# 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 September 30, 2001**

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

**Delaware**
(State of incorporation or organization)

**001-14469**
(Commission File No.)

**046268599**
(I.R.S. Employer Identification No.)

**National City Center**
**115 West Washington Street, Suite 15 East**
**Indianapolis, Indiana 46204**
(Address of principal executive offices)

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

**SPG REALTY CONSULTANTS, INC.**
(Exact name of registrant as specified in its charter)

**Delaware**
(State of incorporation or organization)

**001-14469-01**
(Commission File No.)

**13-2838638**
(I.R.S. Employer Identification No.)

**National City Center**
**115 West Washington Street, Suite 15 East**
**Indianapolis, Indiana 46204**
(Address of principal executive offices)

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

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

As of November 1, 2001, 172,248,245 shares of common stock, par value $0.0001 per share, 3,200,000 shares of Class B common stock, par value $0.0001 per share, and 4,000 shares of Class C common stock, par value $0.0001 per share of Simon Property Group, Inc. were outstanding, and were paired with 1,754,522 shares of common stock, par value $0.0001 per share, of SPG Realty Consultants, Inc.

**SIMON PROPERTY GROUP, INC. AND**
**SPG REALTY CONSULTANTS, INC.**

**FORM 10-Q**

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**Simon Property Group, Inc. and SPG Realty Consultants, Inc.**
*Condensed Combined Balance Sheets*

(Dollars in thousands, except per share amounts)

| | September 30, 2001 | December 31, 2000 |
|---|---|---|
| ASSETS: | | |
| Investment properties, at cost | $ 13,222,912 | $ 13,045,133 |
| Less — accumulated depreciation | 1,775,558 | 1,480,719 |
| | 11,447,354 | 11,564,414 |
| Cash and cash equivalents | 161,733 | 223,111 |
| Tenant receivables and accrued revenue, net | 271,924 | 302,198 |
| Notes and advances receivable from Management Company and affiliates | 94,685 | 182,401 |
| Investment in unconsolidated entities, at equity | 1,369,321 | 1,315,836 |
| Goodwill, net | 37,505 | 38,384 |
| Deferred costs and other assets, net | 274,057 | 269,867 |
| Minority interest, net | 44,667 | 41,734 |
| | $ 13,701,246 | $ 13,937,945 |
| LIABILITIES: | | |
| Mortgages and other indebtedness | $ 8,792,090 | $ 8,728,582 |
| Accounts payable and accrued expenses | 487,685 | 451,207 |
| Cash distributions and losses in partnerships and joint ventures, at equity | 43,706 | 44,634 |
| Accrued dividends | 19,321 | 18,266 |
| Other liabilities | 111,582 | 227,552 |
| Total liabilities | 9,454,384 | 9,470,241 |
| COMMITMENTS AND CONTINGENCIES (Note 9) | | |
| LIMITED PARTNERS' INTEREST IN THE OPERATING PARTNERSHIPS | 850,245 | 913,482 |
| LIMITED PARTNERS' PREFERRED INTEREST IN THE SPG OPERATING PARTNERSHIP | 150,852 | 149,885 |
| PREFERRED STOCK OF SUBSIDIARY (Liquidation values $0 and $350,000, respectively) | -- | 339,866 |
| SHAREHOLDERS' EQUITY: | | |
| CAPITAL STOCK OF SIMON PROPERTY GROUP, INC. (750,000,000 total shares authorized, $.0001 par value, 237,996,000 shares of excess common stock): | | |
| All series of preferred stock, 100,000,000 shares authorized, 16,879,896 and 5,881,116 issued and outstanding, respectively. Liquidation values $907,845 and $559,065, respectively. | 877,348 | 538,684 |
| Common stock, $.0001 par value, 400,000,000 shares authorized, 171,713,816 and 170,840,315 issued and outstanding, respectively | 17 | 17 |
| Class B common stock, $.0001 par value, 12,000,000 shares authorized, 3,200,000 issued and outstanding | 1 | 1 |
| Class C common stock, $.0001 par value, 4,000 shares authorized, issued and outstanding | -- | -- |
| CAPITAL STOCK OF SPG REALTY CONSULTANTS, INC.: | | |
| Common stock, $.0001 par value, 7,500,000 shares authorized, 1,749,178 and 1,740,443 issued and outstanding, respectively | -- | -- |
| Capital in excess of par value | 3,334,624 | 3,313,557 |
| Accumulated deficit | (880,231) | (715,288) |
| Accumulated other comprehensive income | (10,264) | -- |
| Unamortized restricted stock award | (23,212) | (19,982) |
| Common stock held in treasury at cost, 2,098,555 shares | (52,518) | (52,518) |
| Total shareholders' equity | 3,245,765 | 3,064,471 |
| | $ 13,701,246 | $ 13,937,945 |

*The accompanying notes are an integral part of these statements.*

**Simon Property Group, Inc. and SPG Realty Consultants, Inc.**
*Condensed Combined Statements of Operations*

(Dollars in thousands, except per share amounts)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| REVENUE: | | | | |
| Minimum rent | $ 312,328 | $ 299,708 | $ 926,845 | $ 890,435 |
| Overage rent | 8,568 | 9,700 | 25,581 | 28,456 |
| Tenant reimbursements | 146,308 | 145,237 | 441,271 | 444,384 |
| Other income | 33,443 | 39,281 | 85,896 | 96,161 |
| Total revenue | 500,647 | 493,926 | 1,479,593 | 1,459,436 |
| EXPENSES: | | | | |
| Property operating | 81,620 | 78,779 | 243,060 | 235,220 |
| Depreciation and amortization | 111,196 | 106,983 | 324,459 | 304,611 |
| Real estate taxes | 45,807 | 49,032 | 147,320 | 147,183 |
| Repairs and maintenance | 17,287 | 15,930 | 56,347 | 51,690 |
| Advertising and promotion | 14,049 | 11,473 | 40,473 | 42,728 |
| Provision for credit losses | 2,677 | 3,326 | 7,824 | 7,671 |
| Other | 13,552 | 8,990 | 27,098 | 27,474 |
| Total operating expenses | 286,188 | 274,513 | 846,581 | 816,577 |
| OPERATING INCOME | 214,459 | 219,413 | 633,012 | 642,859 |
| INTEREST EXPENSE | 149,044 | 160,668 | 456,938 | 474,534 |
| INCOME BEFORE MINORITY INTEREST | 65,415 | 58,745 | 176,074 | 168,325 |
| MINORITY INTEREST | (2,486) | (2,382) | (7,717) | (7,099) |
| GAIN (LOSS) ON SALES OF ASSETS, NET OF ASSET WRITE DOWNS OF $0, $0, $0, AND $10,572, RESPECTIVELY | (131) | 151 | 2,552 | 8,809 |
| INCOME BEFORE UNCONSOLIDATED ENTITIES | 62,798 | 56,514 | 170,909 | 170,035 |
| INCOME FROM UNCONSOLIDATED ENTITIES | 6,787 | 20,920 | 32,421 | 54,447 |
| INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE | 69,585 | 77,434 | 203,330 | 224,482 |
| EXTRAORDINARY ITEMS - DEBT RELATED TRANSACTIONS | (220) | -- | (245) | (440) |
| CUMULATIVE EFFECT OF ACCOUNTING CHANGE (Note 5) | -- | -- | (1,638) | (12,342) |
| INCOME BEFORE ALLOCATION TO LIMITED PARTNERS | 69,365 | 77,434 | 201,447 | 211,700 |
| LESS: | | | | |
| LIMITED PARTNERS' INTEREST IN THE OPERATING PARTNERSHIPS | 13,780 | 16,075 | 39,400 | 42,346 |
| PREFERRED DISTRIBUTIONS OF THE SPG OPERATING PARTNERSHIP | 2,835 | 2,816 | 8,582 | 8,450 |
| PREFERRED DIVIDENDS OF SUBSIDIARY | -- | 7,333 | 14,668 | 22,001 |
| NET INCOME | 52,750 | 51,210 | 138,797 | 138,903 |
| PREFERRED DIVIDENDS | (16,499) | (9,185) | (34,861) | (27,623) |
| NET INCOME AVAILABLE TO COMMON SHAREHOLDERS | $ 36,251 | $ 42,025 | $ 103,936 | $ 111,280 |
| BASIC AND DILUTED EARNINGS PER COMMON PAIRED SHARE: | | | | |
| Income before extraordinary items and cumulative effect of acccounting change | $ 0.21 | $ 0.24 | $ 0.61 | $ 0.69 |
| Net income | $ 0.21 | $ 0.24 | $ 0.60 | $ 0.64 |
| Net Income | $ 52,750 | $ 51,210 | $ 138,797 | $ 138,903 |
| Cumulative effect of accounting change | -- | -- | (1,995) | -- |
| Unrealized losses on interest rate hedge agreements | (4,978) | -- | (11,071) | -- |
| Net losses on derivative instruments reclassified from accumulated other comprehensive income into interest expense | 1,183 | -- | 2,846 | -- |
| Other | (44) | -- | (44) | -- |
| Unrealized gains on investments | 1,980 | 973 | -- | 5,852 |
| Comprehensive Income | $ 50,891 | $ 52,183 | $ 128,533 | $ 144,755 |

*The accompanying notes are an integral part of these statements.*

**Simon Property Group, Inc. and SPG Realty Consultants, Inc.**
*Condensed Combined Statements of Cash Flows*

(Dollars in thousands)

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | **2001** | **2000** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 138,797 | $ 138,903 |
| Adjustments to reconcile net income to net cash provided by operating activities— | | |
| Depreciation and amortization | 329,972 | 312,211 |
| Extraordinary items | 245 | 440 |
| Cumulative effect of accounting change | 1,638 | 12,342 |
| Gain on sales of assets, net of asset write downs of $0 and $10,572, respectively | (2,552) | (8,809) |
| Limited partners' interest in Operating Partnerships | 39,400 | 42,346 |
| Preferred dividends of Subsidiary | 14,668 | 22,001 |
| Preferred distributions of the SPG Operating Partnership | 8,582 | 8,450 |
| Straight-line rent | (7,267) | (12,207) |
| Minority interest | 7,717 | 7,099 |
| Equity in income of unconsolidated entities | (32,421) | (54,447) |
| Changes in assets and liabilities— | | |
| Tenant receivables and accrued revenue | 43,507 | 52,460 |
| Deferred costs and other assets | (29,864) | (8,183) |
| Accounts payable, accrued expenses and other liabilities | (40,348) | (87,960) |
| Net cash provided by operating activities | 472,074 | 424,646 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (217,819) | (312,189) |
| Cash from consolidation of ASP | 8,156 | -- |
| Net proceeds from sale of assets and investment | 19,550 | 164,282 |
| Investments in unconsolidated entities | (112,856) | (105,751) |
| Distributions from unconsolidated entities | 145,325 | 235,075 |
| Investments in and advances (to)/from Management Company and affiliate | (3,792) | (5,784) |
| Net cash used in investing activities | (161,436) | (24,367) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from sales of common and preferred stock, net | 7,250 | 406 |
| Purchase of treasury stock and limited partner units | -- | (50,972) |
| Minority interest distributions, net | (10,129) | (13,287) |
| Preferred dividends of Subsidiary | (14,668) | (22,001) |
| Preferred distributions of the SPG Operating Partnership | (8,582) | (8,450) |
| Preferred dividends and distributions to shareholders | (302,686) | (272,925) |
| Distributions to limited partners | (100,926) | (99,115) |
| Mortgage and other note proceeds, net of transaction costs | 1,452,241 | 1,341,735 |
| Mortgage and other note principal payments | (1,394,516) | (1,318,882) |
| Net cash used in financing activities | (372,016) | (443,491) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (61,378) | (43,212) |
| CASH AND CASH EQUIVALENTS, beginning of period | 223,111 | 157,632 |
| CASH AND CASH EQUIVALENTS, end of period | $ 161,733 | $ 114,420 |

*The accompanying notes are an integral part of these statements.*

**Simon Property Group, Inc.**
*Condensed Consolidated Balance Sheets*

(Dollars in thousands, except per share amounts)

| | September 30, 2001 | December 31, 2000 |
|---|---|---|
| ASSETS: | | |
| Investment properties, at cost | $ 13,215,751 | $ 13,037,506 |
| Less — accumulated depreciation | 1,774,155 | 1,479,378 |
| | 11,441,596 | 11,558,128 |
| Cash and cash equivalents | 152,824 | 214,404 |
| Tenant receivables and accrued revenue, net | 269,271 | 296,785 |
| Notes and advances receivable from Management Company and affiliates | 101,557 | 182,401 |
| Note receivable from the SRC Operating Partnership (Interest at 8%, due 2009) | -- | 29,425 |
| Investment in unconsolidated entities, at equity | 1,361,750 | 1,308,838 |
| Goodwill, net | 37,505 | 38,384 |
| Deferred costs and other assets, net | 273,703 | 240,665 |
| Minority interest, net | 44,667 | 42,377 |
| | $ 13,682,873 | $ 13,911,407 |
| LIABILITIES: | | |
| Mortgages and other indebtedness | $ 8,792,090 | $ 8,728,582 |
| Accounts payable and accrued expenses | 483,239 | 439,190 |
| Cash distributions and losses in partnerships and joint ventures, at equity | 43,706 | 44,634 |
| Accrued dividends | 19,321 | 18,266 |
| Other liabilities | 111,961 | 227,481 |
| Total liabilities | 9,450,317 | 9,458,153 |
| COMMITMENTS AND CONTINGENCIES (Note 9) | | |
| LIMITED PARTNERS' INTEREST IN THE SPG OPERATING PARTNERSHIP | 846,310 | 909,491 |
| LIMITED PARTNERS' PREFERRED INTEREST IN THE SPG OPERATING PARTNERSHIP | 150,852 | 149,885 |
| PREFERRED STOCK OF SUBSIDIARY (Liquidation values $0 and $350,000, respectively) | -- | 339,866 |
| SHAREHOLDERS' EQUITY (750,000,000 total shares authorized, $.0001 par value, 237,996,000 shares of excess common stock): | | |
| All series of preferred stock, 100,000,000 shares authorized, 16,879,896 and 5,881,116 issued and outstanding, respectively. Liquidation values $907,845 and $559,065, respectively. | 877,348 | 538,684 |
| Common stock, $.0001 par value, 400,000,000 shares authorized, 171,713,816 and 170,840,315 issued and outstanding, respectively | 17 | 17 |
| Class B common stock, $.0001 par value, 12,000,000 shares authorized, 3,200,000 issued and outstanding | 1 | 1 |
| Class C common stock, $.0001 par value, 4,000 shares authorized, issued and outstanding | -- | -- |
| Capital in excess of par value | 3,320,622 | 3,299,016 |
| Accumulated deficit | (876,789) | (711,395) |
| Accumulated other comprehensive income | (10,264) | -- |
| Unamortized restricted stock award | (23,212) | (19,982) |
| Common stock held in treasury at cost, 2,098,555 shares | (52,329) | (52,329) |
| Total shareholders' equity | 3,235,394 | 3,054,012 |
| | $ 13,682,873 | $ 13,911,407 |

*The accompanying notes are an integral part of these statements.*

**Simon Property Group, Inc.**
*Condensed Consolidated Statements of Operations*

(Dollars in thousands, except per share amounts)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| REVENUE: | | | | |
| Minimum rent | $ 312,349 | $ 299,728 | $ 926,906 | $ 890,491 |
| Overage rent | 8,568 | 9,700 | 25,581 | 28,456 |
| Tenant reimbursements | 146,307 | 145,237 | 441,271 | 444,384 |
| Other income | 32,016 | 38,243 | 82,937 | 93,168 |
| Total revenue | 499,240 | 492,908 | 1,476,695 | 1,456,499 |
| EXPENSES: | | | | |
| Property operating | 80,990 | 77,771 | 241,840 | 231,864 |
| Depreciation and amortization | 111,173 | 106,958 | 324,391 | 304,537 |
| Real estate taxes | 45,819 | 49,061 | 147,320 | 147,182 |
| Repairs and maintenance | 17,286 | 15,931 | 56,345 | 51,689 |
| Advertising and promotion | 14,049 | 11,271 | 40,473 | 42,531 |
| Provision for credit losses | 2,676 | 3,326 | 7,828 | 7,671 |
| Other | 12,621 | 7,106 | 26,125 | 22,094 |
| Total operating expenses | 284,614 | 271,424 | 844,322 | 807,568 |
| OPERATING INCOME | 214,626 | 221,484 | 632,373 | 648,931 |
| INTEREST EXPENSE | 149,030 | 161,049 | 456,924 | 475,563 |
| INCOME BEFORE MINORITY INTEREST | 65,596 | 60,435 | 175,449 | 173,368 |
| MINORITY INTEREST | (2,486) | (2,659) | (7,839) | (7,446) |
| GAIN (LOSS) ON SALES OF ASSETS, NET OF ASSET WRITE DOWNS OF $0, $0, AND $10,572, RESPECTIVELY | (131) | 151 | 2,552 | 8,809 |
| INCOME BEFORE UNCONSOLIDATED ENTITIES | 62,979 | 57,927 | 170,162 | 174,731 |
| INCOME FROM UNCONSOLIDATED ENTITIES | 6,833 | 20,400 | 32,545 | 53,613 |
| INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE | 69,812 | 78,327 | 202,707 | 228,344 |
| EXTRAORDINARY ITEMS - DEBT RELATED TRANSACTIONS | (220) | -- | (245) | (440) |
| CUMULATIVE EFFECT OF ACCOUNTING CHANGE (Note 5) | -- | -- | (1,638) | (12,342) |
| INCOME BEFORE ALLOCATION TO LIMITED PARTNERS | 69,592 | 78,327 | 200,824 | 215,562 |
| LESS: | | | | |
| LIMITED PARTNERS' INTEREST IN THE SPG OPERATING PARTNERSHIP | 13,842 | 16,322 | 39,228 | 43,412 |
| PREFERRED DISTRIBUTIONS OF THE SPG OPERATING PARTNERSHIP | 2,835 | 2,816 | 8,582 | 8,450 |
| PREFERRED DIVIDENDS OF SUBSIDIARY | -- | 7,333 | 14,668 | 22,001 |
| NET INCOME | 52,915 | 51,856 | 138,346 | 141,699 |
| PREFERRED DIVIDENDS | (16,499) | (9,185) | (34,861) | (27,623) |
| NET INCOME AVAILABLE TO COMMON SHAREHOLDERS | $ 36,416 | $ 42,671 | $ 103,485 | $ 114,076 |
| BASIC AND DILUTED EARNINGS PER COMMON SHARE: | | | | |
| Income before extraordinary items and cumulative effect of accounting change | $ 0.21 | $ 0.25 | $ 0.61 | $ 0.71 |
| Net income | $ 0.21 | $ 0.25 | $ 0.60 | $ 0.66 |
| BASIC WEIGHTED AVERAGE SHARES OUTSTANDING | 172,746 | 172,759 | 172,413 | 173,216 |
| DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING | 173,031 | 172,862 | 172,745 | 173,313 |
| Net Income | $ 52,915 | $ 51,856 | $ 138,346 | $ 141,699 |
| Cumulative effect of accounting change | -- | -- | (1,995) | - |
| Unrealized losses on interest rate hedge agreements | (4,978) | -- | (11,071) | - |
| Net losses on derivative instruments reclassified from accumulated other comprehensive income into interest expense | 1,183 | -- | 2,846 | - |
| Other | (44) | -- | (44) | - |
| Unrealized gains on investments | 1,980 | 973 | - | 5,852 |
| Comprehensive Income | $ 51,056 | $ 52,829 | $ 128,082 | $ 147,551 |

*The accompanying notes are an integral part of these statements.*

**Simon Property Group, Inc.**
*Condensed Consolidated Statements of Cash Flows*

(Dollars in thousands)

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | **2001** | **2000** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 138,346 | $ 141,699 |
| Adjustments to reconcile net income to net cash provided by operating activities— | | |
| Depreciation and amortization | 329,904 | 312,137 |
| Extraordinary items | 245 | 440 |
| Cumulative effect of accounting change | 1,638 | 12,342 |
| Gain on sales of assets, net of asset write downs of $0 and $10,572, respectively | (2,552) | (8,809) |
| Limited partners' interest in Operating Partnership | 39,228 | 43,412 |
| Preferred dividends of Subsidiary | 14,668 | 22,001 |
| Preferred distributions of the SPG Operating Partnership | 8,582 | 8,450 |
| Straight-line rent | (7,267) | (12,207) |
| Minority interest | 7,839 | 7,446 |
| Equity in income of unconsolidated entities | (32,545) | (53,613) |
| Changes in assets and liabilities— | | |
| Tenant receivables and accrued revenue | 45,079 | 54,933 |
| Deferred costs and other assets | (32,538) | (7,210) |
| Accounts payable, accrued expenses and other liabilities | (42,660) | (95,354) |
| Net cash provided by operating activities | 467,967 | 425,667 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (217,958) | (301,499) |
| Cash from consolidation of ASP | 8,156 | -- |
| Proceeds from sale of assets and investment | 19,550 | 164,282 |
| Investments in unconsolidated entities | (112,856) | (105,751) |
| Distributions from unconsolidated entities | 145,325 | 233,276 |
| Investments in and advances (to)/from Management Company and affiliate | (5,266) | (5,784) |
| Loan to the SRC Operating Partnership | 5,597 | (14,650) |
| Net cash used in investing activities | (157,452) | (30,126) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from sales of common and preferred stock, net | 7,171 | 375 |
| Purchase of treasury stock and limited partner units | -- | (50,828) |
| Minority interest distributions, net | (10,129) | (13,287) |
| Preferred dividends of Subsidiary | (14,668) | (22,001) |
| Preferred distributions of the SPG Operating Partnership | (8,582) | (8,450) |
| Preferred dividends and distributions to shareholders | (302,686) | (272,925) |
| Distributions to limited partners | (100,926) | (99,115) |
| Mortgage and other note proceeds, net of transaction costs | 1,452,241 | 1,341,735 |
| Mortgage and other note principal payments | (1,394,516) | (1,318,771) |
| Net cash used in financing activities | (372,095) | (443,267) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (61,580) | (47,726) |
| CASH AND CASH EQUIVALENTS, beginning of period | 214,404 | 154,924 |
| CASH AND CASH EQUIVALENTS, end of period | $ 152,824 | $ 107,198 |

*The accompanying notes are an integral part of these statements.*

**SPG Realty Consultants, Inc.**
*Condensed Consolidated Balance Sheets*

(Dollars in thousands, except per share amounts)

| | September 30, 2001 | December 31, 2000 |
|---|---|---|
| ASSETS: | | |
| Cash and cash equivalents | $ 8,909 | $ 8,707 |
| Accounts receivable (including $2,389 and $2,984 from related parties) | 2,652 | 8,394 |
| Total current assets | 11,561 | 17,101 |
| Investment properties, at cost, less accumulated depreciation of $1,403 and $1,341, respectively | 5,758 | 6,286 |
| Investment in unconsolidated entities, at equity | 7,571 | 6,998 |
| Investment in technology initiatives | -- | 23,583 |
| Other noncurrent assets | 612 | 2,896 |
| | $ 25,502 | $ 56,864 |
| LIABILITIES: | | |
| Accounts payable and accrued expenses (including $72 and $4,855 to related parties) | $ 4,326 | $ 12,346 |
| Total current liabilities | 4,326 | 12,346 |
| Note payable to the SPG Operating Partnership (Interest at 8%, due 2009) | -- | 29,425 |
| Note payable to the Management Company (Interest at 8%, due 2009) | 6,871 | -- |
| Minority interest | -- | 643 |
| Total liabilities | 11,197 | 42,414 |
| COMMITMENTS AND CONTINGENCIES (Note 9) | | |
| LIMITED PARTNERS' INTEREST IN THE SRC OPERATING PARTNERSHIP | 3,935 | 3,991 |
| SHAREHOLDERS' EQUITY: | | |
| Common stock, $.0001 par value, 7,500,000 shares authorized, 1,749,178 and 1,740,443 issued and outstanding, respectively | -- | -- |
| Capital in excess of par value | 29,107 | 29,647 |
| Accumulated deficit | (18,548) | (18,999) |
| Less common stock held in treasury at cost, 20,986 shares. | (189) | (189) |
| Total shareholders' equity | 10,370 | 10,459 |
| | $ 25,502 | $ 56,864 |

*The accompanying notes are an integral part of these statements.*

**SPG Realty Consultants, Inc.**

*Condensed Consolidated Statements of Operations*

(In thousands, except per share amounts)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2001** | **2000** | **2001** | **2000** |
| REVENUE: | | | | |
| Rental income | $ 76 | $ 77 | $ 229 | $ 234 |
| Marketing and fee income | -- | 2,604 | -- | 6,842 |
| Insurance premiums | 677 | -- | 1,738 | -- |
| Other income | 74 | 171 | 295 | 247 |
| Total revenue | 827 | 2,852 | 2,262 | 7,323 |
| EXPENSES: | | | | |
| Depreciation and amortization | 22 | 25 | 68 | 74 |
| Technology initiatives startup costs | -- | 1,886 | 90 | 5,024 |
| Insurance losses | 566 | -- | 1,693 | -- |
| General and administrative expenses | 386 | 2,581 | 422 | 6,978 |
| Total operating expenses | 974 | 4,492 | 2,273 | 12,076 |
| OPERATING LOSS | (147) | (1,640) | (11) | (4,753) |
| INTEREST EXPENSE | 34 | 10 | 615 | 290 |
| PLUS: | | | | |
| MINORITY INTEREST | -- | 277 | 122 | 347 |
| GAIN ON LAND SALES, NET | -- | -- | 1,251 | -- |
| INCOME (LOSS) BEFORE UNCONSOLIDATED ENTITIES | (181) | (1,373) | 747 | (4,696) |
| INCOME (LOSS) FROM UNCONSOLIDATED ENTITIES | (46) | 520 | (124) | 834 |
| INCOME (LOSS) BEFORE ALLOCATION TO LIMITED PARTNERS | (227) | (853) | 623 | (3,862) |
| LESS--LIMITED PARTNERS' INTEREST INTHE SRC OPERATING PARTNERSHIP | (62) | (247) | 172 | (1,066) |
| NET INCOME (LOSS) | $ (165) | $ (606) | $ 451 | $ (2,796) |
| BASIC AND DILUTED EARNINGS PER COMMON SHARE: | | | | |
| Net income (loss) | $ (0.10) | $ (0.35) | $ 0.26 | $ (1.61) |
| BASIC WEIGHTED AVERAGE SHARES OUTSTANDING | 1,727 | 1,728 | 1,724 | 1,732 |
| DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING | 1,727 | 1,728 | 1,727 | 1,732 |

*The accompanying notes are an integral part of these statements.*

**SPG Realty Consultants, Inc.**
*Condensed Consolidated Statements of Cash Flows*

(Dollars in thousands)

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | **2001** | **2000** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | $ 451 | $ (2,796) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities— | | |
| Depreciation and amortization | 68 | 74 |
| Gain on sales of assets, net | (1,251) | -- |
| Limited partners' interest in SRC Operating Partnership | 172 | (1,066) |
| Minority interest | (122) | (347) |
| Equity in income of unconsolidated entities | 124 | (834) |
| Changes in assets and liabilities— | | |
| Accounts receivable | (1,572) | (3,446) |
| Other non-current assets | 2,674 | -- |
| Accounts payable and accrued expenses | 2,312 | 7,393 |
| Net cash provided (used in) by operating activities | 2,856 | (1,022) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment in technology initiatives and other capital expenditures | (115) | (10,690) |
| Cash included in transfer of assets to SPG Operating Partnership | (152) | -- |
| Net proceeds from sales of assets | 1,658 | -- |
| Distributions from unconsolidated entities | -- | 1,799 |
| Net cash provided by (used in) investing activities | 1,391 | (8,891) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from sales of common stock, net | 79 | 31 |
| Purchase of treasury stock | -- | (144) |
| Loan from the SPG Operating Partnership | (5,597) | 14,650 |
| Loan from the Management Company | 1,473 | -- |
| Mortgage and other note proceeds, net of transaction costs | -- | (110) |
| Net cash (used in) provided by financing activities | (4,045) | 14,427 |
| CHANGE IN CASH AND CASH EQUIVALENTS | 202 | 4,514 |
| CASH AND CASH EQUIVALENTS, beginning of period | 8,707 | 2,708 |
| CASH AND CASH EQUIVALENTS, end of period | $ 8,909 | $ 7,222 |

*The accompanying notes are an integral part of these statements*

**SIMON PROPERTY GROUP, INC. AND**
**SPG REALTY CONSULTANTS, INC.**

**Notes to Unaudited Condensed Financial Statements**

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

**Note 1 – Organization**

Simon Property Group, Inc. ("SPG"), a Delaware corporation, is a self-administered and self-managed real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Each share of common stock of SPG is paired ("Paired Shares") with a beneficial interest in 1/100$^{th}$ of a share of common stock of SPG Realty Consultants, Inc., also a Delaware corporation ("SRC" and together with SPG, the "Companies").

Simon Property Group, L.P. (the "SPG Operating Partnership" or "SPG, LP") is the primary subsidiary of SPG. Units of ownership interest ("Units") in the SPG Operating Partnership are paired with a Unit in SPG Realty Consultants, L.P. ("Paired Units") (the "SRC Operating Partnership" and together with the SPG Operating Partnership, the "Operating Partnerships"). The SRC Operating Partnership is the primary subsidiary of SRC. The Companies together with the Operating Partnerships are hereafter referred to as "Simon Group".

SPG, primarily through the SPG Operating Partnership, is engaged in the ownership, operation, management, leasing, acquisition, expansion and development of real estate properties, primarily regional malls and community shopping centers. As of September 30, 2001, SPG and the SPG Operating Partnership owned or held an interest in 250 income-producing properties in the United States, which consisted of 164 regional malls, 72 community shopping centers, five specialty retail centers, four office and mixed-use properties and five value-oriented super-regional malls in 36 states (the "Properties"). In addition, the SPG Operating Partnership owned an interest in six additional retail real estate properties operating in Europe and Canada. SPG and the SPG Operating Partnership also owned an interest in one property currently under construction and 11 parcels of land held for future development, which together with the Properties are hereafter referred to as the "Portfolio Properties". At September 30, 2001 and December 31, 2000, the Companies' direct and indirect ownership interests in the Operating Partnerships were 72.5% and 72.4% respectively. The SPG Operating Partnership also holds substantially all of the economic interest in M.S. Management Associates, Inc. (the "Management Company"). Effective January 1, 2001, the Management Company elected to become a taxable REIT subsidiary ("TRS").

SRC, primarily through the SRC Operating Partnership, engages primarily in activities that capitalize on the resources, customer base and operating activities of SPG, which could not be engaged in by SPG without potentially impacting its status as a REIT. These activities included a technology subsidiary, clixnmortar. Minority interest on the SRC balance sheet as of December 31, 2000 represents an 8.3% outside ownership interest in clixnmortar. Effective March 31, 2001, the SPG Operating Partnership purchased clixnmortar from the SRC Operating Partnership at its carrying value utilizing the inter-company note. The SPG Operating Partnership subsequently contributed clixnmortar to the Management Company in exchange for preferred stock of the Management Company. SRC also has non-controlling interests in two joint ventures which each own land held for sale, which are located adjacent to Properties. During 2000, SRC's wholly-owned insurance subsidiary, Marigold Indemnity, Ltd ("Marigold"), began providing general liability insurance coverage to a third party that provides outsourcing services at certain properties. Marigold reinsures the majority of the risk through a third party indemnity company.

Simon Brand Ventures, LLC ("SBV") and Simon Business Network ("SBN") continue to expand upon certain mall marketing initiatives to take advantage of Simon Group's size and tenant relationships, primarily through strategic corporate alliances. SBV is focused on leveraging Simon Group's 100 million unique shoppers and their 2 billion annual shopping visits to contribute to Simon Group's second-curve revenue strategy. The SBV concept and initiatives were started in 1997 to create a new medium for connecting consumers with retailers and sponsors by developing a combination of shopping, entertainment and community. SBN is focused on leveraging Simon Group's assets to create new businesses which will drive greater value to its Portfolio Properties, retailers and other developers and generate new sources of revenue for Simon Group. SBN's strategy is to provide a competitively valued, broad-based offering of products and services via a unique and dominant marketplace and service network focused on the real estate industry and their tenants. SBV has also entered into cost sharing arrangements with the Management Company similar to those of the SPG Operating Partnership. Effective January 1, 2001, the SPG Operating Partnership purchased SBV from SRC at approximately its carrying value utilizing the intercompany note.

On April 1, 2001, SPG, LP became the managing general partner of SPG Administrative Services Partnership L.P. ("ASP"). In addition, SPG, LP acquired an additional 24% partnership interest in ASP from the Management Company. As a result, SPG, LP gained control of ASP consistent with the Simon Group's consolidation principles. ASP was previously consolidated as part of the Management Company. The change in control and consolidation of ASP will not have a material impact on the results of operations of Simon Group and the other aspects of the transaction were not material. ASP was organized to provide for the allocation of the salaries and other costs associated with employees who perform services for the Management Company and its affiliates as well as multiple entities controlled by SPG, LP.

In order to simplify the organizational structure of Simon Group's investment in European Retail Enterprises, B.V. ("ERE"), the Management Company transferred its ownership interest in ERE to the SPG Operating Partnership at its carrying value in exchange for a reduction in the note receivable from the Management Company.

The SPG Operating Partnership transferred its note receivable from the SRC Operating Partnership to the Management Company in exchange for an increase in the note receivable from the Management Company to the SPG Operating Partnership.

**Note 2 - Basis of Presentation**

The accompanying condensed financial statements are unaudited; however, they have been prepared in accordance with generally accepted accounting principles for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary for fair presentation, consisting of only normal recurring adjustments, have been included. The results for the interim period ended September 30, 2001 are not necessarily indicative of the results to be obtained for the full fiscal year. These unaudited financial statements have been prepared in accordance with the accounting policies described in the Companies' combined annual report on Form 10-K for the year ended December 31, 2000, except for the change in accounting policy discussed in Note 5, and should be read in conjunction therewith.

The accompanying condensed combined financial statements include SPG and SRC and their subsidiaries. The accompanying condensed consolidated financial statements for SPG and SRC include SPG and its subsidiaries and SRC and its subsidiaries, respectively. All significant intercompany amounts have been eliminated.

Net operating results of the Operating Partnerships are allocated to the Companies based first on the Companies' preferred unit preference, if applicable, and then on their remaining ownership interests in the Operating Partnerships during the period. The Companies' remaining weighted average ownership interests in the Operating Partnerships for the nine-month periods ended September 30, 2001 and September 30, 2000 was 72.5% and 72.4%, respectively.

Certain reclassifications of prior period amounts have been made in the financial statements to conform to the 2001 presentation. These reclassifications have no impact on the net operating results previously reported.

**Note 3 - Per Share Data**

Basic earnings per share is based on the weighted average number of shares of common stock outstanding during the period and diluted earnings per share is based on the weighted average number of shares of common stock outstanding combined with the incremental weighted average shares that would have been outstanding if all dilutive potential common shares would have been converted into shares at the earliest date possible. The following table sets forth the computation for the Companies' basic and diluted earnings per share. The extraordinary items and cumulative effect of accounting change amounts presented in the reconciliation below represent the common shareholders' pro rata share of these items.

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Common Shareholders' share of income before extraordinary items and cumulative effect of accounting change | $ 36,411 | $ 42,025 | $ 105,301 | $ 120,533 |
| Common Shareholders' share of extraordinary items | (160) | -- | (178) | (319) |
| Common Shareholders' share of cumulative effect of accounting change | -- | -- | (1,187) | (8,934) |
| Net Income available to Common Shareholders | $ 36,251 | $ 42,025 | $ 103,936 | $ 111,280 |
| Weighted Average Shares Outstanding – Basic | 172,746,242 | 172,759,374 | 172,413,474 | 173,216,460 |
| Effect of stock options | 285,158 | 102,704 | 331,085 | 96,441 |
| Weighted Average Shares Outstanding - Diluted | 173,031,400 | 172,862,078 | 172,744,559 | 173,312,901 |

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Basic and Diluted Per Share: | | | | |
| Common Shareholders' share of income before extraordinary items and cumulative effect of accounting change | $ 0.21 | $ 0.24 | $ 0.61 | $ 0.69 |
| Common Shareholders' share of extraordinary items | -- | -- | -- | -- |
| Common Shareholders' share of cumulative effect of accounting change | -- | -- | (0.01) | (0.05) |
| Net Income available to Common Shareholders | $ 0.21 | $ 0.24 | $ 0.60 | $ 0.64 |

None of the series of convertible preferred stock issued and outstanding during the comparative periods had a dilutive effect on earnings per share, nor did any of the convertible preferred Units of the SPG Operating Partnership outstanding, which are convertible into Paired Shares on or after August 27, 2004 if certain conditions are met. Paired Units held by limited partners in the Operating Partnerships may be exchanged for Paired Shares, on a one-for-one basis in certain circumstances. If exchanged, the paired Units would not have a dilutive effect.

**Note 4 - Cash Flow Information**

Cash paid for interest, net of amounts capitalized, during the nine months ended September 30, 2001 was $450,884 as compared to $480,819 for the same period in 2000. See Notes 1 and 8 for information about non-cash transactions during the nine months ended September 30, 2001.

**Note 5 - Cumulative Effect of Accounting Change**

On January 1, 2001 Simon Group adopted SFAS 133 "Accounting for Derivative Instruments and Hedging Activities," as amended in June of 2000 by SFAS 138, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments and requires Simon Group to record on the balance sheet all derivative instruments at fair value and to recognize certain non-cash changes in these fair values either in the income statement or other comprehensive income, as appropriate under SFAS 133. SFAS 133 currently impacts the accounting for Simon Group's interest rate and foreign currency rate risk protection agreements.

On adoption of SFAS 133, Simon Group recorded the difference between the fair value of the derivative instruments and the previous carrying amount of those derivatives on its condensed consolidated combined balance sheets in net income or other comprehensive income, as appropriate, as the cumulative effect of a change in accounting principle in accordance with APB 20 "Accounting Changes." On adoption, Simon Group's net fair value of derivatives was ($2.0) million, of which $3.1 million was recorded in other liabilities and $1.1 million was recorded in other assets. In addition, $2.0 million of unrecognized loss was recorded in other comprehensive income as a cumulative effect of accounting change and an expense of $1.6 million was recorded as a cumulative effect of accounting change in the statement of operations, which includes Simon Group's $1.4 million share of joint venture cumulative effect of accounting change. The joint venture cumulative effect of accounting change was recorded in investment in unconsolidated entities. Within the next twelve months, Simon Group expects to reclassify to earnings approximately $3.6 million of expense of the current balance held in accumulated other comprehensive income.

As of September 30, 2001, Simon Group has recorded derivatives at their fair values of $0.5 million included in other assets and $11.1 million included in other liabilities. These derivatives consist of LIBOR and EURIBOR based swaps, caps, collars, and cross-currency investment rate swaps with a total notional amount of $390.2 million, with maturity dates ranging from December 2001 to January 2005. Joint venture derivatives with a total asset fair value of $0.2 million consist of interest rate caps and swaps with a total notional amount of $1,001.4 million, with maturity dates ranging from January 2002 to May 2006. Simon Group's exposure to market risk due to changes in interest rates primarily relates to Simon Group's long-term debt obligations. Through its risk management strategy, Simon Group manages exposure to interest rate market risk by a combination of interest rate protection agreements to effectively fix or cap a portion of variable rate debt, or in the case of a fair value hedge, effectively convert fixed rate debt to variable rate debt and by refinancing fixed rate debt at times when rates and terms are appropriate,. Simon Group is also exposed to foreign currency risk on financings of certain foreign operations. To manage foreign currency exchange rate risk as part of its risk management strategy, Simon Group has also entered into a foreign currency forward contract. Simon Group's intent is to offset gains and losses that occur on the underlying exposures, with gains and losses on the derivative contracts hedging these exposures. Simon Group does not enter into either interest rate protection or foreign currency rate protection agreements for speculative purposes.

***Accounting Policies for Derivatives***

In the normal course of business, Simon Group uses a variety of derivative financial instruments to manage, or hedge, interest rate and foreign currency risk and records all derivatives on the balance sheets at fair value. Simon Group may enter into derivative contracts relating to either wholly owned or joint venture properties. Simon Group requires that hedging derivative instruments are effective in reducing the risk exposure that they are designated to hedge. For derivative instruments associated with the hedge of an anticipated transaction, hedge effectiveness criteria also require that it be probable that the underlying transaction occurs. Simon Group may hedge its exposure to the variability in future cash flows for anticipated transactions over a maximum period of 12 months. Any instrument that meets these hedging criteria is formally designated as a hedge at the inception of the derivative contract. When the terms of an underlying transaction are modified resulting in some ineffectiveness, the portion of the change in the derivative fair value related to ineffectiveness from period to period will be included in net income. If any derivative instrument used for risk management does not meet the hedging criteria then it is marked-to-market each period, however, Simon Group intends for all derivative transactions to meet all the hedge criteria and qualify as hedges.

On an ongoing quarterly basis, Simon Group adjusts its balance sheets to reflect current fair market value of its derivatives. Changes in the fair value of derivatives are to be recorded each period in earnings or comprehensive income, depending on whether the derivative is designated and effective as part of a hedged transaction, and on the type of hedge transaction. To the extent that the change in value of a derivative does not perfectly offset the change in value of the instrument being hedged, the ineffective portion of the hedge is immediately recognized in earnings. Over time, the unrealized gains and losses held in accumulated other comprehensive income will be reclassified to earnings. This reclassification occurs when the hedged items are also recognized in earnings. Interest rate differentials that arise under interest rate swap contracts are settled periodically based upon the terms of the contract and are recognized in interest expense over the life of the contracts. Simon Group has a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors.

To determine the fair values of derivative instruments, Simon Group uses standard market conventions and techniques such as discounted cash flow analysis, option pricing models, and termination cost are used to determine fair value at each balance sheet date. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

**Note 6 - Investment in Unconsolidated Entities**

Summary financial information of Simon Group's investment in partnerships and joint ventures accounted for using the equity method of accounting and a summary of Simon Group's investment in and share of income from such partnerships and joint ventures follow:

| BALANCE SHEETS | September 30, 2001 | December 31, 2000 |
|---|---|---|
| **Assets:** | | |
| Investment properties at cost, net | $ 6,502,436 | $ 6,573,412 |
| Cash and cash equivalents | 188,539 | 192,138 |
| Tenant receivables | 165,025 | 165,918 |
| Other assets | 325,414 | 276,975 |
| Total assets | $ 7,181,414 | $ 7,208,443 |
| **Liabilities and Partners' Equity:** | | |
| Mortgages and other notes payable | $ 5,452,131 | $ 5,135,488 |
| Accounts payable, accrued expenses and other liabilities | 367,290 | 347,733 |
| Total liabilities | 5,819,421 | 5,483,221 |
| Partners' equity | 1,361,993 | 1,725,222 |
| Total liabilities and partners' equity | $ 7,181,414 | $ 7,208,443 |
| **Simon Group's Share of:** | | |
| Total assets | $ 2,986,387 | $ 2,929,647 |
| Partners' equity | $ 706,487 | $ 679,591 |
| Add: Excess Investment | 563,190 | 558,675 |
| Simon Group's net Investment in Joint Ventures | $ 1,269,677 | $ 1,238,266 |

| STATEMENTS OF OPERATIONS | For the Three Months Ended September 30, | | For The Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| **Revenue:** | | | | |
| Minimum rent | $ 200,714 | $ 191,268 | $ 600,157 | $ 555,719 |
| Overage rent | 5,452 | 5,476 | 14,977 | 14,504 |
| Tenant reimbursements | 93,788 | 94,082 | 290,187 | 278,192 |
| Other income | 16,142 | 22,218 | 43,786 | 44,477 |
| Total revenue | 316,096 | 313,044 | 949,107 | 892,892 |
| **Operating Expenses:** | | | | |
| Operating expenses and other | 118,088 | 112,790 | 358,107 | 334,248 |
| Depreciation and amortization | 66,942 | 62,487 | 194,734 | 174,258 |
| Total operating expenses | 185,030 | 175,277 | 552,841 | 508,506 |
| **Operating Income** | 131,066 | 137,767 | 396,266 | 384,386 |
| **Interest Expense** | 88,874 | 91,170 | 275,714 | 262,282 |
| **Income Before Extraordinary Items and Cumulative Effect of Accounting Change ("IBEC")** | 42,192 | 46,597 | 120,552 | 122,104 |
| **Extraordinary Items** | (220) | -- | (295) | -- |
| **Cumulative Effect of Accounting Change** | -- | -- | (2,883) | (3,948) |
| **Net Income** | $ 41,972 | $ 46,597 | $ 117,374 | $ 118,156 |
| **Third-Party Investors' Share of IBEC** | 27,554 | 27,301 | 77,629 | 71,981 |
| **Simon Group's Share of IBEC** | $ 14,638 | $ 19,296 | $ 42,923 | $ 50,123 |
| **Amortization of Excess Investment** | 5,101 | 5,467 | 16,049 | 16,050 |
| **Income from Unconsolidated Entities** | $ 9,537 | $ 13,829 | $ 26,874 | $ 34,073 |

Simon Group's share of consolidated net income (loss) of the Management Company, excluded from the tables above, after intercompany profit eliminations, was ($2,750) and $7,091 for the three-month periods ended September 30, 2001 and 2000, respectively, and $5,547 and $20,374 for the nine month periods ended September 30, 2001 and 2000, respectively. Simon Group's net investment in the Management Company, excluded from the tables above, was $55,938 and $32,936 as of September 30, 2001 and December 31, 2000, respectively.

In addition, Simon Group has guaranteed its pro rata share of a joint venture's lease obligations up to $55.4 million.

**Note 7 - Debt**

At September 30, 2001, of Simon Group's combined consolidated debt $6,833,415 was fixed-rate debt and $1,958,675 was variable-rate debt. Simon Group's pro rata share of indebtedness of the unconsolidated joint venture Properties as of September 30, 2001 was $2,281,283.

On January 11, 2001, Simon Group issued $500.0 million of unsecured debt to institutional investors pursuant to Rule 144A in two tranches. The first tranche is $300.0 million bearing an interest rate of 7 3/8% due January 20, 2006 and the second tranche is $200.0 million bearing an interest rate of 7 3/4% due January 20, 2011. The net proceeds of the offering were used to repay the remaining portion of the indebtedness under the CPI Merger Facility due March 24, 2001 and to repay a portion of the CPI Merger Facility due September 24, 2001.

On August 6, 2001, Simon Group retired the third and final tranche of the CPI merger facility totaling $435.0 million. Funds used to retire this debt were generated primarily from a $277.0 million financing of four mall properties at a fixed rate of 6.99% and a $110.0 million financing of one office complex at LIBOR plus 115 basis points.

Subsequent to September 30, 2001, Simon Group completed the sale of $750.0 million of 6.375% senior unsecured notes due November 15, 2007. Net proceeds from the offering were used to reduce the outstanding balance of the Credit Facility.

**Note 8 – Shareholders' Equity**

On March 26, 2001, 474,625 Paired Shares of restricted stock were deemed earned and awarded under The Simon Property Group 1998 Stock Incentive Plan (the "1998 Plan") at a value of $25.85 per Paired Share. The cost of restricted stock grants is based upon the stock's fair market value at the time such stock is earned, awarded and issued and is charged to shareholders' equity and subsequently amortized against earnings of Simon Group over the vesting period. In addition, 1,032,583 stock options to purchase Paired Shares were granted under the 1998 Plan on the same day.

On May 22, 2001, 1,220 shares of SPG's Series A Convertible Preferred Stock were converted into 46,355 Paired Shares. In addition, another 442 Paired Shares were issued to the holders of the convertible shares in lieu of the cash dividends allocable to those preferred shares.

Due to the conversion of SPG Properties, Inc. preferred stock into shares of SPG preferred stock as a result of the merger described in Note 11, the entire amount of preferred stock of subsidiary was reclassified to preferred stock within shareholders' equity during the period.

**Note 9 - Commitments and Contingencies**

***Litigation***

*Triple Five of Minnesota, Inc., a Minnesota corporation, v. Melvin Simon, et. al.* On or about November 9, 1999, Triple Five of Minnesota, Inc. ("Triple Five") commenced an action in the District Court for the State of Minnesota, Fourth Judicial District, against, among others, Mall of America, certain members of the Simon family and entities allegedly controlled by such individuals, and Simon Group. Two transactions form the basis of the complaint: (i) the sale by Teachers Insurance and Annuity Association of America of one-half of its partnership interest in Mall of America Company and Minntertainment Company to the SPG Operating Partnership and related entities (the "Teachers Sale"); and (ii) a financing transaction involving a loan in the amount of $312,000 obtained from The Chase Manhattan Bank ("Chase") that is secured by a mortgage placed on Mall of America's assets (the "Chase Mortgage").

The complaint, which contains twelve counts, seeks remedies of damages, rescission, constructive trust, accounting, and specific performance. Although the complaint names all defendants in several counts, Simon Group is specifically identified as a defendant in connection with the Teachers Sale. The litigation is currently in the discovery stage.

Simon Group believes that the Triple Five litigation is without merit and intends to defend the action vigorously. Simon Group believes that the Triple Five litigation will not have a material adverse effect on Simon Group. Given the early stage of the litigation it is not possible to provide an assurance of the ultimate outcome of the litigation or an estimate of the amount or range of potential loss, if any.

*Carlo Angostinelli et al. v. DeBartolo Realty Corp. et al.*On October 16, 1996, a complaint was filed in the Court of Common Pleas of Mahoning County, Ohio, captioned Carlo Angostinelli et al. v. DeBartolo Realty Corp. et al. The named defendants are SD Property Group, Inc., an indirect 99%-owned subsidiary of SPG, and DeBartolo Properties Management, Inc., a subsidiary of the Management Company, and the plaintiffs are 27 former employees of the defendants. In the complaint, the plaintiffs alleged that they were recipients of deferred stock grants under the DeBartolo Realty Corporation ("DRC") Stock Incentive Plan (the "DRC Plan") and that these grants immediately vested under the DRC Plan's "change in control" provision as a result of the DRC Merger. Plaintiffs asserted that the defendants' refusal to issue them approximately 542,000 shares of DRC common stock, which is equivalent to approximately 370,000 Paired Shares computed at the 0.68 exchange ratio used in the DRC Merger, constituted a breach of contract and a breach of the implied covenant of good faith and fair dealing under Ohio law. Plaintiffs sought damages equal to such number of shares of DRC common stock, or cash in lieu thereof, equal to all deferred stock ever granted to them under the DRC Plan, dividends on such stock from the time of the grants, compensatory damages for breach of the implied covenant of good faith and fair dealing, and punitive damages. The plaintiffs and the defendants each filed motions for summary judgment. On October 31, 1997, the Court of Common Pleas entered a judgment in favor of the defendants granting their motion for summary judgment. The plaintiffs appealed this judgment to the Seventh District Court of Appeals in Ohio. On August 18, 1999, the District Court of Appeals reversed the summary judgment order in favor of the defendants entered by the Common Pleas Court and granted plaintiffs' cross motion for summary judgment, remanding the matter to the Common Pleas Court for the determination of plaintiffs' damages. The defendants petitioned the Ohio Supreme Court asking that they exercise their discretion to review and reverse the Appellate Court decision, but the Ohio Supreme Court did not grant the petition for review. The case was remanded to the Court of Common Pleas of Mahoning County, Ohio, to conduct discovery relevant to each plaintiff's damages and the counterclaims asserted by Simon Group. The Trial Court referred these matters to a Magistrate. Plaintiffs filed a Supplemental Motion for Summary Judgment on the question of damages. The Magistrate ruled on the counterclaims and found in Defendants' favor on one of them. On December 27, 2000, the Trial Court rendered judgment for the plaintiffs in the combined total amount of approximately $12,000, which includes a set-off of approximately $2,000 with impact to two of the plaintiffs. Defendants have appealed this judgment and plaintiffs have cross-appealed. The judgment has accrued interest at 10% per annum from and after December 27, 2000. Those appeals are pending before the District Court of Appeals and there can be no execution upon the judgment while the appeals are pending. Simon Group recorded a $12,000 loss in the third quarter of 1999 related to this litigation as an unusual item.

*Roel Vento et al v. Tom Taylor et al.* An affiliate of Simon Group is a defendant in litigation entitled Roel Vento et al v. Tom Taylor et al., in the District Court of Cameron County, Texas, in which a judgment in the amount of $7,800 was entered against all defendants. This judgment includes approximately $6,500 of punitive damages and is based upon a jury's findings on four separate theories of liability including fraud, intentional infliction of emotional distress, tortious interference with contract and civil conspiracy arising out of the sale of a business operating under a temporary license agreement at Valle Vista Mall in Harlingen, Texas. Simon Group appealed the verdict and on May 6, 1999, the Thirteenth Judicial District (Corpus Christi) of the Texas Court of Appeals issued an opinion reducing the trial court verdict to $3,364 plus interest. Simon Group filed a petition for a writ of certiorari to the Texas Supreme Court requesting that they review and reverse the determination of the Appellate Court. The Texas Supreme Court granted certiorari and on April 26, 2001 rendered a unanimous 9-0 opinion against the Plaintiffs and ordered that they take nothing from the Simon Group defendants. Plaintiffs subsequently filed a motion for reconsideration with the Texas Supreme Court which was denied. Accordingly, this litigation has concluded and Simon Group has no liability to plaintiffs.

Simon Group currently is not subject to any other material litigation other than routine litigation, claims and administrative proceedings arising in the ordinary course of business. On the basis of consultation with counsel, management believes that such routine litigation, claims and administrative proceedings will not have a material adverse impact on Simon Group's financial position or its results of operations.

**Note 10 - Real Estate Disposals and Other**

During the first nine months of 2001, Simon Group sold its ownership interest in one regional mall, one community center, and one office building for a combined gross sales price of $20.3 million. These sales resulted in a net combined gain of $2.6 million.

On December 28, 2000, Montgomery Ward LLC and certain of its related entities ("Ward") filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. On March 1, 2001, a limited liability company, Kimsward LLC ("Kimsward"), was formed to designate persons or entities to whom the Ward real estate assets will be sold. These transactions are subject to Bankruptcy Court approval. The Management Company's interest in Kimsward is 18.5% and its remaining investment in Kimsward was $1.4 million as of September 30, 2001. During the first nine months of 2001 the Management Company recorded $16.5 million of equity in income from Kimsward. During the first nine months, SPG, L.P. charged the Management Company a $5.7 million fee for services rendered to the Management Company in connection with the Kimsward transactions, which is included in other income in the accompanying condensed combined statements of operations.

During the quarter, Simon Group wrote-off its investment in clixnmortar and miscellaneous technology investments resulting in a decrease in results from operations of $16.6 million, of which $2.7 million is included in other expenses and a net $13.9 million is included in income from unconsolidated entities.

**Note 11 –Merger**

In order to simplify the organizational structure of Simon Group, the Boards of Directors of SPG and SPG Properties, Inc. ("Properties, Inc."), on May 8, 2001 approved an agreement for the merger of Properties, Inc. into SPG. The merger was completed and became effective on July 1, 2001. SPG previously owned 99.999% of the common stock of Properties, Inc. In the merger, shares of Properties, Inc.'s common stock (other than those held by SPG) were converted into the right to receive approximately $98 in total and outstanding shares of Properties, Inc.'s preferred stock were converted into shares of SPG preferred stock having substantially identical terms.

The merger was accounted for under the purchase method of accounting during the third quarter. The pro forma effect of the merger on SPG's balance sheet is to reclassify the entire carrying amount of SPG's preferred stock of subsidiary included in the caption all series of preferred stock within shareholders' equity. In addition, the pro forma effect on the statement of operations is the reclassification of preferred dividends of subsidiary to preferred dividends. All other pro forma effects associated with this transaction are immaterial.

**Note 12 – New Accounting Pronouncements**

On July 20, 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets". SFAS 141 further clarifies the criteria to recognize intangible assets separately from goodwill. SFAS 141 is effective for Simon Group for any business combination accounted for under the purchase method that is completed after June 30, 2001. SFAS No. 142 requires that goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually, or more frequently if impairment indicators arise, for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives but with no maximum life. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired by Simon Group after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, Simon Group is required to adopt SFAS 142 on January 1, 2002 at which time amortization of the remaining book value of goodwill will cease and the new impairment-only approach will apply and may not be applied retroactively. Excluding the impact of impairment, if any, the impact of SFAS 142 will be to eliminate the amortization of goodwill thereby increasing Simon Group's income before allocation to limited partners by approximately $1.2 million annually.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" that supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of." In addition, SFAS No. 144 supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"for the disposal of a segment of a business. SFAS No. 144 is a broad statement that provides framework for the evaluation of impairment of long-lived assets, the treatment for assets held for sale or to be otherwise disposed of, and the reporting of discontinued operations. The effective date for adoption of SFAS No. 144 is January 1, 2002. Simon Group is currently evaluating the impact of SFAS No. 144.

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

**SIMON PROPERTY GROUP, INC. AND SPG REALTY CONSULTANTS, INC. COMBINED**

You should read the following discussion in conjunction with the financial statements and notes thereto that are included in this Form 10-Q. Certain statements made 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. Those risks and uncertainties include, but are not limited to, the national, regional and local economic climate, competitive market forces, changes in market rental rates, trends in the retail industry, the inability to collect rent due to the bankruptcy or insolvency of tenants or otherwise, and changes in market rates of interest. 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.

***Overview***

Who we are - Simon Property Group, Inc. ("SPG"), a Delaware corporation, is a self-administered and self-managed real estate investment trust ("REIT"). Each share of common stock of SPG is paired ("Paired Shares") with 1/100$^{th}$ of a share of common stock of SPG Realty Consultants, Inc. ("SRC" and together with SPG, the "Companies"). Simon Property Group, L.P. (the "SPG Operating Partnership") is the primary subsidiary of SPG. Units of ownership interest ("Units") in the SPG Operating Partnership are paired ("Paired Units") with a Unit in SPG Realty Consultants, L.P. (the "SRC Operating Partnership" and together with the SPG Operating Partnership, the "Operating Partnerships"). The SRC Operating Partnership is the primary subsidiary of SRC. In this Quarterly Report on Form 10-Q, the terms "we", "us" and "our" refer to the Companies and the Operating Partnerships.

The following Property acquisitions and openings impacted our consolidated results of operations in the comparative periods. We opened Orlando Premium Outlots in May 2000, Arundel Mills in November 2000, and Montreal Forum in May 2001. In addition, we sold interests in several Properties throughout the comparative periods (collectively with the acquisitions and openings, the "Property Transactions"). See "Liquidity and Capital Resources" and Note 10 to the financial statements for additional information about acquisitions, openings and disposals during the comparative period.

***Results of Operations***

*Three Months Ended September 30, 2001 vs. Three Months Ended September 30, 2000*

Operating income decreased $5.0 million or 2.3% in 2001 as compared to 2000. This decrease included a $12.0 million increase in minimum rents, excluding our Simon Brand Venture ("SBV") and Simon Business Network ("SBN") initiatives, and a $1.9 million increase in miscellaneous income. These increases were offset by a $4.8 million increase in depreciation and amortization, a $3.2 million decrease in net tenant reimbursements, a $3.9 million decrease in consolidated revenues realized from our SBV and SBN initiatives, a $1.1 million decrease in overage rents, and a $6.4 million increase in other expenses. The increase in minimum rent primarily results from increased occupancy levels and the replacement of expiring tenant leases with renewal leases at higher minimum base rents. The decrease in net tenant reimbursements is primarily the result of true-up billings and lower spending levels on recoverable expenditures. The increase in other expenses is the result of a non-recurring $3.0 million write-down of an investment and $2.7 million due to the write-off of miscellaneous technology investments. The impact of Property Transactions is an increase in operating income of $1.2 million for the comparative periods.

Income from unconsolidated entities decreased $14.1 million in 2001, resulting from a $4.3 million decrease in income from unconsolidated partnerships and joint ventures and a $9.8 million decrease in income from the Management Company. The decrease in joint venture income is primarily related to our pro rata share of the increased losses in the technology start up activities of MerchantWired, LLC of $5.1 million, partially offset by lower interest rates and the full period impact of two properties which opened in 2000. Included in income from the Management Company is $6.0 million of income from the Kimsward transaction, offset by our net $13.9 million share of the write-off of technology investments, primarily clixnmortar, and a decrease in fee revenues.

Interest expense during the three months ended September 30, 2001 decreased $11.6 million, or 7.2% compared to the same period in 2000. This decrease is primarily due to lower interest rates during 2001 and reductions in the corporate credit facilities offset by the issuance of $500.0 million of unsecured notes on January 11, 2001.

Income before allocation to limited partners was $69.4 million for the three months ended September 30, 2001, which reflects a $8.1 million, or 10.4% decrease over 2000, primarily for the reasons discussed above. Income before allocation to limited partners was allocated to the Companies based on SPG's direct ownership of Ocean County Mall and certain net lease assets, and the Companies' preferred Unit preferences and weighted average ownership interests in the Operating Partnerships during the period.

The comparability between SRC's balance sheet as of September 30, 2001 and December 31, 2000 and results of operations for the three-months ended September 30, 2001 and September 30, 2000 have been affected by the following:

- Effective March 31, 2001, ownership of clixnmortar was transferred from SRC to the Management Company. See Note 1 of the Notes to Unaudited Condensed Financial Statements included in Item 1 of this Form 10-Q for a discussion of the transfer.
- Effective January 1, 2001, ownership of SBV was transferred from SRC to the SPG Operating Partnership.

Preferred distributions of the SPG Operating Partnership represent distributions on preferred Units issued in connection with the NED Acquisition. Preferred dividends of subsidiary represent distributions on preferred stock of SPG Properties, Inc., a 99.999% owned subsidiary of SPG, which was merged into SPG effective July 1, 2001.

*Nine Months Ended September 30, 2001 vs. Nine Months Ended September 30, 2000*

Operating income decreased $9.8 million or 1.5% in 2001 as compared to 2000. This decrease included a $35.9 million increase in minimum rents, excluding our SBV and SBN initiatives, a $5.2 million increase in consolidated revenues realized from our SBV and SBN initiatives and a $0.7 million increase in miscellaneous income. These increases were offset by a $22.2 million increase in depreciation and amortization, a $16.7 million decrease in net tenant reimbursements, a $5.6 million decrease in outlot land sales, a $2.8 million decrease in overage rents, and a $3.9 million increase in other expenses. The increase in minimum rent primarily results from increased occupancy levels and the replacement of expiring tenant leases with renewal leases at higher minimum base rents. The increase in SBV and SBN initiative revenues includes $5.6 million from a contract termination payment. The increase in miscellaneous income includes $5.7 million in fees associated with the Kimsward transaction offset by a decrease in various miscellaneous income items in the prior year. The increase in depreciation and amortization is primarily due to an increase in depreciable real estate realized through renovation and expansion activities. The decrease in net tenant reimbursements is primarily the result of true-up billings and lower spending levels on recoverable expenditures. The increase in other expenses is the result of a non-recurring $3.0 million write-down of an investment and $2.7 million due to the write-off of miscellaneous technology investments partially offset by decreases in various other expenses. The impact of Property Transactions is a decrease in operating income of $0.5 million for the comparative periods.

Income from unconsolidated entities decreased $22.0 million in 2001, resulting from a $14.8 million decrease in income from the Management Company and a $7.2 million decrease in income from unconsolidated partnerships and joint ventures. Included in the Management Company decrease is our net $13.9 million share of the write-off of technology investments, primarily clixnmortar,, as well as a decrease in fee revenues. These amounts are partially offset by $10.0 million of income from Kimsward, LLC net of fees charged by SPG, L.P. The decrease in joint venture income is primarily related to our pro rata share of the increased losses in the technology start up activities of MerchantWired, LLC of $11.3 million, partially offset by lower interest rates and the full year impact of opening two properties in 2000.

Interest expense during the first nine months of 2001 decreased $17.6 million, or 3.7% compared to the same period in 2000. This decrease is primarily due to lower interest rates during 2001 and reductions in the corporate credit facilities offset by the issuance of $500.0 million of unsecured notes on January 11, 2001.

During the first quarter of 2001 we recorded a $1.6 million expense as a cumulative effect of an accounting change, which includes our $1.4 million share from unconsolidated entities, due to the adoption of SFAS 133 "Accounting for Derivative Instruments and Hedging Activities," as amended. See Note 5 of the Notes to Unaudited Condensed Financial Statements included in Item 1 of this Form 10-Q for a discussion of the cumulative effect of accounting change. During the first quarter of 2000 we recorded a $12.3 million expense as a cumulative effect of an accounting change, which includes our $1.8 million share from unconsolidated entities, due to the adoption of Staff Accounting Bulletin No. 101 ("SAB 101"). SAB 101 addressed certain revenue recognition policies, including the accounting for overage rent by a landlord.

The $2.6 million net gain on the sales of assets in 2001 results from the sale of our interests in one regional mall, one community center, and an office building for a gross sales price of approximately $20.3 million. In 2000, we recognized a net gain of $8.8 million on the sale of two regional malls, four community centers, and one office building, partially offset by a $10.6 million asset write-down on two Properties.

Income before allocation to limited partners was $201.4 million for the nine months ended September 30, 2001, which reflects a decrease of $10.3 million, or 4.8% over 2000, primarily for the reasons discussed above. Income before allocation to limited partners was allocated to the Companies based on SPG's direct ownership of Ocean County Mall and certain net lease assets, and the Companies' preferred Unit preferences and weighted average ownership interests in the Operating Partnerships during the period.

The comparability between SRC's balance sheet as of September 30, 2001 and December 31, 2000 and results of operations for the nine months ended September 30, 2001 and September 30, 2000 have been affected by the following:

- Effective March 31, 2001, ownership of clixnmortar transferred from SRC to the Management Compan See Note 1 of the Notes to Unaudited Condensed Financial Statements included in Item 1 of this Form 1 Q for a discussion of the transfer.
- Effective January 1, 2001, ownership of SBV transferred from SRC to the SPG Operating Partnership.

Preferred distributions of the SPG Operating Partnership represent distributions on preferred Units issued in connection with the NED Acquisition. Preferred dividends of subsidiary represent distributions on preferred stock of SPG Properties, Inc.

***Liquidity and Capital Resources***

As of September 30, 2001, our balance of unrestricted cash and cash equivalents was $161.7 million, including $44.8 million related to our gift certificate program, which we do not consider available for general working capital purposes. We have a $1.25 billion unsecured revolving credit facility (the "Credit Facility") which had available credit of $522.5 million as of September 30, 2001. The Credit Facility bears interest at LIBOR plus 65 basis points and has an initial maturity of August 2002, with an additional one-year extension available at our option. SPG and the SPG Operating Partnership also have access to public equity and debt markets. Our current corporate bond ratings are Baa1 by Moody's Investors Service and BBB+ by Standard & Poor's.

We anticipate that cash generated from operating performance will provide the funds we need on a short- and long-term basis for operating expenses, interest expense on outstanding indebtedness, recurring capital expenditures, and distributions to shareholders in accordance with REIT requirements. Sources of capital for nonrecurring capital expenditures, such as major building renovations and expansions, as well as for scheduled principal payments, including balloon payments, on outstanding indebtedness are expected to be obtained from:

- excess cash generated from operating performance
- working capital reserves
- additional debt financing and
- additional equity raised in the public markets.

*Financing and Debt*

As of September 30, 2001, we had combined consolidated debt of $8.8 billion, of which $6.8 billion was fixed-rate debt bearing interest at a weighted average rate of 7.3% and $2.0 billion was variable-rate debt bearing interest at a weighted average rate of 3.9%. As of September 30, 2001, we had interest rate protection agreements related to combined consolidated variable-rate debt with a total carrying amount of $390.2 million. Our interest rate protection agreements did not materially impact interest expense or weighted average borrowing rates for the nine months ended September 30, 2001 or 2000.

Our share of total scheduled principal payments of mortgage and other indebtedness, including unconsolidated joint venture indebtedness over the next five years is $6.0 billion, with $4.9 billion thereafter. Our ratio of consolidated debt-to-market capitalization was 54.5% and 57.0% at September 30, 2001 and December 31, 2000, respectively.

On August 6, 2001, we retired the third and final tranche of the CPI merger facility totaling $435.0 million. We generated the funds used to retire this debt primarily from our $277.0 million financing of four mall properties at fixed rate of 6.99%, our $110.0 million financing of one office complex at LIBOR plus 115 basis points, and excess cash flow.

Subsequent to September 30, 2001, we completed the sale of $750.0 million of 6.375% senior unsecured notes due November 15, 2007. Net proceeds from the offering were initially used to reduce the outstanding balance of the Credit Facility. Ultimately, we plan to retire mortgage indebtedness on six wholly-owned properties and to retire $250.0 million of 9% bonds that mature in early 2002.

See Note 7 of the Notes to Unaudited Condensed Financial Statements included in Item 1 of this Form 10-Q for a discussion of the unsecured debt issued on January 11, 2001.

*Acquisitions and Disposals*

Subsequent to September 30, 2001, we purchased a 50% interest in Fashion Valley Mall located in San Diego, California for a purchase price of $165.0 million which includes our share of a $200.0 million, seven year mortgage at a fixed rate of 6.5% issued by the partnership owning the property concurrent with the acquisition. We will also assume management responsibilities for this 1.7 million square foot open-air, super-regional mall..

We continue to review and evaluate a limited number of acquisition opportunities and will continue our focus on acquiring highly productive, market dominant malls. We believe that acquisition activity in the near term will be a less significant component of our growth strategy and amounts available under the Credit Facility, together with the ability to issue shares of common stock and/or Units, provide adequate means to finance certain acquisitions. We cannot assure you that we will not be required to, or will not elect to, even if not required to, obtain funds from outside sources, including through the sale of debt or equity securities, to finance significant acquisitions, if any.

*Dispositions*

During the first nine months of 2001, we sold our interests in one regional mall, one community center, and one office building for a combined gross sales price of $20.3 million, resulting in a net combined gain of $2.6 million. The net proceeds of approximately $19.6 million were used for general working capital purposes.

In addition to the Property sales described above, as a continuing part of our long-term strategic plan, we continue to pursue the sale of our remaining non-retail holdings and a number of retail assets that are no longer aligned with our strategic criteria, including four Properties currently under contract for sale. We expect the sale prices of our non-core assets, if sold, will not differ materially from the carrying value of the related assets.

*Development Activity*

*New Developments.* Development activities are an ongoing part of our business. During 2000, we opened two new Properties aggregating approximately 1.7 million square feet of GLA. In total, we invested approximately $179.6 million on new developments in 2000. With fewer new developments currently under construction, we expect 2001 development costs to be approximately $65.6 million.

*Strategic Expansions and Renovations.* One of our key objectives is to increase the profitability and market share of the Properties through the completion of strategic renovations and expansions. During 2000, we invested approximately $201.6 million on redevelopment projects and completed five major redevelopment projects, which added approximately 1.2 million square feet of GLA to the Portfolio. We have a number of renovation and/or expansion projects currently under construction, or in pre-construction development and expect to invest approximately $129.0 million on redevelopment in 2001.

*International Expansion*. The SPG Operating Partnership has a 32.3% ownership interest in European Retail Enterprises, B.V. (“ERE”), which is accounted for using the equity method of accounting. Prior to January 2001, the Management Company had a 29% ownership interest in Groupe BEG, S.A. (“BEG”) which was accounted for using the equity method of accounting. In January 2001, BEG merged with ERE and became a wholly-owned subsidiary of ERE. During the third quarter of 2001 the Management Company transferred its interest in ERE to the SPG Operating Partnership through the intercompany note to simplify the organizational structure. BEG and ERE are fully integrated European retail real estate developers, lessors and managers. Our current total cash investment in ERE and BEG, including subordinated debt, is approximately $69.9 million. The current estimated additional commitment, including subordinated debt, is approximately $34.7 million. However, since our future commitments are subject to certain performance and other criteria, including our approval of development projects, these additional commitments may vary. The agreements with BEG and ERE are structured to allow us to acquire an additional 29.4% ownership interest over time. As of September 30, 2001, BEG and ERE had three Properties open in Poland and two in France.

*Technology Initiatives*. We continue with our technology initiatives through two investments including MerchantWired LLC, and Constellation Real Technologies including its investment in FacilityPro.com as described in our annual report. The SPG Operating Partnership owns an approximately 53% indirect non-controlling interest in MerchantWired LLC and accounts for it using the equity method of accounting. MerchantWired LLC is currently considering discussions with third parties, primarily telecommunications companies, to act as further partners in the venture. The future operations of MerchantWired LLC may be impacted by the outcome of these discussions.

These activities may generate losses in the initial years of operation, while programs are being developed and customer bases are being established. The investments have a total carrying amount of approximately $33.5 million through September 30, 2001. We expect to continue to invest in these programs and together with the other members of MerchantWired, LLC have guaranteed our pro rata share of certain equipment lease payments. We cannot assure you that our technology programs will succeed.

*Distributions.* The Companies declared a common stock dividend of $0.525 per share in the third quarter of 2001. The current combined annual distribution rate is $2.10 per Paired Share. Dividends during 2000 aggregated $2.02 per share. Future distributions will be determined based on actual results of operations and cash available for distribution.

***Investing and Financing Activities***

Cash used in investing activities of $161.4 million for the nine months ended September 30, 2001 includes capital expenditures of $217.8 million, investments in unconsolidated joint ventures of $112.9 million, and advances to the Management Company of $3.8 million. Capital expenditures include development costs of $54.4 million, renovation and expansion costs of $111.6 million and tenant costs and other operational capital expenditures of $51.8 million. These cash uses are partially offset by distributions from unconsolidated entities of $145.3 million, cash from the consolidation of ASP of $8.2 million and net proceeds of $19.6 million from the sale of three properties previously mentioned.

Cash used in financing activities for the nine months ended September 30, 2001 was $372.0 million and includes net distributions of $429.7 million, offset by net borrowings of $57.7 million.

***EBITDA—Earnings from Operating Results before Interest, Taxes, Depreciation and Amortization***

We believe that there are several important factors that contribute to our ability to increase rent and improve profitability of our shopping centers, including aggregate tenant sales volume, sales per square foot, occupancy levels and tenant costs. Each of these factors has a significant effect on EBITDA. We believe that EBITDA is an effective measure of shopping center operating performance because:

- it is industry practice to evaluate real estate properties based on operating income before interest, taxes, depreciation and amortization, which is generally equivalent to EBITDA
- EBITDA is unaffected by the debt and equity structure of the property owner.

However, you should understand that EBITDA:

- does not represent cash flow from operations as defined by accounting principles generally accepted in the United States
- should not be considered as an alternative to net income as a measure of operating performance
- is not indicative of cash flows from operating, investing and financing activities
- is not an alternative to cash flows as a measure of liquidity.

Total EBITDA for the Properties increased from $1,506.1 million for the nine months ended September 30, 2000 to $1,570.0 million, excluding technology startup costs, for the same period in 2001, representing a 4.2% increase. This growth is primarily the result of increased rental rates, sustained tenant sales, improved occupancy levels, effective control of operating costs and the addition of GLA to the Portfolio through strategic expansions and renovations. During this period, the operating profit margin decreased from 64.0% to 63.8%. There were no major acquisitions during 2001.

***FFO-Funds from Operations***

FFO is an important and widely used measure of the operating performance of REITs, which provides a relevant basis for comparison among REITs. FFO, as defined by NAREIT, means consolidated net income without giving effect to real estate related depreciation and amortization, gains or losses from extraordinary items, cumulative effect of accounting change, and gains or losses on sales of real estate, plus the allocable portion, based on economic ownership interest, of funds from operations of unconsolidated joint ventures, all determined on a consistent basis in accordance with accounting principles generally accepted in the United States. Further, we have added back our write-off of technology investments. However, FFO:

- does not represent cash flow from operations as defined by accounting principles generally accepted in the United States
- should not be considered as an alternative to net income as a measure of operating performance
- is not an alternative to cash flows as a measure of liquidity.

The following summarizes our FFO and that of the Companies and reconciles our combined income before extraordinary items and cumulative effect of accounting change to our FFO for the periods presented:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| (In thousands) | | | | |
| Our FFO | $ 210,241 | $ 192,453 | $ 577,005 | $ 543,146 |
| Reconciliation: | | | | |
| Income Before Extraordinary Items and Cumulative Effect of Accounting Change (1) (2) | $ 69,585 | $ 77,434 | $ 203,330 | $ 224,482 |
| Plus: | | | | |
| Depreciation and amortization from combined consolidated Properties | 110,799 | 105,600 | 323,545 | 302,742 |
| Our share of depreciation and amortization from unconsolidated affiliates | 33,955 | 30,395 | 98,675 | 87,251 |
| Write-off of technology investments | 16,645 | -- | 16,645 | -- |
| Less: | | | | |
| (Gain) loss on sale of asset, net of asset write downs of $0, $0, $0, and $10,572, respectively | 131 | (151) | (2,552) | (8,809) |
| Minority interest portion of depreciation and amortization | (1,540) | (1,491) | (4,527) | (4,446) |
| Preferred distributions (including preferred distributions of a subsidiary and to preferred unitholders) | (19,334) | (19,334) | (58,111) | (58,074) |
| Our FFO | $ 210,241 | $ 192,453 | $ 577,005 | $ 543,146 |
| FFO Allocable to the Companies | $ 152,683 | $ 139,472 | $ 418,965 | $ 394,021 |

Notes:

(1) Includes gains on land sales of $5.0 million and $6.3 million for the three months ended September 30, 2001 and 2000, respectively, and $8.3 million and $10.8 million for the nine months ended September 30, 2001 and 2000, respectively

(2) Includes straight-line rent adjustments to minimum rent of $3.3 million and $4.6 million for the three months ended September 30, 2001 and 2000, respectively, and $9.4 million and $14.9 million for the nine months ended September 30, 2001 and 2000, respectively.

***Portfolio Data***

The following operating statistics do not include Properties located outside of the United States.

*Aggregate Tenant Sales Volume*. For the nine months ended September 30, 2001 compared to the same period in 2000, total reported retail sales at mall and freestanding GLA we own ("Owned GLA") in the regional malls increased $318.7 million or 2.9% from $10.8 billion to $11.2 billion, primarily as a result of increased productivity of our existing tenant base and an overall increase in occupancy. Retail sales at Owned GLA affect revenue and profitability levels because they 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.) the tenants can afford to pay.

*Occupancy Levels*. Occupancy levels for Owned GLA at mall and freestanding stores in the regional malls increased from 90.5% at September 30, 2000, to 90.6% at September 30, 2001. Owned GLA has decreased 0.2 million square feet from September 30, 2000, to September 30, 2001, primarily as a result of dispositions.

*Average Base Rents.* Average base rents per square foot of mall and freestanding Owned GLA at regional malls increased 3.8%, from $27.97 at September 30, 2000 to $29.03 at September 30, 2001.

***Inflation***

Inflation remains relatively low and has had a minimal impact on the operating performance of the Properties. Nonetheless, substantially all of the tenants' leases contain provisions designed to lessen the impact of inflation. These provisions include clauses enabling us to receive percentage rentals based on tenants' gross sales, which generally increase as prices rise, and/or escalation clauses, which generally increase rental rates during the terms of the leases. In addition, many of the leases are for terms of less than ten years, which may enable us to replace existing leases with new leases at higher base and/or percentage rentals if rents of the existing leases are below the then-existing market rate. Substantially all of the leases, other than those for anchors, require the tenants to pay a proportionate share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing our exposure to increases in costs and operating expenses resulting from inflation.

However, inflation may have a negative impact on some of our other operating items. Interest and general and administrative expenses may be adversely affected by inflation as these specified costs could increase at a rate higher than rents. Also, for tenant leases with stated rent increases, inflation may have a negative effect as the stated rent increases in these leases could be lower than the increase in inflation at any given time.

***Seasonality***

The shopping center industry is seasonal in nature, particularly in the fourth quarter during the holiday season, when tenant occupancy and retail sales are typically at their highest levels. In addition, shopping malls achieve most of their temporary tenant rents during the holiday season. As a result of the above, our earnings are generally highest in the fourth quarter of each year.

***Retail Climate and Tenant Bankruptcies***

The recent events of September 11, 2001 have negatively impacted the overall economy in which we operate. These pressures may further affect, amongst other factors, consumer confidence and job growth. A significant portion of our overage and percent rent revenue is typically recognized during the fourth quarter of our fiscal year. We are unable to determine what effect these world events may have on consumer spending for the fourth quarter 2001 and beyond. If the impact of these events on consumer spending result in weak retail sales, they could negatively impact our ability to recognize overage and percent rent revenue.

A number of local, regional, and national retailers, including both in-line and anchor tenants, have recently announced store closings or filed for bankruptcy. Some changeover in tenants is normal in our business. We lost 800,000 square feet of tenants in 2000 and 1,600,000 square feet in the first nine months of 2001 to bankruptcies. Pressures which affect consumer confidence, job growth, energy costs and income gains, however, can affect retail sales growth and a continuing soft economic cycle may impact our ability to retenant property vacancies resulting from these store closings or bankruptcies.

The geographical diversity of our portfolio mitigates some of our risk in the event of an economic downturn. In addition, the diversity of our tenant mix also is a factor because no single retailer represents neither more than 2.0% of total GLA nor more than 3.5% of our annualized base minimum rent. Bankruptcies and store closings may, in some circumstances, create opportunities for us to release spaces at higher rents to tenants with enhanced sales performance. Our previously demonstrated ability to successfully retenant anchor and in line store locations reflects our resilience to fluctuations in economic cycles. While these factors reflect some of the inherent strengths of our portfolio in a difficult retail environment, successful execution of a releasing strategy is not assured.

**Item 3. Qualitative and Quantitative Disclosure About Market Risk**

*Sensitivity Analysis.* Our combined future earnings, cash flows and fair values relating to financial instruments are dependent upon prevalent market rates of interest, primarily LIBOR. Based upon consolidated indebtedness and interest rates at September 30, 2001, a 0.50% increase in the market rates of interest would decrease annual future earnings and cash flows by approximately $9.0 million, and would decrease the fair value of debt by approximately $462.9 million. A 0.50% decrease in the market rates of interest would increase annual future earnings and cash flows by approximately $9.0 million, and would increase the fair value of debt by approximately $532.3 million. We manage our exposure to interest rate risk by a combination of interest rate protection agreements to effectively fix or cap a portion of our variable rate debt or in the case of a fair value hedge, to effectively convert fixed rate debt to variable rate debt and by refinancing fixed rate debt at times when rates and terms are appropriate.

**Part II - Other Information**

Item 1: Legal Proceedings

Please refer to Note 9 of the combined financial statements for a summary of material pending litigation.

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

2.1 Agreement of Merger dated May 9, 2001 between Simon Property Group, Inc. and SPG Properties, Inc. (the copy of this exhibit filed as Exhibit 1.1 to SPG's Registration Statement on Form S-4 (No. 333-60526) is incorporated herein by reference).

(b) Reports on Form 8-K

Two reports on Form 8-K were filed during the current period.

On July 2, 2001 under Item 2 – Acquisition or Disposition of Assets, SPG reported the completion of the previously announced merger (the "Merger") of SPG Properties, Inc. with and into Simon Property Group, Inc., with Simon Property Group, Inc. being the surviving entity.

On August 10, 2001 under Item 5 - Other Events, SPG reported that it made available additional ownership and operational information concerning the Companies, the Operating Partnerships, and the properties owned or managed as of June 30, 2001, in the form of a Supplemental Information Package. A copy of the package was included as an exhibit to the 8-K filing. In addition, SPG reported that, on August 8, 2001, it issued a press release containing information on earnings as of June 30, 2001 and other matters. A copy of the press release was included as an exhibit to the filing.

**SIGNATURE**

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

**SIMON PROPERTY GROUP, INC. AND**
**SPG REALTY CONSULTANTS, INC.**

/s/ Stephen E. Sterrett
Stephen E. Sterrett,
Executive Vice President and Chief Financial Officer

Date: November 14, 2001