

SIMON PROPERTY GROUP INC /DE/  
Form DEF 14A  
April 04, 2007

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Simon Property Group, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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# PROXY STATEMENT

April 4, 2007

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Simon Property Group, Inc.  
225 West Washington Street  
Indianapolis, Indiana 46204

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

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TIME	10:00 a.m. on Thursday, May 10, 2007
PLACE	The Westin Indianapolis 50 South Capitol Avenue Indianapolis, Indiana 46204
ITEMS OF BUSINESS	(1) To elect a total of eleven (11) directors (seven (7) to be elected by the holders of all classes of voting securities and four (4) to be elected by the holders of Class B common stock) each to serve until the next annual meeting of stockholders. (2) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2007. (3) To consider a stockholder proposal to link pay to performance. (4) To consider a stockholder proposal regarding an advisory stockholder vote on executive compensation. (5) To consider a stockholder proposal regarding stockholder approval of future severance agreements. (6) To transact such other business as may properly come before the meeting.
RECORD DATE	You can vote if you are a stockholder of record on March 9, 2007.
ANNUAL REPORT	Our 2006 annual report, which is not part of the proxy soliciting material, is enclosed.
PROXY VOTING	We cordially invite you to attend the meeting, but regardless of whether you plan to be present, please vote in one of these ways: (1) USE THE TOLL-FREE TELEPHONE NUMBER shown on the proxy card (this is a free call in the U.S.); (2) VISIT THE WEB SITE noted on your proxy card to vote via the Internet; OR (3) MARK, SIGN, DATE AND PROMPTLY RETURN the enclosed proxy card in the envelope provided, which requires no additional postage if mailed in the United States.
ADMISSION TICKET	Any proxy may be revoked at any time prior to its exercise at the meeting. If you plan to attend the meeting, please bring the admission ticket attached to your proxy card. If your shares are registered in the name of a bank or your broker, you need to obtain a proof of ownership from the bank or broker and bring it with you to the meeting.
	By order of the Board of Directors.

April 4, 2007

James M. Barkley  
Secretary

Simon Property Group, Inc.  
225 West Washington Street  
Indianapolis, Indiana 46204

**PROXY STATEMENT**

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**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING**

**Why did I receive these proxy materials?**

You are receiving these proxy materials in connection with the solicitation of proxies on behalf of the Board of Directors of Simon Property Group, Inc. ("Simon," "we," "us," "our" or the "company") for use at the annual meeting of stockholders on May 10, 2007. We are sending this proxy statement to all stockholders of record as of the close of business on March 9, 2007 beginning April 4, 2007.

**What is a proxy?**

A proxy is your legal designation of another person (the "proxy") to vote on your behalf. By completing and returning the enclosed proxy card, you are giving the persons named in the proxy card, Herbert Simon and David Simon, the authority to vote your shares in the manner you indicate on your proxy card.

**Who is qualified to vote?**

You are qualified to vote on all matters presented to the stockholders at the meeting if you own shares of our common stock, par value \$.0001 per share, Class B common stock, par value \$.0001 per share, and Class C common stock, par value \$.0001 per share, at the close of business on March 9, 2007. In addition, if you own shares of our Series G Cumulative Step-Up Premium Rate preferred stock at the close of business on March 9, 2007, you are entitled to vote your shares on the election of directors at the meeting.

All of the Class B common shares are held by a voting trust as to which Melvin Simon, Herbert Simon and David Simon are the voting trustees. All of the Class C common shares are owned by NID Corporation (formerly known as The Edward J. DeBartolo Corporation). The Board is not soliciting proxies in respect of the Class B common shares or the Class C common shares, although we expect those shares will be represented at the meeting.

**How many shares may vote at the meeting?**

On March 9, 2007, there were outstanding 223,375,715 shares of common stock, 8,000 shares of Class B common stock, 4,000 shares of Class C common stock and 3,000,000 shares of Series G preferred stock. As a result, a total of 226,387,715 shares are entitled to vote (which we refer to in this proxy statement as the "voting shares") on the election of directors at the meeting and a total of 223,387,715 shares are entitled to vote on all other matters presented to stockholders at the meeting.

**How many shares must be present to hold the meeting?**

The presence at the meeting in person or by proxy of holders of shares representing a majority of all the votes entitled to be cast at the meeting, or 113,193,858 voting shares, will constitute a quorum for the transaction of business.

**What is the difference between a "stockholder of record" and a "street name" holder?**

These terms describe how your shares are held. If your shares are registered directly in your name with Mellon Investor Services LLC, the company's transfer agent, you are a "stockholder of record." If your shares are held in the name of a brokerage, bank, trust or other nominee as a custodian, you are a "street name" holder.

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**How do I vote my shares?**

*If you are a "stockholder of record," you have several choices. You can vote your proxy:*

By mailing in the enclosed proxy card or voting instruction card;

Over the telephone; or

Via the Internet.

Please refer to the specific instructions set forth on the enclosed proxy card. For security reasons, our electronic voting system has been designed to authenticate your identify as a stockholder.

*If you hold your shares in "street name," your broker/bank/trustee/nominee will provide you with materials and instructions for voting your shares.*

**Can I vote my shares in person at the meeting?**

*If you are a "stockholder of record," you may vote your shares in person at the meeting. If you hold your shares in "street name," you must obtain a proxy form your broker, banker, trustee or nominee, giving you the right to vote the shares at the meeting.*

**What do I need to do to attend the meeting in person?**

Either an admission ticket or proof of ownership of the voting stock, as well as a form of personal identification, must be presented in order to be admitted to the meeting. If you are a stockholder of record, your admission ticket is attached to your proxy card. If you are a beneficial owner and your shares are held in the name of a broker, bank or other nominee, you must bring a brokerage statement or other proof of ownership with you to the annual meeting, or you may request an admission ticket in advance by mailing a request, along with proof of your ownership of the voting stock, to Simon Property Group, Investor Relations, 225 West Washington Street, Indianapolis, Indiana 46204.

**What are the Board's recommendations on how I should vote my shares?**

The Board recommends that you vote your shares as follows:

Proposal 1: **FOR** the election of the nominees for election as directors with terms expiring at the 2008 annual meeting of stockholders.

Proposal 2: **FOR** the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm (independent auditors) for the year ending December 31, 2007.

Proposal 3: **AGAINST** the stockholder proposal to link pay to performance.

Proposal 4: **AGAINST** the stockholder proposal regarding an advisory stockholder vote on executive compensation.

Proposal 5: **AGAINST** the stockholder proposal regarding stockholder approval of future severance agreements.

**What are my choices when voting?**

Proposal 1 You may cast your vote in favor of electing the nominees as directors or withhold your vote on one or more nominees.

Proposals 2 through 5 You may cast your vote in favor of or against each proposal, or you may elect to abstain from voting your shares.

**How would my shares be voted if I do not specify how they should be voted?**

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If you sign and return your proxy card without indicating how you want your shares to be voted, the persons named in the enclosed proxy will vote your shares as follows:

Proposal 1: **FOR** the election of the nominees for directors with terms expiring

at the 2008 annual meeting of stockholders.

Proposal 2: **FOR** the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm (independent auditors) for the year ending December 31, 2007.

Proposal 3: **AGAINST** the stockholder proposal to link pay to performance.

Proposal 4: **AGAINST** the stockholder proposal regarding an advisory stockholder vote on executive compensation.

Proposal 5: **AGAINST** the stockholder proposal regarding stockholder approval of future severance agreements.

**How are votes withheld, abstentions and broker non-votes treated?**

Votes withheld and abstentions are deemed as "present" at the meeting, are counted for quorum purposes and, other than for Proposal 1, will have the same effect as a vote against the matter.

A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary authority to vote for that particular proposal and has not received instructions from the beneficial owner as to how to vote their shares. Broker non-votes, if any, while counted for general quorum purposes, are not deemed to be "present" with respect to any matter for which a broker does not have discretionary authority to vote and, therefore, will not be counted.

**What vote is required to approve each proposal?**

Proposal 1 requires a plurality of the votes cast to elect a director; however, under our Governance Principles, a nominee who receives more "withhold" votes than "for" votes will be required to tender his or her resignation to the Governance Committee. For more information on this subject, see "Corporate Governance Matters Majority Vote Standard for Election of Directors" beginning on page 7 of this proxy statement.

Proposal 2 requires the affirmative vote of a majority of those shares present in person or represented by proxy and entitled to vote thereon at the meeting.

Proposal 3 requires the affirmative vote of a majority of those shares present in person or represented by proxy and entitled to vote thereon at the meeting.

Proposal 4 requires the affirmative vote of a majority of those shares present in person or represented by proxy and entitled to vote thereon at the meeting.

Proposal 5 requires the affirmative vote of a majority of those shares present in person or represented by proxy and entitled to vote thereon at the meeting.

All shares entitled to vote at the meeting are entitled to one vote per share. The voting trustees for the Class B common shares have informed us that they intend to vote the Class B common shares in favor of the seven nominees for director to be elected by holders of voting shares named below and the four nominees for Class B director named below.

**Why did I receive more than one proxy card or voting instruction card?**

You will receive multiple cards if you hold your shares in different ways (e.g., joint tenancy, trusts, custodial accounts) or are in multiple accounts. If your shares are held by a broker (i.e., in "street name"), you will receive your proxy card or other voting information from your broker, and you will return your proxy card or cards to your broker. You should vote on and sign each proxy card and voting instruction card you receive.



**Can I change my vote after I have mailed in my proxy card?**

You may revoke your proxy by doing one of the following:

By sending a written notice of revocation to the Secretary of the company at 225 West Washington Street, Indianapolis, Indiana 46204 that is received prior to the meeting, stating that you revoke your proxy;

By signing a later-dated proxy card and submitting it so that it is received prior to the meeting in accordance with the instructions included in the proxy card(s); or

By attending the meeting and voting your shares in person.

**What happens if additional matters are presented at the annual meeting?**

Other than the items of business described in this proxy statement, we know of no other business to be transacted at the meeting. If other matters requiring a vote do arise, the persons named in the enclosed proxy, Herbert Simon and David Simon, will have the discretion to vote on those matters for you.

**Who will count the votes?**

Representatives from our transfer agent, Mellon Investor Services LLC, will count the votes and serve as our inspectors of election. The inspectors will be present at the meeting.

**Will the meeting be accessible to disabled persons?**

The Westin Indianapolis is accessible to disabled persons and, upon request, we will provide wireless headsets for hearing amplification. Sign interpretation will also be offered upon request. Please call us at least five days in advance at 317-685-7330 if you require either of these services or other special accommodations.

**How can I review the list of stockholders entitled to vote at the meeting?**

A list of stockholders entitled to vote at the meeting will be available at the meeting and for ten days prior to the meeting, between the hours of 8:45 a.m. and 4:30 p.m., at our offices at 225 West Washington Street, Indianapolis, Indiana. If you would like to view the stockholder list, please contact our Secretary to schedule an appointment.

**Who pays the cost of this proxy solicitation?**

We will pay the cost of preparing, assembling, and mailing the proxy material. We will also request banks, brokers and other holders of record to send the proxy material to, and obtain proxies from, beneficial owners, and will reimburse them for their reasonable expenses in doing so. In addition, we have hired MacKenzie Partners, Inc. to assist in the solicitation of proxies. We will pay MacKenzie Partners a fee of \$10,000 for its services.

**Is this proxy statement the only way that proxies are being solicited?**

In addition to mailing these proxy materials, certain employees or other representatives of the company may solicit proxies by telephone, facsimile, e-mail or personal contact. They will not be specifically compensated for doing so.

## PRINCIPAL STOCKHOLDERS

The following table sets forth certain information concerning each person (including any group) known to us to beneficially own more than five percent (5%) of any class of voting securities of the company as of March 9, 2007. Unless otherwise indicated in the footnotes, shares are owned directly, and the indicated person has sole voting and investment power.

Name and Address of Beneficial Owner	Shares <sup>(1)</sup>		Series G Preferred	
	Number of Shares	% <sup>(2)</sup>	Number of Shares	%
Melvin Simon & Associates, Inc., <i>et al.</i> <sup>(3)</sup> 115 W. Washington Street Indianapolis, IN 46204	34,935,209 <sup>(4)</sup>	13.8%	n/a	
Edward J. DeBartolo, Jr., <i>et al.</i> <sup>(5)</sup> 15436 North Florida Avenue, Suite 200 Tampa, FL 33613	15,481,338 <sup>(6)</sup>	6.5%	n/a	
Capital Research and Management Company, <i>et al.</i> <sup>(7)</sup> 333 South Hope Street Los Angeles, CA 90071	n/a		200,000	6.7%
Morgan Stanley <sup>(8)</sup> 1585 Broadway New York, NY 10036	11,968,273	5.4%	n/a	
Barclays Global Investors, NA, <i>et al.</i> <sup>(9)</sup> 45 Fremont Street San Francisco, CA 94105	11,361,537	5.1%	n/a	
The Vanguard Group, Inc. <sup>(10)</sup> 100 Vanguard Boulevard Malvern, PA 19355	13,311,775	6.0%	n/a	

(1) Shares include shares of common stock, Class B common stock and Class C common stock. Upon the occurrence of certain events, Class B common stock and Class C common stock convert automatically into common stock (on a share-for-share basis). The amounts in the table also include common shares that may be issued upon the exchange of units as well as the exercise of stock options. Units held by limited partners are exchangeable either for common shares (on a one-to-one basis) or for cash.

(2) Assumes the exercise of stock options and exchange of units for common shares by the subject holder only.

(3) This group consists of Melvin Simon & Associates, Inc. ("MSA"), wholly owned subsidiaries of MSA, Melvin Simon, Herbert Simon, David Simon and MH Holdings, Inc. Melvin Simon, Herbert Simon and David Simon are our directors and executive officers. MSA is owned 69.06% by Melvin Simon and 30.94% by Herbert Simon. MH Holdings, Inc. is owned 50% by Melvin Simon and 50% by Herbert Simon. 3,192,000 shares of common stock and 8,000 shares of Class B common stock owned by the group are held by voting trusts as to which Melvin Simon, Herbert Simon and David Simon are the voting trustees.

(4) Includes 4,493,330 shares of common stock currently outstanding; 30,083,879 shares of common stock issuable upon exchange of units; 350,000 shares of common stock issuable upon exercise of stock options that are exercisable within 60 days; and 8,000 shares of Class B common stock. Does not include 4,472,576 shares of common stock issuable upon exchange of units held by members of the Simon Family other than Melvin

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Simon, Herbert Simon, and David Simon or units held by trusts for the benefit of members of the Simon family over which MSA, Melvin Simon, Herbert Simon and David Simon do not have voting or dispositive power.

(5)

The beneficial owners of the securities are Edward J. DeBartolo, Jr., NID Corporation, directly or indirectly, members of the DeBartolo family, and trusts established for the benefit of members of the DeBartolo family or entities in which the foregoing persons hold interests.

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- (6) Includes 15,477,338 shares of common stock issuable upon exchange of units and 4,000 outstanding shares of Class C common stock. Does not include 1,028 shares of common stock or 30,000 shares of common stock issuable upon exchange of units held by M. Denise DeBartolo York over which Edward J. DeBartolo, Jr. and NID Corporation do not have voting or dispositive power.
- (7) Based solely on information provided by Capital Research and Management Company and The Income Fund of America, Inc. in a Schedule 13G filed with the Securities and Exchange Commission on February 12, 2007. Capital Research and Management Company has sole power to dispose of 200,000 shares of Series G preferred stock, but no power to vote such shares. Capital Research and Management Company disclaims its beneficial ownership of these shares. The Income Fund of America, Inc. has the power to vote the 200,000 shares of Series G preferred stock, but has no power to dispose of such shares.
- (8) Based solely on information provided by Morgan Stanley in a Schedule 13G filed with the Securities and Exchange Commission on February 15, 2007. Morgan Stanley has sole voting power with respect to 8,374,713 shares of common stock and shared voting power with respect to 2,396 shares. Morgan Stanley has the sole power to dispose of 11,968,273 shares of common stock. The Schedule 13G reflects the securities beneficially owned by certain operating units of Morgan Stanley and its subsidiaries and affiliates.
- (9) Based solely on information provided by Barclays Global Investors, NA, Barclays Global Fund Advisors, Barclays Global Investors, Ltd., Barclays Global Investors Japan Trust and Banking Company Limited, and Barclays Global Investors Japan Limited in a Schedule 13G filed with the Securities and Exchange Commission on January 23, 2007. The shares reported are held in trust accounts of an investment trust for the economic benefit of the beneficiaries of those accounts. The Barclays entities collectively have the sole power to vote 10,343,650 shares of common stock and to dispose of 11,361,537 shares.
- (10) Based solely on information provided by The Vanguard Group, Inc. in a Schedule 13G filed with the Securities and Exchange Commission on February 14, 2007. The Vanguard Group, Inc. has the sole power to vote 229,206 shares of common stock and dispose of 13,311,775 shares. Vanguard Fiduciary Trust Company, a wholly owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 299,206 shares of common stock and directs the voting of those shares.

## SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and beneficial owners of more than 10% of our capital stock to file reports of ownership and changes of ownership with the Securities and Exchange Commission and the New York Stock Exchange. Based on our records and other information, we believe that during the year ended December 31, 2006 all applicable Section 16(a) filing requirements were met.

## CORPORATE GOVERNANCE MATTERS

### Policies on Corporate Governance

Our Board believes that good corporate governance is important to ensure that the company is managed for the long-term benefit of its stockholders. In recent years, we implemented and have continued to refine our corporate governance practices and procedures. During the past year, the Board reviewed our Governance Principles, the written charters for each of the five standing committees of the Board and our Code of Business Conduct and Ethics and amended them as appropriate to reflect new policies or practices. The current version of each of these documents is available on our internet website, [www.simon.com](http://www.simon.com), in the About Simon/Investor Relations/Corporate Governance section, and will be provided in print without charge upon written request to our Secretary at 225 West Washington Street, Indianapolis, Indiana 46204. The Board expects these documents will continue to change as requirements or best practices in this area evolve.

We will also either disclose on Form 8-K or post on our internet website any substantive amendment to, or waiver from, a provision of the Code of Business Conduct and Ethics that applies to any of our directors or executive officers.

### Director Independence

As permitted by the rules of the New York Stock Exchange, the Board has adopted categorical standards to assist it in making determinations of director independence. These standards incorporate, and are consistent with, the definition of "independent" contained in the New York Stock Exchange listing rules. These standards are set forth in our Governance Principles and are included in this proxy statement as Appendix A. The Board has affirmatively determined that each of the seven nominees for director to be elected by the holders of voting shares, and Fredrick W. Petri and M. Denise DeBartolo York, current directors appointed by the holder of Class C common shares, meets these categorical standards and is independent.

In making its determination, the Board considered the following relationships which certain directors have with us:

Mr. Bayh's relationship with a law firm to whom we paid less than \$10,000 for legal services during 2006;

Mr. Smith's position with his employer, which has provided investment banking services to us and is a member of the syndicate of banks that provides our unsecured credit facility;

Ms. DeBartolo York's relationship with other members of the DeBartolo family and related persons who control NID Corporation (formerly known as the Edward J. DeBartolo Corporation) and who, in the aggregate, represent one of our principal stockholders and the holder of all of our Class C common shares.

The Board concluded that none of these relationships would interfere with the ability of the director to be independent from management and to act in our best interests and the interests of our stockholders.

### Majority Vote Standard for Election for Directors

Our Governance Principles require that any director who, in an uncontested election, receives a greater number of "withhold" votes than "for" votes promptly tender his or her resignation to the Chairman of the Governance Committee. The

Governance Committee will promptly consider the resignation and will recommend to the Board whether to accept or reject it. Both the Governance Committee and the Board will consider all factors they deem relevant in the exercise of their fiduciary duties, including, without limitation:

the director's qualifications, length of service, and contributions to the company;

the stated reasons why the stockholders withheld their votes for the director; and

our Governance Principles.

The Board will act on the recommendation within 90 days after the vote is certified, unless the action to be taken would cause the company to fail to meet any applicable requirement of the Securities and Exchange Commission or the New York Stock Exchange. The affected director cannot participate in any part of the process. We will disclose the Board's decision on a Form 8-K furnished to the Securities and Exchange Commission promptly after the decision, including a full explanation of the process by which the decision was reached and, if applicable, the reasons why the Board rejected the director's resignation.

In a contested election (a situation in which the number of nominees exceeds the number of directors to be elected), the standard for election of directors will be a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors.

#### **Nominations for Directors**

The Nominating Committee will consider director nominees recommended by stockholders. A stockholder who wishes to recommend a director candidate for consideration by the Nominating Committee should send such recommendation to our Secretary at 225 West Washington Street, Indianapolis, Indiana 46204, who will forward it to the Nominating Committee. Any such recommendation should include a description of the candidate's qualifications for Board service, the candidate's written consent to be considered for nomination and to serve if nominated and elected, and addresses and telephone numbers for contacting the stockholder and the candidate for more information. A stockholder who wishes to nominate an individual as a director candidate at the annual meeting of stockholders, rather than recommend the individual to the Nominating Committee as a nominee, must comply with the advance notice requirements set forth in our By-Laws.

Our Governance Principles provide that all candidates for election as members of the Board should possess high personal and professional ethics, integrity and values and be committed to representing the long-term interests of our stockholders and otherwise fulfilling the responsibilities of directors as described in our Governance Principles. Our Governance Principles further provide that our directors should not serve on more than four boards of public companies, including our Board. In recommending candidates to the Board for election as directors, the Nominating Committee will consider the foregoing minimum qualifications as well as each candidate's credentials, keeping in mind our desire, as stated in our Governance Principles, to have a Board representing diverse experiences and backgrounds, as well as areas that are relevant to our business activities.

#### **Communications with the Board**

The Board has implemented a process by which our stockholders and other interested parties may communicate with one or more members of our Board, its committees or the independent directors as a group in a writing addressed to Simon Property Group, Inc., Board of Directors, c/o Secretary, 225 West Washington Street, Indianapolis, Indiana 46204. The Board has instructed our Secretary to promptly forward all such communications to the specified addressees thereof.

#### **Conflict of Interest Policy**

On an annual basis, each director and executive officer is obligated to complete a director and officer questionnaire which requires disclosure of any transactions with us in which the director or executive officer, or any member of his or her immediate family, have a direct or indirect material

interest. Pursuant to our Code of Business Conduct and Ethics, the Audit Committee is charged with approving or ratifying any conflict of interest involving directors or executive officers or their related persons and the company. Our general counsel is charged with reviewing any conflict of interest involving any other employee.

## **MEETINGS AND COMMITTEES OF THE BOARD**

### **Meetings and Attendance**

Our business, property and affairs are managed under the direction of our Board of Directors. Members of our Board of Directors are kept informed of our business through discussions with our Chief Executive Officer, other officers and our Lead Independent Director, by reviewing materials provided to them, by visiting our offices and properties, and by participating in meetings of the Board and its committees. Directors are also expected to use reasonable efforts to attend the annual meeting of stockholders. All directors attended the 2006 annual meeting. During 2006, the Board of Directors met four times and had five standing committees. Those committees consisted of an Audit Committee, a Compensation Committee, a Governance Committee, a Nominating Committee and an Executive Committee. During 2005, all directors participated in 75% or more of the aggregate number of meetings of the Board and the committees on which they served.

### **Executive Sessions of Independent Directors**

The independent directors meet in executive session without management present following each regularly scheduled Board meeting. In addition, the Board has designated J. Albert Smith, Jr. as Lead Independent Director. In such capacity, Mr. Smith presides over the executive sessions and serves as a liaison between the independent directors and the senior management team.

### Committee Membership

The table below provides membership and meeting information for each of the committees of the Board.

Name	Audit	Compensation	Governance	Nominating	Executive
Birch Bayh			X	X	
Melvyn E. Bergstein		X*		X	
Linda Walker Bynoe		X	X		
Karen N. Horn, Ph.D.		X	X*		
Reuben S. Leibowitz	X	X			
Fredrick W. Petri	X	X			
David Simon					X
Herbert Simon					X
Melvin Simon					X*
J. Albert Smith, Jr.**	X*		X	X	
Richard S. Sokolov					X
Pieter S. van den Berg	X				
M. Denise DeBartolo York				X	
2006 Meetings	9	5	1	1	0

\*Chair

\*\*Lead Independent Director.

#### The Audit Committee

The Audit Committee assists the Board in monitoring the integrity of our financial statements, the qualifications, independence and performance of our independent registered public accounting firm, the performance of our internal audit function and our compliance with legal and regulatory requirements. The Audit Committee has sole authority to appoint, subject to stockholder ratification, or replace our independent registered public accounting firm and pre-approves the auditing services and permitted non-audit services to be performed by our independent registered public accounting firm, including the fees and terms thereof. The Audit Committee has authority to retain legal, accounting or other advisors. The Audit Committee reviews and discusses with management and our independent registered public accounting firm our annual audited financial statements, our quarterly earnings releases and financial statements, significant financial reporting issues and judgments made in connection with the preparation of our financial statements and any major issues regarding the adequacy of our internal controls. It also issues the report on its activities which appears on pages 21 and 22 of this proxy statement. The charter of the Audit Committee requires that each member meet the independence and experience requirements of the New York Stock Exchange, the Exchange Act and the rules and regulations of the Securities and Exchange Commission.

The Board of Directors has determined that all current members of the Audit Committee qualify as an "audit committee financial expert" as defined by rules of the Securities and Exchange Commission.

#### The Compensation Committee

The Compensation Committee (1) sets remuneration levels for our executive officers, (2) reviews significant employee benefit programs, (3) establishes and administers our executive compensation programs and our stock incentive plan, (4) discusses with management the Compensation Discussion and Analysis ("CD&A")



and, if appropriate, recommends its inclusion in our annual report on Form 10-K and proxy statement and (5) issues the report on its activities which appears on page 30 of this proxy statement. The CD&A begins on page 31 of this proxy statement. The Compensation Committee has authority to retain the advice and assistance of compensation consultants and legal, accounting or other advisors. Our Charter requires that the Compensation Committee have at least one member be elected by holders of the Class B common shares and at least one member be elected by holders of the Class C common shares. The charter of the Compensation Committee requires that each member meet the independence requirements of the New York Stock Exchange. The holders of Class B common shares have waived their right to elect a member of the Compensation Committee.

#### **The Governance Committee**

The Governance Committee addresses a broad range of issues surrounding the composition and operation of the Board, develops and recommends to the Board the Governance Principles applicable to the company and the Board, leads the Board in its annual evaluation of the Board's performance, oversees the assessment of the independence of each director and makes recommendations regarding compensation for non-employee directors. The Governance Committee has the authority to retain legal, accounting or other advisors, and has sole authority to approve the fees and other terms and conditions associated with retaining any such external advisors. The charter of the Governance Committee requires that each member meet the independence requirements of the New York Stock Exchange.

#### **The Nominating Committee**

The Nominating Committee nominates persons to serve as directors and, in consultation with the Governance Committee and in accordance with our Governance Principles, proscribes appropriate qualifications for Board members. Members of the Nominating Committee are responsible for screening director candidates, but may solicit advice from our Chief Executive Officer and other members of the Board. Our Charter requires that the Nominating Committee have five members, with two members appointed by the Class B common shares and one member appointed by the Class C common shares. The members of the Nominating Committee who are appointed by the holders of the Class B common and Class C common shares have the sole right to nominate the directors to be elected by such holders. Each member of the Nominating Committee meets the independence requirements of the New York Stock Exchange.

#### **The Executive Committee**

The Executive Committee approves the acquisition and disposition of real property and authorizes the execution of certain contracts and agreements relating to transactions having an aggregate value of less than \$100,000,000, including those related to the borrowing of money by the company. The charter of the Executive Committee authorizes the committee to exercise all other powers of the Board of Directors except for matters specifically reserved to the Board, those involving more than \$100,000,000 and except where action by "independent directors" (as discussed more fully on page 55) is required. A full report of Executive Committee actions is rendered to the Board at each meeting.

At the meeting of directors to be held following the meeting, the Board will reappoint members of the Board to the five standing committees.

**ITEM 1 ELECTION OF DIRECTORS**

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The holders of voting shares will elect seven directors, and the holders of Class B common shares will elect four directors. The holders of Class C common shares have the right to elect two directors; however, they have not yet nominated persons for the two Class C director positions. Each director will serve until the 2008 annual meeting of stockholders and until his or her successor has been elected.

Pursuant to our Governance Principles, any director who receives a greater number of "withhold" votes than "for" votes is required to promptly tender his or her resignation. See "Corporate Governance Majority Vote Standard for Election of Directors" above for more details of this Governance Principle.

The shares of Class B common stock are held by a voting trust that is obligated to elect Melvin Simon, Herbert Simon and David Simon as directors.

Our employment agreement with Richard S. Sokolov contemplates that he will be elected to the Board of Directors and holders of Class B common shares have agreed to elect Mr. Sokolov to the Board.

The persons named in the enclosed proxy intend to vote the proxy for the election of each of the nominees, unless you indicate on the proxy card that your vote should be withheld from any or all such nominees.

The Board of Directors unanimously recommends that stockholders vote FOR the election of the nominees named below.

We expect each nominee for election as a director to be able to serve if elected. If any nominee is not able to serve, proxies will be voted in favor of the remainder of those nominated and may be voted for substitute nominees, unless the Board of Directors chooses to reduce the number of directors serving on the Board.

The names, principal occupations and certain other information about the nominees for director are set forth on the following pages.

**Security Ownership of Directors and Officers**

As of March 9, 2007, the nominees and our named executive officers:

owned beneficially the number and percentage of shares of common stock, Class B common stock and Class C common stock treated as a single class indicated; and

owned beneficially the indicated number and percentage of partnership units ("units"), in our majority-owned and controlled subsidiary, Simon Property Group L.P., which are exchangeable for common shares.

Unless otherwise indicated in the footnotes, common shares or units are owned directly, and the indicated person has sole voting and investment power.

No nominee or named executive officer beneficially owns any shares of a series of preferred stock of the company that has the right to vote on any matter presented to stockholders at the meeting.

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Name and Age as of the May 10, 2007 Meeting Date	Position, Principal Occupation, Business Experience and Directorships <sup>(1)</sup>	Number of Shares <sup>(2)(3(4))</sup> and Units, and Percent of Shares <sup>(5)</sup> and Units <sup>(6)</sup> Beneficially Owned as of March 9, 2007
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NOMINEES FOR DIRECTOR TO BE ELECTED BY HOLDERS OF VOTING SHARES

Birch Bayh	79	Partner in the Washington, D.C. law firm of Venable LLP (or its predecessor) since 2001. Mr. Bayh was a partner in the law firm of Oppenheimer Wolff & Donnelly LLP from 1998 to 2001 and served as a United States Senator from Indiana from 1963 to 1981. A director of the Company or its predecessor since 1993. Member of our Governance and Nominating Committees.	Shares: 25,369 Percent of Shares: * Units: 0 Percent of Units:
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Melvyn E. Bergstein	65	Chairman of Diamond Management & Technology Consultants, Inc. and its predecessors since 1994 and Chief Executive Officer from 1994 to 2006. Prior to co-founding Diamond, Mr. Bergstein served in several capacities throughout a 22-year career with Arthur Andersen LLP's consulting division. Our director since 2001. Member of our Compensation and Nominating Committees.	Shares: 23,078 Percent of Shares: * Units: 0 Percent of Units:
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NOMINEES FOR DIRECTOR TO BE ELECTED BY HOLDERS OF VOTING SHARES  
(continued)

Linda Walker Bynoe	54	President and Chief Executive Officer of Telemat Ltd., a management consulting firm, since 1995 and prior to that Chief Operating Officer since 1989. Ms. Bynoe served as a Vice President-Capital Markets for Morgan Stanley from 1985 to 1989, joining the firm in 1978. Ms. Bynoe serves as a director of Anixter International, Inc., Northern Trust Corporation and Prudential Retail Mutual Funds. Our director since 2003. Member of our Compensation and Governance Committees.	Shares: 8,588 Percent of Shares: * Units: 0 Percent of Units:
Karen N. Horn, Ph.D.	63	Senior Managing Director of Brock Capital Group since 2003. Retired President, Global Private Client Services and Managing Director, Marsh, Inc., a subsidiary of MMC, having served in these positions from 1999 to 2003. Prior to joining Marsh, she was Senior Managing Director and Head of International Private Banking at Bankers Trust Company; Chairman and Chief Executive Officer, Bank One, Cleveland, N.A.; President of the Federal Reserve Bank of Cleveland; Treasurer of Bell of Pennsylvania; and Vice President of First National Bank of Boston. Ms. Horn serves as a director of Eli Lilly and Company, Fannie Mae and T. Rowe Price Mutual Funds. She is also Vice Chairman of the U.S. Russia Investment Fund, a presidential appointment, and a member of the Executive Committee of the National Bureau of Economic Research. Our director since 2004. Member of our Compensation and Governance Committees.	Shares: 6,579 Percent of Shares: * Units: 0 Percent of Units:

NOMINEES FOR DIRECTOR TO BE ELECTED BY HOLDERS OF VOTING SHARES  
(continued)

Reuben S. Leibowitz	59	<p>Managing Director of JEN Partners, a private equity firm, since 2005. Mr. Leibowitz was a Managing Director of Warburg Pincus from 1984 to 2005. He was a director of Chelsea Property Group, Inc. from 1993 until it was acquired by the Company in 2004. Our director since 2005. Member of our Audit and Compensation Committees.</p>	<p>Shares: 9,582<sup>(7)</sup> Percent of Shares: * Units: 0 Percent of Units:</p>
J. Albert Smith, Jr.	66	<p>President of Chase Bank in Central Indiana and Managing Director of JPMorgan Private Bank since 2005. Mr. Smith was President of Bank One Central Indiana from 2001 to 2005; Managing Director of Bank One Corporation from 1998 to 2001; President of Bank One, Indiana, NA from 1994 to 1998; and President of Banc One Mortgage Corporation from 1974 to 1994. A director of the Company or its predecessor since 1993. Lead Independent Director and member of our Audit, Governance and Nominating Committees.</p>	<p>Shares: 21,274 Percent of Shares: * Units: 0 Percent of Units:</p>
Pieter S. van den Berg	61	<p>Advisor to the Board of Managing Directors of PGGM, the pension fund of the healthcare and social work sector in the Netherlands, from 1999 to 2006. Mr. van den Berg was Director of Controlling of PGGM from 1991 to 1999. Our director since 1998. Member of our Audit Committee.</p>	<p>Shares: 3,078 Percent of Shares: * Units: 0 Percent of Units:</p>

NOMINEES FOR DIRECTOR TO BE ELECTED BY HOLDERS OF CLASS B COMMON STOCK

Melvin Simon	80	<p>Co-Chairman of the Board of the Company or its predecessor since 1995. Chairman of the Board of the Company's predecessor from its incorporation in 1993 to 1995. Co-Chairman of the Board of Melvin Simon &amp; Associates, Inc. ("MSA"), a company Mr. Simon founded in 1960 with his brother, Herbert Simon. Member of our Executive Committee.</p>	<p>Shares: 34,935,209<sup>(8)</sup>                  Percent of Shares: 13.8%                  Units: 30,091,879<sup>(9)</sup>                  Percent of Units: 10.7%</p>
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Herbert Simon	72	<p>Co-Chairman of the Board of the Company or its predecessor since 1995. Mr. Simon was Chief Executive Officer and a director of the Company from its incorporation in 1993 to 1995. Mr. Simon serves on the Board of Governors for the National Basketball Association and as Co-Chairman of the Board of MSA. Member of our Executive Committee.</p>	<p>Shares: 34,935,209<sup>(8)</sup>                  Percent of Shares: 13.8%                  Units: 30,091,879<sup>(9)</sup>                  Percent of Units: 10.7%</p>
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NOMINEES FOR DIRECTOR TO BE ELECTED BY HOLDERS OF CLASS B COMMON STOCK  
(continued)

David Simon	45	<p>Chief Executive Officer of the Company or its predecessor since 1995 and a director of the Company or its predecessor since incorporation in 1993. President of the Company's predecessor from 1993 to 1996. Executive Vice President of MSA from 1990 to 1993. From 1988 to 1990, Mr. Simon was Vice President of Wasserstein Perella &amp; Company. The son of Melvin Simon and the nephew of Herbert Simon. Member of our Executive Committee.</p>	<p>Shares: 34,935,209<sup>(8)</sup>            Percent of Shares: 13.8%            Units: 30,091,879<sup>(9)</sup>            Percent of Units: 10.7%</p>
Richard S. Sokolov	57	<p>President and Chief Operating Officer and a director of the Company or its predecessor since 1996. President and Chief Executive Officer of DeBartolo Realty Corporation from its incorporation in 1994 until it merged with our predecessor in 1996. Mr. Sokolov joined its predecessor, The Edward J. DeBartolo Corporation, in 1982 as Vice President and General Counsel and was named Senior Vice President, Development and General Counsel in 1986. Member of our Executive Committee.</p>	<p>Shares: 660,178<sup>(10)</sup>            Percent of Shares: *            Units: 60,835            Percent of Units: *</p>

CURRENT DIRECTORS WHO ARE NOT NOMINEES

Fredrick W. Petri	60	<p>Mr. Petri is currently a Class C Director, Partner of Petrone, Petri &amp; Company, a real estate investment firm Mr. Petri founded in 1993, and President and an officer of Housing Capital Company since its formation in 1994. Prior to that, an Executive Vice President of Wells Fargo Bank, where for over 20 years he held various real estate positions. A director of the Company or its predecessor since 1996. Member of our Audit and Compensation Committees.</p>	<p>Shares: 42,338                  Percent of Shares: *                  Units: 0                  Percent of Units:</p>
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M. Denise DeBartolo York	56	<p>Ms. York is currently a Class C Director. Chairman of The DeBartolo Corporation, owner of the San Francisco 49ers. Ms. York was Chairman of The Edward J. DeBartolo Corporation from 1994 to 2001, also serving in other executive capacities. A director of the Company or its predecessor since 1996. Member of our Nominating Committee.</p>	<p>Shares: 31,028<sup>(11)</sup>                  Percent of Shares: *                  Units: 30,000                  Percent of Units: *</p>
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NAMED EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

Stephen E. Sterrett	51	Our Executive Vice President and Chief Financial Officer. Mr. Sterrett joined MSA in 1988 and held various positions with MSA until 1993 when he became our Senior Vice President and Treasurer. He was named Chief Financial Officer in 2001.	Shares: 107,426 Percent of Shares: * Units: 0 Percent of Units:
James M. Barkley	55	Our General Counsel and Secretary. Mr. Barkley joined MSA in 1978 as a staff attorney and was named Assistant General Counsel in 1984. He was named General Counsel in 1992 and Secretary in 1993.	Shares: 122,362 Percent of Shares: * Units: 0 Percent of Units:
Gary M. Lewis	48	Our Senior Executive Vice President and President-Leasing. Mr. Lewis joined MSA in 1986 and held various positions until 2002 when he became our Executive Vice President of Leasing. He was named Senior Executive Vice President and President-Leasing in 2006.	Shares: 54,486 Percent of Shares: * Units: 0 Percent of Units:

ALL DIRECTORS AND EXECUTIVE OFFICERS AS A GROUP<sup>(7),(11),(12)</sup>

20 Persons

Shares: 36,832,730  
 Percent of Shares: 14.5%  
 Units: 30,757,338  
 Percent of Units: 10.9%

\*

Less than one percent

- (1) All listed directorships are held in companies with securities registered under Section 12 of the Exchange Act or in companies registered as investment companies under the Investment Company Act of 1940, as amended, The U.S. Russia Investment Fund (Ms. Horn).
- (2) Includes the following common shares that may be purchased pursuant to stock options that are exercisable within 60 days: Birch Bayh 13,500; David Simon 350,000; Richard S. Sokolov 150,000; James M. Barkley 5,000; and all directors and executive officers as a group 518,500.
- (3) Includes the following common shares that may be received upon exchange of units held by the following persons on March 9, 2007: Melvin Simon, Herbert Simon, David Simon, MSA and affiliates of MSA 30,091,879; Richard S. Sokolov 60,835; M. Denise DeBartolo York 30,000; and all directors and executive officers as a group 30,757,338. Units held by limited partners are exchangeable either for common shares (on a one-to-one basis) or for cash.
- (4) Includes the following restricted shares which are subject to vesting requirements: Birch Bayh 2,079; Melvyn E. Bergstein 2,079; Linda Walker Bynoe 1,762; Karen N. Horn, Ph.D. 2,004; Reuben S. Leibowitz 1,512; J. Albert Smith, Jr. 2,413; Pieter S. van den Berg 1,012; David Simon 36,769; Richard S. Sokolov 41,769; Fredrick W. Petri 1,012; M. Denise DeBartolo York 1,012; Stephen E. Sterrett 27,111; James M. Barkley 27,532; Gary M. Lewis 29,236; and all directors and executive officers as a group 233,812. Includes shares acquired through the reinvestment of dividends on shares held in the Director Deferred Compensation Plan.
- (5) At March 9, 2007, there were 223,375,715 shares of common stock, 8,000 shares of Class B common stock and 4,000 shares of Class C common stock outstanding. Upon the occurrence of certain events, shares of Class B common stock and Class C common stock convert automatically into common stock (on a share-for-share basis). These percentages assume the exercise of stock options and exchange of units for common shares only by the applicable beneficial owner.
- (6) At March 9, 2007, there were 281,213,000 outstanding units of which we owned, directly or indirectly, 223,387,715 or 79.4%. These percentages assume that no units are exchanged for common shares.
- (7) Does not include 3,000 shares of common stock held by charitable foundations of which Mr. Leibowitz is an officer or trustee. Mr. Leibowitz disclaims beneficial ownership of these shares.
- (8) Includes common shares, exercisable stock options and units owned by Melvin Simon, Herbert Simon and David Simon, MSA, affiliates of MSA and MH Holdings, Inc. See "PRINCIPAL STOCKHOLDERS."
- (9) Includes units owned by Melvin Simon, Herbert Simon, David Simon, MSA and affiliates of MSA.
- (10) Includes 317,548 shares of common stock pledged as security for a margin account.
- (11) Does not include common shares and units held by Edward J. DeBartolo, Jr. and certain related persons and entities. See "PRINCIPAL STOCKHOLDERS."
- (12) Does not include common shares and units held by members of the Simon family other than Melvin Simon, Herbert Simon and David Simon or units held by trusts for the benefit of members of the Simon family over which Melvin Simon, Herbert Simon, David Simon and MSA do not have voting or dispositive power (4,472,576 units).



**ITEM 2 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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The Audit Committee has selected Ernst & Young LLP ("E&Y"), as our independent registered public accounting firm for 2007, subject to the approval of our stockholders.

The Report of the Audit Committee contains information on the amount of fees paid to E&Y during 2006 and 2005. We expect that representatives of E&Y will be present at the meeting and will be available to respond to appropriate questions. They will also have an opportunity to make a statement if they desire to do so.

If a majority of stockholders voting on this matter do not ratify the selection, the Audit Committee will reconsider its choice taking into consideration the views of the stockholders and may, but will not be required to, appoint a different independent registered public accounting firm.

The Board of Directors unanimously recommends that stockholders vote FOR ratification of E&Y as our independent registered public accounting firm for 2007.

**REPORT OF THE AUDIT COMMITTEE**

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The Audit Committee is responsible for monitoring the integrity of the company's consolidated financial statements, the qualifications, performance and independence of the company's independent registered public accounting firm, the performance of the company's internal auditor and the company's compliance with legal and regulatory requirements. We have the sole authority to appoint or replace the company's independent registered public accounting firm. The committee has four independent directors and operates under a written charter adopted by the Board. The Board has determined that each committee member is independent under the standards of director independence established under our Governance Principles, New York Stock Exchange listing standards and applicable securities laws.

Management is responsible for the financial reporting process, including the system of internal control, for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States and for management's report on internal control over financial reporting. The company's independent registered public accounting firm is responsible for auditing the consolidated financial statements, expressing an opinion on the financial statements and rendering an opinion on management's report on internal control over financial reporting and the effectiveness of internal control over financial reporting. Our responsibility is to oversee and review the financial reporting process and to review and discuss management's report on internal control over financial reporting. We are not, however, professionally engaged in the practice of accounting or auditing and do not provide any expert or other special assurance as to such financial statements concerning compliance with laws, regulations or accounting principles generally accepted in the United States or as to the independence of the independent registered public accounting firm. We rely, without independent verification, on the information provided to us and on the representations made by management and the independent registered public accounting firm.

We held nine meetings during 2006. The meetings were designed, among other things, to facilitate and encourage communication among the committee, management, the company's internal auditor and the independent registered public accounting firm, E&Y.

We discussed with the company's internal auditor and E&Y the overall scope and plans for their respective audits. We met with the internal auditor and E&Y, with and without management present, to discuss the results of their examinations and their evaluations of the company's internal control. We reviewed and discussed the company's compliance with Section 404 of the Sarbanes-Oxley Act of 2002, including consideration of the Public Company Accounting Oversight Board's (PCAOB) Auditing Standard No. 2, An Audit of Internal Control over Financial Reporting Performed in Conjunction With an Audit of Financial Statements.

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We discussed with management the company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the company's risk assessment and risk management processes.

We reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2006 with management, the internal auditor and E&Y. We reviewed E&Y's report on our financial statements which indicated that the financial statements present fairly, in all material respects, our financial position and results of operations and cash flows in conformity with accounting principles generally accepted in the United States. We reviewed and discussed with management, the internal auditor and E&Y, management's report on internal control over financial reporting and E&Y's report thereon. We also discussed with management, the internal auditor and E&Y the process used to support certifications by the company's Chief Executive Officer and Chief Financial Officer that are required by the Securities and Exchange Commission and the Sarbanes-Oxley Act of 2002 to accompany the company's periodic filings with the Securities and Exchange Commission and the processes used to support management's report on internal control over financial reporting.

We also discussed with E&Y matters required to be discussed by their professional standards, including, among other things, matters related to the conduct of the audit of the company's consolidated financial statements and the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees).

E&Y also provided to us the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and represented that E&Y is independent from the company. We also discussed with E&Y their independence from the company. When considering E&Y's independence, we considered if services they provided to the company beyond those rendered in connection with their audit of the company's consolidated financial statements and reviews of the company's quarterly unaudited consolidated financial statements and attestation on management's annual report on internal control over financial reporting and the effectiveness of internal control over financial reporting, were compatible with maintaining their independence. We concluded that the provision of such services by E&Y has not jeopardized E&Y's independence.

Based on our review and these meetings, discussions and reports, and subject to the limitations on our role and responsibilities referred to above and in the Audit Committee Charter, we recommended to the Board that the company's audited consolidated financial statements for the year ended December 31, 2006 be included in the company's annual report on Form 10-K. The Committee has also selected E&Y as the company's independent registered public accounting firm for the year ended December 31, 2007 and will present the selection to the stockholders for ratification at the meeting.

We pre-approve all audit and permissible non-audit services to be provided to the company by E&Y prior to commencement of services. We have delegated to Mr. Smith, as Chairman of the Audit Committee, authority to pre-approve specific services up to specified individual and aggregate fee amounts. These pre-approval decisions are presented to the full Audit Committee at the next scheduled meeting after such approvals are made.

The company has incurred fees as shown below for services from E&Y. E&Y has advised us that it has billed or will bill the company the below indicated amounts for the following categories of services for the years ended December 31, 2006 and 2005, respectively:

	2006		2005
Audit Fees <sup>(1)</sup>	\$ 2,362,400	\$	2,797,000
Audit-Related Fees <sup>(2)</sup>	3,834,400		3,575,450
Tax Fees <sup>(3)</sup>	105,600		58,520
All Other Fees	0		0

(1) Audit Fees include fees for the audit of the financial statements and the attestation on management's annual report on internal control over financial reporting and the effectiveness of internal control over financial reporting for the company, Simon Property Group, L.P. and certain of their subsidiaries and services associated with SEC registration statements, periodic reports, and other documents issued in connection with securities offerings.

(2) Audit-Related Fees include audits of individual properties and schedules of recoverable common area maintenance costs to comply with lender, joint venture partner or tenant requirements and accounting consultation and due diligence services.

(3) Tax fees include fees for international and other tax consulting services.

The Audit Committee:

J. Albert Smith, Jr., Chairman  
Fredrick W. Petri  
Pieter S. van den Berg  
Reuben S. Leibowitz

**ITEM 3 STOCKHOLDER PROPOSAL TO LINK PAY TO PERFORMANCE**

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Thomas P. V. Masiello, Administrator of the Massachusetts Laborers' Pension Fund, which holds 1,000 shares of our common stock, has informed us that he or a designated representative intends to submit the following proposal at the meeting:

**Resolved:**

That the shareholders of Simon Property Group, Inc. ("Company") request that the Board of Director's Executive Compensation Committee establish a pay-for-superior-performance standard in the Company's executive compensation plan for senior executives ("Plan"), by incorporating the following principles into the Plan:

1. The annual incentive or bonus component of the Plan should utilize defined financial performance criteria that can be benchmarked against a disclosed peer group of companies, and provide that an annual bonus is awarded only when the Company's performance exceeds its peers' median or mean performance on the selected financial criteria;
2. The long-term compensation component of the Plan should utilize defined financial and/or stock price performance criteria that can be benchmarked against a disclosed peer group of companies. Options, restricted shares, or other equity or non-equity compensation used in the Plan should be structured so that compensation is received only when the Company's performance exceeds its peers' median or mean performance on the selected financial and stock price performance criteria; and
3. Plan disclosure should be sufficient to allow shareholders to determine and monitor the pay and performance correlation established in the Plan.

**Supporting Statement:**

We feel it is imperative that compensation plans for senior executives be designed and implemented to promote long-term corporate value. A critical design feature of a well-conceived executive compensation plan is a close correlation between the level of pay and the level of corporate performance relative to industry peers. We believe the failure to tie executive compensation to superior corporate performance; that is, performance exceeding peer group performance, has fueled the escalation of executive compensation and detracted from the goal of enhancing long-term corporate value.

We believe that common compensation practices have contributed to excessive executive compensation. Compensation committees typically target senior executive total compensation at the median level of a selected peer group, then they design any annual and long-term incentive plan performance criteria and benchmarks to deliver a significant portion of the total compensation target regardless of the company's performance relative to its peers. High total compensation targets combined with less than rigorous performance benchmarks yield a pattern of superior-pay-for-average-performance. The problem is exacerbated when companies include annual bonus payments among earnings used to calculate supplemental executive retirement plan (SERP) benefit levels, guaranteeing excessive levels of lifetime income through inflated pension payments.

We believe the Company's Plan fails to promote the pay-for-superior-performance principle. Our Proposal offers a straightforward solution: The Compensation Committee should establish and disclose financial and stock price performance criteria and set peer group-related performance benchmarks that permit awards or payouts in its annual and long-term incentive compensation plans only when the Company's performance exceeds the median of its peer group. A senior executive compensation plan based on sound pay-for-superior-performance principles will help moderate excessive executive compensation and create competitive compensation incentives that will focus senior executives on building sustainable long-term corporate value.

## Statement in Opposition

The Board of Directors unanimously recommends a vote "AGAINST" adoption of this stockholder proposal for the following reasons:

The Board of Directors and the Compensation Committee strongly support the concept of pay-for-performance in executive compensation. Our program ties a significant portion of executive compensation to achievement of challenging performance goals, including goals for Funds From Operations (FFO) and comparative measures for stockholder return. We reward executives for results that meet or exceed these goals. However, the Board and the Compensation Committee also believe it is important to maintain the flexibility to design our executive compensation programs based on a number of different measures, incentives, and objectives, including operational and strategic objectives. Superior performance is multifaceted and should not be limited to financial or stock price performance criteria benchmarked against peer group performance, as this proposal would require.

Last year, the Securities and Exchange Commission substantially changed the compensation-related disclosure requirements for public companies. One of the new requirements, the Compensation Discussion and Analysis, must explain our executive compensation programs and the rationale for executive compensation decisions. As the Compensation Discussion and Analysis that begins on page 31 of this proxy statement describes, the Compensation Committee utilizes a variety of tools, including base salary, annual cash bonus opportunities and long-term incentives, to align the interests of executive officers with our financial, operational and strategic objectives, as well as the interests of our stockholders.

We believe that our current executive compensation program assists in attracting and retaining results-oriented individuals and motivating them to achieve our objectives.

In designing appropriate compensation arrangements, the Compensation Committee considers many factors, such as our internal goals, the tax and accounting consequences of various arrangements, the practices of our competitors, and prevailing pay rates. Limiting the ability to design effective and competitive compensation programs will not help us to achieve our goals. The Compensation Committee believes it should have the flexibility to structure incentive compensation awards to include an appropriate combination of corporate, individual and market-based performance criteria. Adopting a single, rigid policy would not serve our stockholders' best interests.

The Board believes this proposal is misleading because it does not accurately describe our practices. It suggests that the Compensation Committee mechanically follows the lead of a peer group and sets "less than vigorous performance benchmarks." The Compensation Discussion and Analysis demonstrates this is not the case. The proponent also implies we have used bonuses to calculate Supplemental Executive Retirement Plans (SERP) levels "guaranteeing excessive levels of lifetime income through inflated pension payments" when the facts are we have never provided our executives with a pension plan, much less showered them with SERPs or golden parachute arrangements. Our only retirement arrangement is our 401(k) plan and executives receive the same benefits as all other participants.

Moreover, rather than taking our actual performance into account, the proposal implies that our performance has not been superior. Just the opposite is true. Our total stockholder return was 37% for 2006 and an average of 31% for the period 2000 to 2006. We have outperformed the two major comparative indices in which our stock is included the NAREIT Equity REIT Index and the Standard & Poor's 500 Stock Index in each of the three, five and ten year periods ended December 31, 2006. We believe that our actual record of performance far exceeds the measures the proponent would use to gauge our performance and should be considered in determining whether this proposal is in our stockholders' best interests.

Because our competitors do not have compensation programs like that described in the proposal, adoption of this proposal would place us at a competitive disadvantage, making it more difficult to attract and retain the exceptional management we need to continue to deliver superior performance. The proponent's plan to "benchmark"



executive compensation is both unnecessary and overly restrictive.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE "AGAINST" THE ADOPTION OF THIS STOCKHOLDER PROPOSAL. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY OTHERWISE IN THEIR PROXIES.**

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**ITEM 4 STOCKHOLDER PROPOSAL REGARDING ADVISORY STOCKHOLDER  
VOTE ON EXECUTIVE COMPENSATION**

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Jon F. Walters, Trustee of the International Brotherhood of Electrical Workers Pension Benefit Fund, which holds 6,575 shares of our common stock, has informed us that he or a designated representative intends to submit the following proposal at the meeting:

**Resolved:**

That shareholders of Simon Property Group, Inc. (the "Company") urge the board of directors to adopt a policy that Company shareholders be given the opportunity at each annual meeting of shareholders to vote on an advisory resolution, to be proposed by Company's management, to ratify the compensation of the named executive officers ("NEOs") set forth in the proxy statement's Summary Compensation Table (the "SCT") and the accompanying narrative disclosure of material factors provided to understand the SCT (but not the Compensation Discussion and Analysis). The proposal submitted to shareholders should make clear that the vote is non-binding and would not affect any compensation paid or awarded to any NEO.

**Supporting Statement:**

In our view, senior executive compensation at Company has not always been structured in ways that best serve shareholders' interest. For example, The Corporate Library reports that as Simon Property Group's CEO, David Simon received over \$2,800,000 in total compensation for Fiscal Year 2006. We are concerned about mushrooming executive compensation, which appears to be insufficiently aligned with the creation of shareholder value.

We believe that existing U.S. corporate governance arrangements, including SEC rules and stock exchange listing standards, do not provide shareholders with enough mechanisms for providing input to boards on senior executive compensation. In contrast to U.S. practices, in the United Kingdom, public companies allow shareholders to cast an advisory vote on the "directors' remuneration report," which discloses executive compensation. Such a vote isn't binding, but gives shareholders a clear voice that could help shape senior executive compensation.

Currently U.S. stock exchange listing standards require shareholder approval of equity-based compensation plans. In our opinion, those plans, only set general parameters and accord the compensation committee substantial discretion in making awards and establishing performance thresholds for a particular year. We do not think votes on such plans provide shareholders a mechanism to give companies ongoing feedback on the application of those general standards to individual pay packages. (See Lucian Bebchuk & Jesse Fried, *Pay Without Performance* 49, 2004)

Similarly, we believe performance criteria submitted for shareholder approval to allow a company to deduct compensation in excess of \$1,000,000 are too broad and do not constrain compensation committees in setting performance targets for particular senior executives. In our opinion, withholding votes from compensation committee members who are standing for reelection is a blunt and insufficient instrument for registering dissatisfaction with the way in which the committee has administered compensation plans and policies in the previous year.

Accordingly, we urge Company's board to allow shareholders to express their opinion about senior executive compensation at Company by establishing an annual referendum process. The results of such a vote would, we think, provide Company with useful information about whether shareholders view the company's senior executive compensation, as reported each year, to be in shareholders' best interests.

For those reasons, we urge shareholders to vote FOR this proposal.

**Statement in Opposition:**

**The Board of Directors unanimously recommends a vote "AGAINST" adoption of this stockholder proposal for the following reasons:**

Our Compensation Committee, a committee of the Board of Directors comprised entirely of independent directors, is responsible for designing an executive compensation program that attracts, motivates, and retains the best executives for the benefit of our company.

As the Compensation Discussion and Analysis that begins on page 31 of this proxy statement describes, the Compensation Committee utilizes a variety of tools, including base salary, annual cash bonus opportunities and long-term incentives, to align the interests of executive officers with our financial, operational and strategic objectives, as well as the interests of our stockholders.

An advisory resolution adopted by stockholders, by its nature, would not have any legal consequence on our compensation arrangements. More importantly, an advisory vote would not provide the Compensation Committee with any meaningful insight into any specific stockholder concerns that could be addressed when considering our compensation policies.

There are more effective means by which stockholders can communicate their concerns about our executive compensation programs or other issues. Stockholders may contact the Board, or member of the Compensation Committee as indicated on page 10 of this proxy statement.

The proponent of this proposal argues for its adoption based on the fact that the practice is required for companies in the United Kingdom. Proposals similar to this were submitted to five U.S. companies in 2006 and none were approved. We are not aware of any U.S. company that has adopted this practice on its own initiative. Therefore, the proposal would subject us to an advisory vote requirement that other U.S. companies do not follow. We are concerned that adopting this practice alone could put us at a competitive disadvantage when seeking to attract and retain executive talent.

We depend on the talent of our executives in the highly-competitive real estate industry. The proponents state that they are concerned about "mushrooming" executive compensation, which appears to be insufficiently aligned with the creation of stockholder value. The facts are that our executive compensation has not mushroomed, and we have created substantial stockholder value. Our total stockholder return was 37% in 2006 and an average of 31% for the period 2000 to 2006. We have outperformed two major comparative indices in which our stock is included in the NAREIT Equity REIT Index and the Standard & Poor's 500 Stock Index in each of the three, five and ten year periods ended December 31, 2006. We believe that our actual record of creating substantial stockholder value should be considered in determining whether this proposal is in our stockholders' best interests.

Finally, the proponent states that David Simon received over \$2,800,000 in total compensation for 2006. In fact, this was the amount we reported in 2006 for 2005. What the proponent does not point out is that only \$800,000 of this amount represented David Simon's base salary. This means that two-thirds of his total compensation was tied to a combination of the Compensation Committee's evaluation of his performance and the achievement of goals for key performance measures and comparative measures for stockholder return that were achieved. The proponent also does not mention that, although the Compensation Committee determined that David Simon should have been paid a cash bonus of \$1,400,000, he requested that he receive no bonus. As a result, his 2005 total compensation was lower than 81% of the chief executive officers of the other real estate companies we considered our peers.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE "AGAINST" THE ADOPTION OF THIS STOCKHOLDER PROPOSAL. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY OTHERWISE IN THEIR PROXIES.**

**ITEM 5 STOCKHOLDER PROPOSAL REGARDING STOCKHOLDER APPROVAL  
OF FUTURE SEVERANCE AGREEMENTS**

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Cheryl A. Derezinski, Trustee of the Trowel Trades S&P 500 Index Fund (the "Fund"), which holds 6,696 shares of our common stock, has informed us that an agent of the Fund intends to appear in person or by proxy to present the following proposal at the meeting:

**Resolved:**

That the shareholders of Simon Property Group, Inc. (the "Company") urge the Board of Directors to seek shareholder approval of future severance agreements with senior executives that provide benefits in an amount exceeding 2.99 times the sum of the executives' base salary plus bonus. "Future Severance agreements" include employment agreements containing severance provisions, special retirement provisions and agreements renewing, modifying or extending existing such agreements. "Benefits" include lump-sum cash payments (including payments in lieu of medical and other benefits); the payment of any "gross-up" tax liability; the estimated present value of special retirement provisions; any stock or option awards that are awarded under any severance agreement; any prior stock or option awards as to which the executive's access is accelerated under the severance agreement; fringe benefits; and consulting fees (including reimbursable expenses) to be paid to the executive.

**Supporting Statement:**

In our opinion, severance agreements as described in this resolution, commonly known as "golden parachutes," are excessive in light of the high levels of compensation enjoyed by senior executives at the Company and U.S. corporations in general.

We believe that requiring shareholder approval of such agreements may have the beneficial effect of insulating the Board of Directors from manipulation in the event a senior executive's employment must be terminated by the Company. Because it is not always practical to obtain prior shareholder approval, the Company would have the option if this proposal were implemented of seeking shareholder approval after the material terms of the agreement were agreed upon.

For those reasons, we urge shareholders to vote for this proposal.

**Statement in Opposition:**

The Board of Directors unanimously recommends a vote "AGAINST" adoption of this stockholder proposal for the following reasons:

Our Compensation Committee, a committee of the Board of Directors comprised entirely of independent directors, is responsible for designing an executive compensation program that attracts, motivates, and retains the best executives for the benefit of our company.

As the Compensation Discussion and Analysis that begins on page 31 of this proxy statement describes, the Compensation Committee utilizes a variety of tools, including base salary, annual cash bonus opportunities and long-term incentives, to align the interests of executive officers with our financial, operational and strategic objectives, as well as the interests of our stockholders.

This proposal appears to address compensation practices of other companies not ours. We do not enter into employment agreements with new executives and do not provide severance benefits to them that are different from the severance policy that applies to all salaried employees. The only employment agreement that we have with an executive officer was in place with his previous employer a company we merged with in 1996. The details of that agreement are provided on page 50 of this proxy statement.

The payments we would make to our named executive officers in the event their employment terminates in a number of alternative scenarios are

explained in detail on pages 49 to 50 of this proxy statement. We have a severance policy that applies to all salaried employees. We do not have any "change in control" or "golden parachute" arrangements. We have never provided our executives with a traditional pension plan or any supplemental retirement plans. The only retirement arrangements we have are our 401(k) plan and our Deferred Compensation Plan. Executives who participate in our 401(k) plan receive the same benefits as all other participants. As explained in the narrative following the Nonqualified Deferred Compensation table on page 47 of this proxy statement, the assets in the executive account of the Deferred Compensation Plan consist entirely of the executive's own contributions and market-rate earnings on those amounts. The only costs we incur related to either of these plans are administrative in nature.

We have no plans to enter into any "future severance agreements with senior executives" and we believe it is unnecessary to adopt a proposal that would have no current practical effect and may have unforeseen future consequences.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE "AGAINST" THE ADOPTION OF THIS STOCKHOLDER PROPOSAL. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY OTHERWISE IN THEIR PROXIES.**

## COMPENSATION COMMITTEE REPORT

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The Compensation Committee consists of the five directors named below, each of whom meets the independence standards of the company's Governance Principles, the New York Stock Exchange listing standards and applicable securities laws. We have overall responsibility for:

determining the compensation of the executive officers, including setting and determining achievement of established performance goals;

designing, with the active assistance of management and human resource experts and the committee's consultant, the company's executive compensation program;

administering the company's stock-based compensation plans and programs;

recommending any new elements of executive compensation or programs for consideration to the full Board of Directors; and

discussing the Compensation Discussion and Analysis required by SEC regulations with management and, if appropriate, recommending its inclusion in the company's annual report on Form 10-K and proxy statement.

We have the authority to engage an independent compensation consultant or other advisors. We currently use Frederic W. Cook & Co., Inc., or Cook, as our independent compensation consultant. Cook does no work for management unless requested by our committee Chairman, receives no compensation from us other than for its work in advising the Compensation Committee, and maintains no other economic relationships with us.

We held five meetings during 2006. The meetings were designed, among other things, to facilitate and encourage free and frank discussion between committee members and our consultant as well as extensive communication among committee members, executive management, and other company personnel involved in executive compensation matters.

We reviewed and discussed with management the Compensation Discussion and Analysis that begins on page 31 of this proxy statement. Based on our review and these discussions with management, we recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the company's annual report on Form 10-K for the fiscal year ended December 31, 2006, and proxy statement for the company's 2007 annual meeting of stockholders.

### **The Compensation Committee:**

Melvyn E. Bergstein, Chairman  
Linda Walker Bynoe  
Karen N. Horn, Ph.D.  
Reuben S. Leibowitz  
Fredrick W. Petri

### **Compensation Committee Interlocks and Insider Participation**

No member of the Compensation Committee during 2006 was an officer, employee or former officer of us or any of our subsidiaries or had any relationship requiring disclosure in this proxy statement pursuant to SEC regulations. None of our executive officers served as a member of a compensation committee or a director of another entity under the circumstances requiring disclosure in this proxy statement pursuant to SEC regulations.

## COMPENSATION DISCUSSION AND ANALYSIS

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### Overview

The following discussion is intended to supplement the more detailed information concerning executive compensation that appears in the tables and the accompanying narrative that follow this discussion. Our goal is to provide a better understanding of our compensation practices and the decisions made concerning the compensation payable to our executive officers, including the Chief Executive Officer, or CEO, and the other executive officers named in the Summary Compensation Table, or the named executive officers.

The Compensation Committee of our Board of Directors, referred to in this section as the committee, plays a key role in designing and administering our executive compensation program. All principal elements of compensation paid to our executive officers are subject to approval by the committee. The Compensation Committee Report appears on page 30 of this proxy statement.

In 2005, the Governance Committee of the Board of Directors engaged Frederic W. Cook & Co., Inc., or Cook, to review our director compensation program and the committee engaged Cook to act as the committee's independent compensation consultant. Cook's initial task was to conduct an assessment of the design of our executive compensation program. As explained below, that assessment had an impact on our executive compensation decisions for 2006.

### Objectives

We have the largest market capitalization of any publicly traded real estate company in North America and we own the largest portfolio by square footage of U.S. retail real estate. We depend on the knowledge, skills, experience, and talent of our senior executives in the highly-competitive real estate industry, in particular in the areas of real estate acquisitions, development, leasing and property management. The principal objectives of our executive compensation program are to:

maintain the team of executives who have made major contributions to our success and attract highly qualified executives to strengthen that team;

motivate executives to achieve objectives at the corporate and business unit level as well as individual goals; and

align the interests of our executives with those of our stockholders.

### Principal Elements of Compensation and Total Direct Compensation

We have designed our executive compensation program to be relatively simple. There are three major elements—base salary, annual cash incentives and equity incentives in the form of restricted stock awards.

Although all three of these elements are integrated into our compensation program, the elements are intended to achieve different objectives:

base salaries are intended to provide an appropriate level of fixed compensation that will assist in employee retention and recruitment;

cash incentives provide additional motivation for the achievement of specified objectives at the corporate, business unit or individual levels; and

equity incentives in the form of restricted stock awards align the interests of our executives more closely with the interests of our stockholders because they are subject to achieving objective performance measures tied to our financial and stock performance and vest over a number of years, encouraging executives to remain our employees.

**Base Salaries.** The base salaries of executive officers are set at levels intended to be competitive with other companies engaged in the retail real estate industry and with other businesses of comparable size and scope that compete for executive talent. To retain and attract the level of talent necessary for our business to succeed, we expect that the base salaries should be in the upper quartile of the range of base salaries for comparable positions and tenure at other large real estate companies.

The committee reviews base salaries of the CEO and the other executive officers annually and makes adjustments, in light of past individual performance as measured by both qualitative and quantitative facts and the potential for making significant contributions in the future. The committee generally considers individual performance factors in addition to our overall performance in a particular year in determining base salary levels.

**Cash Incentives.** For each participant, we set a bonus target, generally expressed as a percentage of base salary. Actual bonus payments may range from 0 to 200% of the target amount. Bonus targets and ranges are typically set in February of the performance year. We set specific criteria for corporate, business unit (if applicable) and individual (if applicable) objectives. The criteria may also include subjective measures of performance or financial measures such as EBITDA or other measures related to an executive's primary areas of responsibility. In the case of our executive officers, the bonus targets and criteria are approved by the committee. In the recent past, the payment of bonuses has been made subject to achievement of our overall budget for the year. We also include "stretch" levels which may justify higher payments if our performance exceeds our budget. With respect to the prior performance year, the committee determines whether the bonus criteria have been achieved at a meeting in February and bonuses are paid in March. Our annual budget, which is proposed by management and approved by the Board, includes available bonus dollars for executive officers and key employees.

The committee approves the initial bonus allocations for the named executive officers and other executive officers and determines whether any objective bonus criteria applicable to those participants have been achieved. The committee makes a qualitative decision on David Simon's performance to determine whether he should receive his allocated bonus. The committee also considers David Simon's recommendations as to the achievement of qualitative performance criteria for the other executive officers.

Herbert Simon and Melvin Simon, who are directors and executive officers, but not named executive officers, have never participated in any annual bonus pool.

**Equity Incentives.** Equity incentives take the form of awards under our stock-based compensation plan, the Simon Property Group, L.P. 1998 Stock Incentive Plan, or the 1998 plan, which is administered by the committee. Although the 1998 plan authorizes a variety of equity incentive awards, the only forms of awards the committee has granted have been options and restricted stock. No stock options have been granted to employees since 2001.

The committee has created an annual stock incentive program under the 1998 plan in every year since 2002. The stock incentive program provides participants an opportunity to receive an award of restricted shares of common stock if financial and stockholder return-based performance measures for the program year are achieved. Award opportunities and performance measures are typically determined by the committee in February of the performance year. The determination of whether the performance measures have been met is typically completed in February of the year following the performance year. In the case of our executive officers, the committee retains discretion to reduce the amount of any earned awards, but does not have the discretion to increase the awards if the performance measures are not met. Until 2006, award opportunities were for a specific number of restricted shares that would be granted in the following year if the performance measures for the program year were met. Beginning with the 2006 stock incentive program, award opportunities were designated as a specific dollar value which is to be converted into shares of restricted stock if the performance measures for the program year are met. See pages 36 to 37 in this proxy statement for a more complete discussion of our 2005 and 2006 stock incentive programs.



In recent years, the performance measures have included "target" and "stretch" levels for funds from operations (FFO) per share and a requirement for total stockholder return on our common stock to outperform recognized stock indices. In the 2005 and 2006 stock incentive programs, these indices were the Morgan Stanley US REIT Index and the S&P 500 Index.

In the year following the performance year, any earned amounts are granted in the form of restricted shares. Once awarded, these restricted shares are subject to vesting in four equal annual installments beginning in the second year after the program year (which is the first year after the restricted shares are granted). Except as otherwise provided in the award agreement, the participant must be employed on the day prior to the vesting date to receive the restricted shares. After the award is made, participants are entitled to vote and receive distributions on unvested shares.

Herbert Simon and Melvin Simon, who are directors and executive officers, but not named executive officers, have never participated in any stock incentive program.

**Total Direct Compensation.** The committee looks at "total direct compensation," in addition to individual elements of compensation, when assessing the competitiveness of our pay practices. Total direct compensation for a given year consists of salary, annual cash bonus earned and the value of the restricted stock award earned under the stock incentive program. Bonuses and restricted stock awards with respect to performance in a given year are paid or granted in the following year. Under the new proxy disclosure rules, annual bonuses earned in a given year but paid the following year are reflected in the Summary Compensation Table on page 41 of this proxy statement. However, restricted stock awards earned in a given year, but granted in the following year, are not reflected in the Summary Compensation Table. The amounts of total direct compensation paid to the named executive officers for 2006 and 2005 are shown in the Supplemental Table on page 43 of this proxy statement to illustrate the committee's calculation of total direct compensation earned each year.

#### **Other Elements of Compensation**

**Retirement and Health and Welfare Benefits.** We have never had a traditional or defined benefit pension plan. We maintain a 401(k) retirement plan in which all salaried employees can participate on the same terms. Our basic contribution to the 401(k) retirement plan is equal to 1.5% of the participant's compensation and for contributions made prior to January 1, 2007 becomes vested 30% after completion of three years of service, 40% after four years of service and an additional 20% after each additional year of service until fully vested after seven years. Basic contributions that we made after January 1, 2007 will vest 20% after completion of two years and an additional 20% after each additional year of service until fully vested after six years. We match 100% of the first 3% of the participant's contribution and 50% of the next 2% of the participant's contribution. Our matching contributions are vested when made. Our basic and matching contributions are subject to applicable IRS limits and regulations. The contributions we made to the 401(k) accounts of the named executive officers are shown in the All Other Compensation column of the Summary Compensation Table on page 41 and are detailed in footnote 3 to that table. Executive officers also participate in health and welfare benefit plans on the same terms as other salaried employees.

**Employment and Change-in-Control Agreements.** The only executive officer who has an employment agreement with us is Mr. Sokolov who had an employment agreement in place with his previous employer a company we merged with in 1996. A summary of Mr. Sokolov's employment agreement appears on page 50 of this proxy statement. Our named executive officers do not participate in or benefit from any "change in control" or "golden parachute" arrangements.

**Personal Benefits.** Our executive officers receive a limited number of personal benefits. We pay the premium for employee and dependent life insurance policies, which range from \$2,800 to \$5,100 in premiums paid annually.

Mr. Sokolov has maintained his residence in Youngstown, Ohio since he joined us in 1996. We provide him with an office in Youngstown, but

typically Mr. Sokolov travels to our headquarters in Indianapolis on a weekly basis. We provide Mr. Sokolov with the use of charter aircraft for this travel. Until 2007, we also provided him with a housing allowance for an apartment in Indianapolis. The incremental cost of these personal benefits is disclosed in the All Other Compensation column of the Summary Compensation Table on page 41. The Compensation Committee increased his annual base salary from \$700,000 to \$782,000 for 2007 with part of the increase included to compensate him for the loss of the housing allowance.

**Deferred Compensation Plan.** We maintain a non-qualified deferred compensation plan that permits senior executives, key employees and directors to defer all or part of their compensation, including awards under the 1998 plan. There are separate accounts for the executives and the directors. Although we have the discretion to contribute a matching amount or make additional incentive contributions, we have not done either since the plan's inception. As a result, all the contributions disclosed in the Nonqualified Deferred Compensation Table on page 47 represent compensation previously earned by the executive. A participant's deferrals are fully vested, except for restricted stock awards that still have vesting requirements. Upon death or disability of the participant or our insolvency or a change in control affecting us, a participant becomes 100% vested in his account.

The assets of this plan are held in what is commonly referred to as a "rabbi trust" arrangement. This means the assets of the plan are subject to the claims of our general creditors in the event of our insolvency. The plan assets are invested by the trustee in its sole discretion. Payments of a participant's elective deferrals are made as elected by the participant. These amounts would be paid earlier in the event of termination of employment or death of the participant, an unforeseen emergency affecting the participant as determined by the committee appointed to administer the plan or a change in control affecting us. For more information, see the Nonqualified Deferred Compensation Table and accompanying narrative on page 47, and the narrative discussion of the director account on page 52.

**Chelsea Incentive Plans.** When we merged with Chelsea Property Group in 2004, it had a long-term incentive plan in effect for its senior executives that covered the performance period January 2002 through December 2006. We froze the value of the plan at the time of the merger and, as a result, the participants did not earn any additional long-term incentive compensation from it for 2005 and 2006. However, this was a five-year plan and the future payout was used to retain and reward Chelsea senior executives for this entire period. A total of 16 Chelsea executives received an aggregate of \$21,100,000 under the plan when it terminated at the end of 2006.

We believe that it is still important to retain Chelsea senior executives and motivate them with long-term incentives tied to the performance of the Chelsea division. As a result, in 2005, the committee approved a new long-term incentive plan for Chelsea senior executives that covers the five-year period from January 2005 to December 2009. A total of 100,000 compensation units have been currently allocated to sixteen Chelsea senior executives. The allocation may change during the program to reflect the admission of new participants. These compensation units have values ranging from \$0 to \$500 per unit depending upon the performance of the Chelsea division over a five year period as measured by growth in EBITDA. This plan requires participants to maintain employment over the five-year period in order to receive full benefits.

**Stock Option and Equity Award Grant Practices.** The committee has not granted any stock options under the 1998 plan to employees since 2001 or to directors since 2002. The 1998 plan provides that the exercise price of stock options is equal to the mean between the high and low sales prices of a share of common stock as reported by the New York Stock Exchange for the grant date.

For our annual stock incentive plan, the financial and return-based performance measures and allocations to stock incentive program participants are typically made in February of the performance year except in 2006, when these were determined in July. Our 2006 program specifies the award opportunity for each executive as a dollar value that will be converted into shares of restricted stock if the performance measures for the program

year are met. The conversion into restricted shares will occur in February of the year following the performance year, and will be based on the average of the closing prices for our common stock over the ten trading day period commencing three trading days after we announce earnings for the program year. Fractional shares are rounded to the next full share.

### **Review of Executive Compensation Program**

At the direction of the committee, Cook undertook a comprehensive review of our executive compensation program in 2005 and a more focused review of our stock incentive program in 2006. In 2005, Cook interviewed nine of our executives to determine their views on all elements of our compensation program. In 2006, Cook interviewed 13 employees, representing a cross-section of stock incentive program participants at various levels of the organization. Through these interviews, Cook gathered information concerning our corporate culture and organization and the effectiveness of our incentives. Cook made a number of recommendations to the committee, most of which were implemented in the design of the 2006 stock incentive program.

In December 2005, Cook reported the findings from its study of competitive pay comparisons for our top executives to the committee. Cook reviewed the potential dilution to our stockholders associated with our existing stock plans, our average annual share usage, or run rate, and a fair value transfer analysis, which measures the value of aggregate annual equity incentives as a percentage of market capitalization. Cook assessed the competitiveness of the compensation paid to our most highly-compensated executives using an analysis of third-party compensation surveys and compensation information for the executives of a group of 15 other publicly-traded REITs consisting of: Apartment Investment & Management, Archstone-Smith, Avalon Bay, Boston Properties, Developers Diversified, Duke Realty, Equity Office, Equity Residential, General Growth, Host Marriott, Kimco Realty, Macerich, Plum Creek Timber, ProLogis and Vornado Realty. Although we were the largest company in this peer group, both in terms of market capitalization and enterprise value, we believe a REIT peer group (as opposed to a group of non-real estate companies closer in size to us) is most relevant as we compete with other REITs for executive talent, customers and capital.

Cook concluded that our base salaries for the named executives were generally in the upper quartile of the peer group and that this was consistent with our size in relation to the size of members of the peer group. Total annual cash compensation (base salary plus annual bonus) for the named executives was generally below median, with a few exceptions. Although the committee has determined that David Simon was entitled to bonuses in recent years, he declined the bonuses, increasing the pool available for other participants. Total direct compensation (total annual cash compensation plus equity incentives) for the named executive officers was generally at or below median. Our annual share usage and current potential dilution to stockholders were among the lowest of the peer group with the aggregate fair value transfer of our restricted stock awards being between the 25<sup>th</sup> percentile and the median.

The survey data that Cook compiled for positions below the top-executive level indicated that our target structure and actual compensation were high relative to market data, largely because our recent cash and equity incentive compensation has been above target levels.

Cook concluded that the base salaries of our executive officers were fully competitive at their current levels, with a few exceptions, and recommended some adjustments to target bonus opportunities. Cook also recommended establishing an overall equity incentive budget of 0.15% of our market capitalization which was between the 25<sup>th</sup> percentile and median for fair value transfer. The recommended budget was a slight increase from the fair value transfer for 2005 of 0.14%. Based on 2006 year-end information, our actual equity incentive budget for 2006 represented 0.102% of equity market capitalization.

### **2006 Compensation Decisions**

**2006 Cash Incentives.** The Board of Directors approved our 2006 budget on February 3, 2006. The

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budget included \$3,400,000 available as a target cash bonus pool amount for the twelve executive officers participating in the plan. Achievement of bonus criteria at the stretch level could result in the payment of up to \$6,845,950 to those officers. As described above, the committee approved criteria for the executive officers participating in the bonus pool based on corporate, business unit and individual objectives and target amounts expressed as a percentage of their base salaries.

On February 26, 2007, the committee determined that the bonus criteria for the executive officers had been met at the stretch level and approved payment of an aggregate amount of \$4,963,644 to the eleven executive officers, excluding David Simon. The committee deferred considering David Simon's bonus until March 14, 2007 when it approved his 2006 bonus. Final adjustments to the bonuses were approved on March 26, 2007. In the case of the named executive officers, the committee's determination was based on its evaluation of the executive's performance. The committee also considered the recommendations that David Simon made with respect to the other executive officers. The amounts payable to the named executive officers for 2006 performance are shown in the Bonus column of the Summary Compensation Table on page 41.

**2005 Stock Incentive Program (Paid in 2006).** The 2005 stock incentive program had the following terms:

Allocations to receive awards of up to 426,750 shares of restricted stock were made in 2005 among 199 participants, including twelve executive officers.

The performance measures and weightings for the program year were:

Measure	Weighting
"Target" FFO per Share Goal	35%
"Stretch" FFO per Share Goal	25%
Total Stockholder Return vs. MSCI US REIT Index (meet or exceed)	25%
Total Stockholder Return vs. S&P 500 Index (meet or exceed)	15%
<i>Total</i>	100%

We are not disclosing the specific levels for the FFO performance measure because they represent our confidential financial and operating goals for the year. In 2005, the "target" FFO level was set above the FFO guidance we provided at the beginning of 2005 and the "stretch" FFO level was set above the "target" FFO level. Nonetheless, in setting these levels each year, we believe the committee has intended to make the relative difficulty of achieving them consistent from year to year. Over the past five years, as a consequence of our sustained record of superior performance, we met the "stretch" FFO level each year.

On February 21, 2006, the committee determined that all of the performance measures for the 2005 performance year had been achieved and awarded a total of 415,750 shares of restricted stock to the eligible recipients.

The committee also made a discretionary award of a total of 11,000 shares of restricted stock to eleven executives of our Chelsea division who were not participants in the Chelsea long-term incentive plan that terminated at the end of 2006 and an award of 750 shares of restricted stock to an employee who had been on disability leave.

The shares of restricted stock vest in four equal annual installments commencing January 1, 2007 with a continuous service requirement, except for termination of service resulting from death, disability or, in certain circumstances, retirement. Participants are entitled to vote and receive distributions on unvested shares.

**2006 Stock Incentive Program (Payable in 2007).** The 2006 stock incentive program had the following terms:

Initial allocations to receive grants of restricted stock were made in 2006 in the form of dollar values (as opposed to shares, which was the approach used in previous years) of \$28,800,000 to a total of



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213 participants, including twelve executive officers.

The performance measures and weightings for the program year were the same as used in the 2005 program:

Measure	Weighting
"Target" FFO per Share Goal	35%
"Stretch" FFO per Share Goal	25%
Total Stockholder Return vs. MSCI US REIT Index (meet or exceed)	25%
Total Stockholder Return vs. S&P 500 Index (meet or exceed)	15%
<i>Total</i>	100%

We are not disclosing the specific levels for the FFO performance measure because those levels are tied to our confidential financial and operating goals for the year. In 2006, the "target" FFO levels were set above the FFO guidance we provided at the beginning of 2006 and the "stretch" FFO levels were set above the "target" FFO levels. For information concerning the operation of prior stock incentive programs and the payouts to our named executive officers, see the discussion of the 2005 Stock Incentive Program (Paid in 2006) above.

The 2006 stock incentive program also recognized evaluations of individual performance on a positive or negative basis. The committee assigned each executive officer an individual rating for his or her program year performance ranging from "0" to "3." Participants with the highest rating of "3" receive 110% to 125% of the initial allocation based on corporate performance (the "calculated award"). Participants with a rating of "2" receive 100% of the calculated award. Participants with a rating of "1" receive 75% of the calculated award, and participants with a rating of "0", which represents unacceptable performance, receive no award. The committee delegated the authority to assess the individual performance of the other participants to a committee of senior management which assigned similar ratings to other participants.

On February 26, 2007, the committee determined that all of the performance measures for the 2006 program year had been achieved and calculated the adjusted value for the participants using their assigned ratings. The adjusted value was then converted into shares of restricted stock by dividing the adjusted value by \$118.96, the average of the closing prices for our common stock over the ten trading day period commencing three trading days after we announced our earnings for 2006. Fractional shares were rounded to the next full share. The committee awarded a total of 246,271 shares to all participants.

The shares of restricted stock vest in four equal annual installments commencing January 1, 2008 with a continuous service requirement, except for termination of service resulting from death, disability or, in certain circumstances, retirement. Participants are entitled to vote and receive distributions on unvested shares.

The restricted stock awards granted in 2007 under the 2006 stock incentive program will be reported in the Grant of Plan-Based Awards Table in the proxy statement for next year's annual meeting, and a portion of the compensation expense associated with the grant will be included in next year's Summary Compensation Table.

**CEO Compensation.** The committee made the following decisions with respect to the compensation paid in or with respect to 2006:

The committee approved paying David Simon a base salary of \$800,000 for 2006. This is the same amount he earned in 2005. As shown in the Nonqualified Deferred Compensation Table on page 47, David Simon elected to defer 50% of his 2006 base salary.

For 2006, Mr. Simon had been allocated a target bonus opportunity of 75% of his base salary, or \$600,000 and a stretch bonus opportunity of 150% of his base salary, or \$1,200,000. The bonus was conditioned on



achievement of corporate-level criteria and the committee's qualitative evaluation of his individual performance during 2006. Based on the achievement of corporate-level goals and the committee's evaluation of Mr. Simon's individual performance, Mr. Simon was awarded a bonus of \$1,200,000 with respect to 2006 performance.

In 2005, the committee had allocated the CEO the opportunity to receive an award of 25,000 shares of restricted stock under our 2005 stock incentive program. On February 21, 2006, the committee determined that the performance measures for the 2005 program year had been met and awarded David Simon 25,000 shares of restricted stock.

On July 20, 2006, the committee allocated to David Simon the opportunity to receive a target award of restricted shares with a value of \$1,400,000 under our 2006 stock incentive program. On February 26, 2007, the committee determined that the performance measures for the 2006 performance year were met and, based on the performance rating assigned to him, awarded David Simon 11,769 shares of restricted stock. These shares were granted in 2007 and, therefore, are not reflected in the Summary Compensation Table or the Grants of Plan-Based Awards Table for 2006.

**Other Executive Officer Compensation.** The committee also made the following decisions with respect to the compensation paid in or with respect to 2006 to the executive officers other than David Simon as follows:

After considering, among other things, the comparative information provided by Cook and the recommendations of David Simon, the committee set the base salaries of the other named executives for 2006 at the same amounts they earned in 2005. These are shown in the Salary column of the Summary Compensation Table on page 41.

The committee determined that our actual performance in 2006 exceeded our overall budget for the year and approved payment of the bonuses to the other named executive officers shown in the Bonus column of the Summary Compensation Table on page 41. We paid a total of \$2,220,000 in bonuses to the other participating executive officers who are not named in this proxy statement for 2006 performance.

As explained above, the committee determined that all of the performance measures for the 2005 stock incentive program year had been achieved, including the "stretch" level for FFO. Accordingly, the committee awarded the shares of restricted stock to the named executive officers shown in the Grants of Plan-Based Awards Table on page 44. The committee awarded a total of 30,500 shares of restricted stock to the other participating executive officers who are not named in this proxy statement.

On July 20, 2006, the committee allocated to the named executive officers, other than David Simon, a target opportunity to receive restricted shares with an aggregate value of \$4,300,000 under our 2006 stock incentive program. On February 26, 2007, the committee determined that the performance measures for the 2006 performance year were met and, using the process described above, granted the following restricted stock awards to those named executive officers: Mr. Sterrett 7,986 shares; Mr. Sokolov 11,769 shares; Mr. Lewis 7,986 shares; and Mr. Barkley 8,407 shares. These shares were granted in 2007 and, therefore, are not reflected in the Summary Compensation Table or the Grants of Plan-Based Awards Table for 2006.



**Composition of Total Direct Compensation.** As shown in the Supplemental Table on page 44, the base salary and bonus payments paid or earned by our named executive officers for 2006 accounted for approximately 55% of the total direct compensation of our named executive officers. The grant date fair value of the restricted stock awards under the 2006 stock incentive program accounted for approximately 45% of total direct compensation. Because the Summary Compensation Table reflects the dollar amount we recognized for purposes of our 2006 financial statements for restricted stock awards and not the fair market value of the 2006 awards, these percentages cannot be derived using the amounts reflected in the Summary Compensation Table.

**2007 Compensation Decisions**

In addition to the 2006 stock incentive program discussed above, the committee has taken the following actions that will affect future executive compensation:

**Base Salaries.** On February 26, 2007, the committee set the base salaries for each of the named executive officers other than David Simon, as follows: Mr. Sterrett \$475,000; Mr. Sokolov \$782,000; Mr. Lewis \$500,000; and Mr. Barkley \$500,000. The new base salaries are effective as of March 1, 2007. As of the date of mailing this proxy statement, the committee had not completed its review of David Simon's base salary.

**Cash Incentives.** The Board of Directors approved our 2007 budget on February 1, 2007. The budget included \$2,895,675 available as a target cash bonus pool amount for the eleven executive officers participating in the plan other than David Simon. Achievement of bonus criteria at the stretch level could result in the payment of up to \$5,585,000 to those officers. The committee approved criteria for the executive officers participating in the bonus pool based on corporate, business unit and individual objectives and target amounts expressed as a percentage of their base salaries. As of the date of mailing this proxy statement, the committee had not determined the terms of David Simon's participation in the 2007 bonus program.

**Equity Incentives.** As of the date of mailing this proxy statement, the committee had not finalized the terms of the 2007 stock incentive program.

**Executive Equity Ownership Guidelines**

We believe that the financial interests of our executives should be aligned with those of our stockholders. In addition to using awards of restricted shares as a long-term incentive, our Board of Directors has established equity ownership guidelines for key executives, including the named executive officers. The current ownership guidelines require the executives to maintain ownership of our stock or other securities having a value expressed as a multiple of their base salary for as long as they remain our employees. These multiples are as follows:

Position	Value as a Multiple of Base Salary
Chief Executive Officer	4.0
President and/or Chief Operating Officer	3.0
Other Executive Officers and Executive Vice Presidents who are heads of significant disciplines	2.0

In addition, these executives are required to retain ownership of a sufficient number of shares received in the form of restricted share awards representing at least 50% of the after-tax value of his or her award or 25% of the pre-tax value of such awards. These shares are to be retained by the executive until he or she retires, dies, becomes disabled or is no longer our employee. These retention requirements became effective in February 2004 and apply to awards made after that date.

Ownership of any class of our equity securities or units of Simon Property Group, L.P. counts toward fulfillment of these guidelines, including securities held directly, securities held indirectly by or for the benefit of immediate family members, shares of restricted stock that have been earned, even if not vested, and shares held following the exercise of stock options. Unexercised stock options do not count toward these goals. Each of our named

executive officers, including David Simon, currently meets or exceeds these guidelines.

We do not have a policy regarding the recovery of performance-based awards in the event of a financial statement restatement beyond the requirements of Section 302 of the Sarbanes-Oxley Act of 2002. That statute requires the chief executive and chief financial officers of a publicly-held company to repay certain amounts if the company restates its financial statements as a result of financial reporting misconduct. The amounts to be repaid consist of (1) any bonus or other incentive-based or equity-based compensation received from the company during a twelve month period following the filing of the financial document in question; and (2) any profits realized from the sale of securities of the company during that period.

#### **Tax Issues**

**Section 162(m).** Section 162(m) of the Internal Revenue Code disallows a federal income tax deduction to publicly-held companies for compensation paid to certain executives to the extent their compensation exceeds \$1,000,000 in any fiscal year. The limitation applies only to compensation that is not considered "performance-based." Base salaries and bonuses under the bonus pools for 2006 and earlier do not qualify as performance-based compensation. Awards made under the 1998 plan can be made subject to performance-based criteria so those awards qualify as performance-based compensation.

As long as we qualify as a REIT, we do not pay taxes at the corporate level. To the extent that any part of our compensation expense does not qualify for deduction under Section 162(m), a larger portion of stockholder distributions may be subject to federal income tax as ordinary income rather than return of capital, and any such compensation allocated to our taxable REIT subsidiaries whose income is subject to federal income tax would result in an increase in income taxes due to the inability to deduct such compensation. In addition, the Internal Revenue Service has issued a series of private letter rulings which indicate that compensation paid by an operating partnership to executive officers of the REIT that serves as its general partner is not subject to limitation under Section 162(m) to the extent such compensation is attributable to services rendered to the operating partnership. Although we have not obtained a ruling on this issue, we believe the positions taken in the rulings would apply to our operating partnership as well.

Substantially all of the services by our executive officers are rendered on behalf of our operating partnership. Accordingly, we believe that the compensation we paid to our executive officers for 2006 will not be limited by Section 162(m).

**Section 409A.** On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law, changing the tax rules applicable to nonqualified deferred compensation arrangements. As amended, Section 409A of the Internal Revenue Code affects the payments of certain types of deferred compensation to key employees. While the final regulations have not become effective yet, we believe we are operating in good faith compliance with the statutory provisions which were effective January 1, 2005. A more detailed discussion of our nonqualified deferred compensation plan is provided on page 47.

## SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation paid or awarded to each of our named executive officers for the one year period ended December 31, 2006. For a more thorough discussion of our executive compensation program, see the Compensation Discussion and Analysis which begins on page 31 of this proxy statement.

Name and Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus <sup>(1)</sup> (\$) (d)	Stock Awards <sup>(2)</sup> (\$) (e)	All Other Compensation <sup>(3)</sup> (\$) (i)	Total (\$) (j)
David Simon Chief Executive Officer	2006	800,000	1,200,000	1,081,063	15,093	3,096,156
Stephen E. Sterrett Executive Vice President and Chief Financial Officer	2006	450,000	650,000	704,166	16,233	1,820,399
Richard S. Sokolov President and Chief Operating Officer	2006	700,000	1,000,000	1,167,700	321,123	3,188,823
Gary L. Lewis Senior Executive Vice President	2006	500,000	393,641	763,913	15,848	1,673,402
James M. Barkley General Counsel and Secretary	2006	475,000	700,000	704,166	17,135	1,896,301

(1) Represents amounts paid in 2007 under 2006 bonus plan.

(2) Represents the dollar amount recognized for financial statement purposes for restricted stock awards that were granted under the stock incentive programs for 2005 and earlier. The amounts recognized have been determined in accordance with Financial Accounting Standards Board Statement No. 123R (Share-Based Payment) ("FAS 123R") except that estimated forfeitures were excluded in the determination. For this purpose, the number of shares of restricted stock is multiplied by the closing price of our common stock at the time of grant and then is amortized over the vesting period beginning January 1 of the year of grant. There were no actual forfeitures of awards to the named executives. Awards of restricted stock for the 2006 stock incentive program year were not granted until February 26, 2007 and therefore are not included in FAS 123R compensation cost for 2006. The cost of each award included in the aggregate cost is as follows:

	Award for Program Year	2006 Compensation Expense
David Simon	2002	\$ 207,500
	2003	351,813
	2004	0
	2005	521,750
Mr. Sterrett	2002	\$ 83,000
	2003	140,725
	2004	219,566
	2005	260,875
	2002	\$ 166,000

	<u>Award for Program Year</u>	<u>2006 Compensation Expense</u>
Mr. Sokolov	2003	281,450
	2004	302,850
	2005	417,400

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Mr. Lewis	2002	\$	83,000
	2003		140,725
	2004		227,138
	2005		313,050
Mr. Barkley	2002	\$	83,000
	2003		140,725
	2004		219,566
	2005		260,875

(3) Amounts reported consist of the following:

	<b>Company and Matching Contributions to 401(k) Retirement Plan</b>	<b>Employee and Dependent Life Insurance Premiums</b>	<b>Use of Charter Aircraft</b>	<b>Housing Allowance</b>
David Simon	\$ 12,026	\$ 3,067	\$ 0	\$ 0
Mr. Sterrett	12,100	4,133	0	0
Mr. Sokolov	8,866	4,823	285,000	22,434
Mr. Lewis	12,100	3,748	0	0
Mr. Barkley	12,100	5,035	0	0

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## SUPPLEMENTAL TABLE

Total Direct Compensation<sup>(1)</sup> Earned in Prior Two Fiscal Years

Name	Year	Salary (\$)	Bonus <sup>(2)</sup> (\$)	Restricted Stock <sup>(3)</sup> (\$)	Total Direct Compensation (\$)	Change from Prior Year
David Simon	2006	800,000	1,200,000	1,360,732	3,360,732	+16%
	2005	800,000	0	2,087,000	2,887,000	
Stephen E. Sterrett	2006	450,000	650,000	923,341	2,023,341	+3%
	2005	450,000	475,000	1,043,500	1,968,500	
Richard S. Sokolov	2006	700,000	1,000,000	1,360,732	3,060,732	0%
	2005	700,000	700,000	1,669,600	3,069,600	
Gary L. Lewis	2006	500,000	393,641	923,341	1,816,982	-18%
	2005	500,000	375,000	1,252,200	2,217,200	
James M. Barkley	2006	475,000	700,000	972,017	2,147,017	+6%
	2005	475,000	500,000	1,043,500	2,018,500	

(1) Total direct compensation consists solely of salary, cash bonus and equity incentive compensation and does not include all elements of compensation shown in the Summary Compensation Table.

(2) Bonuses with respect to 2006 performance were paid in 2007 and bonuses with respect to 2005 performance were paid in 2006.

(3) Represents the FAS 123R grant date fair value of the restricted stock awards under the 2006 and 2005 stock incentive programs. The closing prices of our common stock as reported by the New York Stock Exchange, or NYSE, for February 26, 2007 and February 21, 2006 (the dates of grant) were \$115.62 and \$83.48, respectively. As explained above on page 37, the committee determined the number of shares of restricted stock awarded under the 2006 stock incentive program using the average of the closing prices for our common stock for the ten day trading period commencing three trading days after we announced earnings for 2006, or \$118.96 per share.

## GRANTS OF PLAN-BASED AWARDS

Name (a)	Grant Date (b)	Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(1)</sup>			All Other Stock Awards: Number of Shares of Stock of Units <sup>(2)</sup> (i)	Grant Date Fair Value of Stock and Option Awards (\$/Sh) (l) <sup>(3)</sup>
		Threshold (\$) (f)	Target (\$) (g)	Maximum (\$) (h)		
David Simon	02/21/06 07/20/06	0	1,400,000	1,750,000	25,000	2,087,000 0
Stephen E. Sterrett	02/21/06 07/20/06	0	950,000	1,187,500	12,500	1,043,500 0
Richard S. Sokolov	02/21/06 07/20/06	0	1,400,000	1,750,000	20,000	1,669,600 0
Gary L. Lewis	02/21/06 07/20/06	0	950,000	1,187,500	15,000	1,252,200 0
James M. Barkley	02/21/06 07/20/06	0	950,000	1,187,500	12,500	1,043,500 0

- (1) The values shown for the action on July 20, 2006 represent the award opportunities allocated under the 2006 stock incentive program. Award opportunities were designated as specific dollar values which are converted into shares of restricted stock if the performance measures for the program year were met. Awards under the 2006 stock incentive program were granted in 2007 and the grant date fair value of those awards is reflected in the Supplemental Table on page 43.
- (2) Represents the actual number of shares of restricted stock awards granted on February 21, 2006 under the 2005 stock incentive program.
- (3) Represents the FAS 123R grant date fair value of the restricted stock awards calculated using \$83.48, the closing price of our common stock as reported by the NYSE, for February 21, 2006. These restricted stock awards were granted in 2006 under the 2005 stock incentive program.

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name (a)	Option Awards <sup>(1)</sup>				Stock Awards <sup>(2)</sup>			
	Number of Securities Underlying Unexercised Options Exercisable (#) (b)	Number of Securities Underlying Unexercised Options (#) (c)	Option Exercise Price (\$) <sup>(3)</sup> (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(4)</sup> (g)	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(5)</sup> (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) <sup>(6)</sup> (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(7)</sup> (j)
David Simon	75,000 125,000 150,000	0	23.4063 25.5400 25.5400	03/23/2010 03/26/2011 03/26/2011	43,750	4,431,438	n/a	1,400,000
Stephen E. Sterrett	0	0	0		30,875	3,127,329	n/a	950,000
Richard S. Sokolov	50,000 50,000 50,000	0	23.4063 25.5400 25.5400	03/23/2010 03/26/2011 03/26/2011	50,000	5,064,500	n/a	1,400,000
Gary L. Lewis	0	0	0		33,750	3,418,538	n/a	950,000
James M. Barkley	5,000	0	25.5400	03/26/2011	30,875	3,127,329	n/a	950,000

- (1) Stock options vested in three equal annual installments beginning on the first through the third anniversaries of the grant date. We have not granted any stock options to employees since 2001, so all outstanding awards are now fully vested.
- (2) Restricted stock awards are granted in the year following the program year if performance-based conditions are met and then vest in four equal annual installments beginning on January 1 of the year following the year in which the grant was made. The recipient must maintain continuous service through each vesting date, except for termination of service resulting from death, disability or, in certain circumstances, retirement.
- (3) The 1998 plan provides that the exercise price for stock options is equal to the mean between the high and low sales prices for our common stock as reported by the NYSE for the grant date.



- (4) Consists of the following restricted stock awards that have been earned and not fully vested:

	<u>Program Year</u>	<u>Number of Shares</u>
David Simon	2002	6,250
	2003	12,500
	2004	0
	2005	25,000
Mr. Sterrett	2002	2,500
	2003	5,000
	2004	10,875
	2005	12,500
Mr. Sokolov	2002	5,000
	2003	10,000
	2004	15,000
	2005	20,000
Mr. Lewis	2002	2,500
	2003	5,000
	2004	11,250
	2005	15,000
Mr. Barkley	2002	2,500
	2003	5,000
	2004	10,875
	2005	12,500

- (5) The market value of the restricted stock awards was calculated using \$101.29, the closing price of our common stock as reported by the NYSE for December 29, 2006.
- (6) The number of unearned shares of restricted stock under the 2006 stock incentive program as of December 29, 2006 could not be calculated. As explained in the following footnote, the number of shares was determined on February 26, 20