accumulated derivative gains, net	Net unrealized gains on marketable securities	Total
Beginning balance	\$ (157,864)	\$ 30,374	\$ 13,364	\$ (114,126)
Other comprehensive income (loss) before reclassifications	26,094	(19,817)	(414)	5,863
Amounts reclassified from accumulated other comprehensive income (loss)	—	4,391	—	4,391
Net current-period other comprehensive income (loss)	26,094	(15,426)	(414)	10,254

Ending balance	\$ (131,770)	\$ 14,948	\$ 12,950	\$ (103,872)
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The reclassifications out of accumulated other comprehensive income (loss) consisted of the following during the six months ended June 30:

	2017	2016	
Details about accumulated other comprehensive income (loss) components:	Amount reclassified from accumulated other comprehensive income (loss)	Amount reclassified from accumulated other comprehensive income (loss)	Affected line item where net income is presented
Currency translation adjustments	\$ —	\$ (136,806)	Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net
	—	17,976	Net income attributable to noncontrolling interests
	\$ —	\$ (118,830)	
Accumulated derivative gains, net	\$ (5,059)	\$ (6,104)	Interest expense
	—	372	Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net
	668	753	Net income attributable to noncontrolling interests
	\$ (4,391)	\$ (4,979)	

## The Operating Partnership

The changes in accumulated other comprehensive income (loss) by component consisted of the following as of June 30, 2017: