DRIL-QUIP INC
Form 10-Q
August 07, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(MARK ONE)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number 001-13439

DRIL-QUIP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**74-2162088**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

13550 HEMPSTEAD HIGHWAY

HOUSTON, TEXAS

77040

(Address of principal executive offices)

(Zip Code)

(713) 939-7711

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer   in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x   Accelerated filer ¨   Non-accelerated filer ¨   Smaller reporting company ¨

(Do not check if a smaller

reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).   Yes ¨   No x

As of August 3, 2009, the number of shares outstanding of the registrant s common stock, par value $.01 per share, was 39,030,597.

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

DRIL-QUIP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	December 31, 2008	June 30, 2009
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 95,952	$ 115,988
Trade receivables, net	172,072	160,597
Inventories, net	222,203	259,104
Deferred income taxes	15,834	18,133
Prepaids and other current assets	8,213	8,377
Total current assets	514,274	562,199
Property, plant and equipment, net	160,810	180,869
Other assets	5,525	5,431
Total assets	$ 680,609	$ 748,499
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 31,715	$ 28,093
Current maturities of long-term debt	636	719
Accrued income taxes	7,153	9,551
Customer prepayments	51,153	45,971
Accrued compensation	9,702	11,894
Other accrued liabilities	13,380	11,974
Total current liabilities	113,739	108,202
Long-term debt	896	644
Deferred income taxes	6,524	6,570
Total liabilities	121,159	115,416
Commitments and contingencies		
Stockholders equity:		
Preferred stock, 10,000,000 shares authorized at $0.01 par value (none issued)		
Common stock:		
50,000,000 shares authorized at $0.01 par value, 39,022,597 and 39,029,347 shares issued and outstanding at December 31, 2008 and June 30, 2009, respectively	390	390
Additional paid-in capital	109,784	111,819
Retained earnings	478,146	529,524
Foreign currency translation adjustment	(28,870)	(8,650)
Total stockholders equity	559,450	633,083
Total liabilities and stockholders equity	$ 680,609	$ 748,499

The accompanying notes are an integral part of these statements.

DRIL-QUIP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	Three months ended June 30, 2008	Three months ended June 30, 2009	Six months ended June 30, 2008	Six months ended June 30, 2009
	(In thousands, except per share data)			
Revenues:				
Products	$ 117,715	$ 113,400	$ 229,882	$ 218,536
Services	24,829	19,786	45,075	42,172
Total revenues	142,544	133,186	274,957	260,708
Cost and expenses:				
Cost of sales:				
Products	69,805	65,699	135,504	125,651
Services	13,921	11,708	26,041	23,773
Total cost of sales	83,726	77,407	161,545	149,424
Selling, general and administrative	14,187	12,897	27,805	27,437
Engineering and product development	6,871	6,571	13,135	12,876
	104,784	96,875	202,485	189,737
Operating income	37,760	36,311	72,472	70,971
Interest income	929	132	2,633	344
Interest expense	(44)	(29)	(102)	(77)
Income before income taxes	38,645	36,414	75,003	71,238
Income tax provision	10,942	9,707	21,909	19,860
Net income	$ 27,703	$ 26,707	$ 53,094	$ 51,378
Earnings per common share:				
Basic	$ 0.69	$ 0.68	$ 1.31	$ 1.32
Diluted	$ 0.68	$ 0.68	$ 1.29	$ 1.31
Weighted average common shares outstanding:				
Basic	40,435	39,026	40,617	39,024
Diluted	40,859	39,433	41,026	39,363

The accompanying notes are an integral part of these statements.

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DRIL-QUIP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six months ended June 30, 2008	Six months ended June 30, 2009
	(In thousands)	
Operating activities		
Net income	$ 53,094	$ 51,378
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,290	8,664
Stock-based compensation expense	1,497	1,909
Gain on sale of equipment	(90)	(132)
Deferred income taxes	(1,319)	(2,132)
Changes in operating assets and liabilities:		
Trade receivables, net	(12,759)	20,660
Inventories, net	(28,926)	(26,608)
Prepaids and other assets	2,458	289
Excess tax benefit of stock option exercises	(399)	(64)
Trade accounts payable and accrued expenses	(15,409)	(9,799)
Net cash provided by operating activities	6,437	44,165
Investing activities		
Purchase of property, plant and equipment	(30,242)	(22,883)
Proceeds from sale of equipment	721	915
Net cash used in investing activities	(29,521)	(21,968)
Financing activities		
Repurchase of common stock	(67,860)	
Principal payments on long-term debt	(439)	(326)
Proceeds from exercise of stock options	376	55
Excess tax benefit of stock option exercises	399	64
Net cash used in financing activities	(67,524)	(207)
Effect of exchange rate changes on cash activities	(1,670)	(1,954)
Increase (decrease) in cash and cash equivalents	(92,278)	20,036
Cash and cash equivalents at beginning of period	201,732	95,952
Cash and cash equivalents at end of period	$ 109,454	$ 115,988

The accompanying notes are an integral part of these statements.

DRIL-QUIP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization and Principles of Consolidation

Dril-Quip, Inc., a Delaware corporation (the Company or Dril-Quip), designs, manufactures, sells and services highly engineered offshore drilling and production equipment that is well suited for use in deepwater, harsh environment and severe service applications. The Company s principal products consist of subsea and surface wellheads, subsea and surface production trees, subsea control systems and manifolds, mudline hanger systems, specialty connectors and associated pipe, drilling and production riser systems, liner hangers, wellhead connectors and diverters. Dril-Quip s products are used by major integrated, large independent and foreign national oil and gas companies in offshore areas throughout the world. Dril-Quip also provides technical advisory assistance on an as-requested basis during installation of its products, as well as rework and reconditioning services for customer-owned Dril-Quip products. In addition, Dril-Quip s customers may rent or purchase running tools from the Company for use in the installation and retrieval of the Company s products.

The Company s operations are organized into three geographic segments Western Hemisphere (including North and South America; headquartered in Houston, Texas), Eastern Hemisphere (including Europe and Africa; headquartered in Aberdeen, Scotland) and Asia-Pacific (including the Pacific Rim, Southeast Asia, Australia, India and the Middle East; headquartered in Singapore). Each of these segments sells similar products and services and the Company has major manufacturing facilities in all three of its headquarter locations as well as Macae, Brazil.

The condensed consolidated financial statements included herein have been prepared by Dril-Quip and are unaudited, except for the balance sheet at December 31, 2008, which has been derived from the audited consolidated financial statements at that date. In the opinion of management, the unaudited condensed consolidated interim financial statements include all normal recurring adjustments necessary for a fair presentation of the financial position as of June 30, 2009, the results of operations for each of the three and six-month periods ended June 30, 2009 and 2008, and the cash flows for each of the six-month periods ended June 30, 2009 and 2008. Although management believes the unaudited interim related disclosures in these condensed consolidated financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations and the cash flows for the six-month period ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated audited financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

2. Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Some of the Company s more significant estimates are those affected by critical accounting policies for revenue recognition, inventories and contingent liabilities as discussed more fully in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Cash and cash equivalents

Short-term investments that have a maturity of three months or less from the date of purchase are classified as cash equivalents. The Company invests excess cash in interest bearing accounts, money market mutual funds and funds which invest in U.S. Treasury obligations and repurchase agreements backed by U.S. Treasury obligations. The Company s investment objectives include the provision of a high level of current income consistent with the preservation of capital and the maintenance of liquidity.

Inventories

Inventory costs are determined principally by the use of the first-in, first-out (FIFO) costing method, and are stated at the lower of cost or market. Inventory is valued principally using standard costs, which are calculated based upon direct costs incurred and overhead allocations. Periodically, obsolescence reviews are performed on slow-moving inventories and reserves are established based on current assessments about future demands and market conditions. The inventory values have been reduced by a reserve for excess and obsolete inventories. Inventory reserves of $20.8 million and $22.0 million were recorded as of December 31, 2008 and June 30, 2009, respectively. If market conditions are less favorable than those projected by management, additional inventory reserves may be required.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, with depreciation provided on a straight-line basis over their estimated useful lives.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Current income taxes are provided on income reported for financial statement purposes, adjusted for transactions that do not enter into the computation of income taxes payable in the same year. Deferred tax assets and liabilities are measured using enacted tax rates for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

Revenue Recognition

Product Revenue

The Company earns product revenues from two sources:

- product revenues recognized under the percentage-of-completion method; and
- product revenues from the sale of products that do not qualify for the percentage-of-completion method.

Revenues recognized under the percentage-of-completion method

The Company uses the percentage-of-completion method on long-term project contracts pursuant to Statement of Position 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Long-term project contracts have the following characteristics:

- The contracts call for products which are designed to customer specifications;
- The structural designs are unique and require significant engineering and manufacturing efforts generally requiring more than one year in duration;

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- The contracts contain specific terms as to milestones, progress billings and delivery dates; and

- Product requirements cannot be filled directly from the Company s standard inventory.

For each project, the Company prepares a detailed analysis of estimated costs, profit margin, completion date and risk factors which include availability of material, production efficiencies and other factors that may impact the project. On a quarterly basis, management reviews the progress of each project, which may result in revisions of previous estimates, including revenue recognition. The Company calculates the percent complete and applies the percentage to determine the revenues earned and the appropriate portion of total estimated costs. Losses, if any, are recorded in full in the period they first become evident. Historically, the Company s estimates of total costs and costs to complete have approximated actual costs incurred to complete the project.

Under the percentage-of-completion method, billings do not always correlate directly to the revenue recognized. Based upon the terms of the specific contract, billings may be in excess of the revenue recognized, in which case the amounts are included in customer prepayments as a liability on the Condensed Consolidated Balance Sheets. Likewise, revenue recognized may exceed customer billings in which case the amounts are reported in trade receivables. Unbilled revenues are expected to be billed and collected within one year. At December 31, 2008 and June 30, 2009, receivables included $44.8 million and $50.4 million of unbilled receivables, respectively. During the quarter ended June 30, 2009, there were 15 projects representing approximately 15% of the Company s total revenue and approximately 18% of its product revenues that were accounted for using percentage-of-completion accounting.

Revenues not recognized under the percentage-of-completion method

Revenues from the sale of inventory products, not accounted for under the percentage-of-completion method, are recorded at the time the manufacturing processes are complete and ownership is transferred to the customer.

Service revenue

The Company earns service revenues from three sources:

- technical advisory assistance;

- rental of running tools; and

- rework and reconditioning of customer-owned Dril-Quip products.

The recognition of service revenue is the same for all products, including those accounted for under the percentage-of-completion method. The Company does not install products for its customers, but it provides technical advisory assistance. At the time of delivery of the product, the customer is not obligated to buy or rent the Company s running tools and the Company is not obligated to perform any subsequent services relating to installation. Technical advisory assistance service revenue is recorded at the time the service is rendered. Service revenues associated with the rental of running and installation tools are recorded as earned. Rework and reconditioning service revenues are recorded when the refurbishment process is complete.

The Company normally negotiates contracts for products, including those accounted for under the percentage-of-completion method, and services separately. For all product sales, it is the customer s decision as to when the product will be installed and if Dril-Quip running tools will be purchased or rented. Furthermore, the customer is under no obligation to utilize the Company s technical advisory services. The customer may use a third party or their own personnel.

Foreign Currency

The financial statements of foreign subsidiaries are translated into U.S. dollars at period end exchange rates except for revenues and expenses, which are translated at average monthly rates. Translation adjustments are reflected as a separate component of stockholders equity and have no effect on current earnings or cash flows.

Foreign currency exchange transactions are recorded using the exchange rate at the date of the settlement. Exchange gains (losses) are included in selling, general and administrative costs in the Condensed Consolidated Statements of Income.

Fair Value of Financial Instruments

The Company s financial instruments consist primarily of cash and cash equivalents, receivables, payables, and debt instruments. The carrying values of these financial instruments approximate their respective fair values as they are either short-term in nature or carry interest rates which approximate market rates.

Concentration of Credit Risk

Financial instruments which subject the Company to concentrations of credit risk primarily include trade receivables. The Company grants credit to its customers, which operate primarily in the oil and gas industry. The Company performs periodic credit evaluations of its customers financial condition and generally does not require collateral. The Company maintains reserves for potential losses, and such losses have historically been within management s expectations.

In addition, the Company invests excess cash in interest bearing accounts, money market mutual funds and funds which invest in obligations of the U.S. Treasury and repurchase agreements backed by U.S. Treasury obligations. Changes in the financial markets and in interest rates could affect the interest earned on short-term investments.

Comprehensive Income

Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income, establishes the rules for the reporting and display of comprehensive income and its components. SFAS No. 130 requires the Company to include unrealized gains or losses on foreign currency translation adjustments in other comprehensive income. Generally, gains are attributed to a weakening U.S. dollar and losses are the result of a strengthening U.S. dollar.

The following table provides comprehensive income for the periods indicated:

	Three months ended June 30,		**Six months ended June 30,**	
	2008	**2009**	**2008**	**2009**
		(In thousands)		
Net income	$ 27,703	$ 26,707	$ 53,094	$ 51,378
Foreign currency translation adjustment	2,925	21,788	2,536	20,220
Comprehensive income	$ 30,628	$ 48,495	$ 55,630	$ 71,598

Earnings Per Share

Basic earnings per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share is computed considering the dilutive effect of stock options using the treasury stock method.

In each relevant period, the net income used in the basic and dilutive earnings per share calculations is the same. The following table reconciles the number of common shares outstanding at June 30 of each year to the weighted average number of common shares outstanding and the weighted average diluted number of common shares outstanding for the purpose of calculating basic and diluted earnings per share:

	Three months ended June 30,		Six months ended June 30,	
	2008	2009	2008	2009
	(In thousands)			
Number of common shares outstanding at end of period basic	39,655	39,029	39,655	39,029
Effect of using weighted average common shares outstanding	780	(3)	962	(5)
Weighted average basic common shares outstanding basic	40,435	39,026	40,617	39,024
Dilutive effect of common stock options	424	407	409	339
Weighted average diluted common shares outstanding diluted	40,859	39,433	41,026	39,363

New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB No. 162 (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification (Codification) as the single source of the authoritative U. S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of the authoritative U.S. GAAP for SEC registrants. SFAS 168 and the Codification are effective for financial statements issued for the interim and annual periods ending after September 15, 2009. When effective, the Codification will supersede all existing non-SEC accounting and reporting standards. The Codification is effective for the Company during its interim period ending September 30, 2009 and will not have an impact on our operations, financial position or cash flows.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosure that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 is effective for reporting periods ending after June 15, 2009. The Company has adopted SFAS 165 for financial statements issued after the effective date. See Note 8 to the consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 107-1 and Accounting Principles Board (APB) 28-1 Interim Disclosures about Fair Value of Financial Instruments. This FSP amends SFAS No. 107 Disclosures about Fair Value of Financial Instruments to require an entity to provide disclosures about fair value of financial instruments in interim financial information. This FSP is to be applied prospectively and is effective for interim and annual periods ending after June 15, 2009. The Company adopted FSP FAS 107-1 and APB 28-1 on June 15, 2009 and there was no impact on the Company s disclosure requirement.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)). SFAS 141(R) replaces Statement No. 141, Business Combinations. The statement retains the purchase method of accounting used in business combinations but replaces SFAS 141 by establishing principles and requirements for the recognition and measurement of assets, liabilities and goodwill including the requirement that most transaction costs and restructuring costs be expensed. In addition, the statement requires disclosures to enable users to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for business combinations when the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted SFAS 141(R) on January 1, 2009 for business combinations on or after this date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements an amendment to ARB No. 51 (SFAS 160) which establishes accounting and reporting standards for noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The provisions of SFAS 160 are effective for fiscal years beginning after December 15, 2008. The Company adopted SFAS 160 on January 1, 2009, and the adoption had no material effect on its condensed consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures under fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. However, on February 12, 2008, the FASB issued FSP FAS 157-2 which would delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective January 1, 2008, the Company adopted SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2. In October 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active and addresses application issues such as use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active and the use of market quotes when assessing the relevance of observable and unobservable data. FSP FAS 157-3 was effective immediately and did not have an impact on the Company upon adoption. The Company did not have any assets or liabilities that would be recognized or disclosed on a fair value basis as of December 31, 2008. Cash and cash equivalents include investments in various financial instruments which are carried at cost. On January 1, 2009 the Company adopted FSP FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), for its nonfinancial assets and nonfinancial liabilities. The adoption of SFAS No. 157 and FSP FAS 157-2 did not have an effect on the Company s fair value measurements. The Company did not have any assets or liabilities that would be recognized or disclosed on a fair value basis as of June 30, 2009.

3. Stock-Based Compensation and Stock Option Awards

During the three and six months ended June 30, 2009, the Company recognized approximately $912,000 and $1.9 million, respectively, of compensation expense compared to $740,000 and $1.5 million, respectively, for the three and six months ended June 30, 2008. Compensation expense is included in the selling, general and administrative expense line of the Condensed Consolidated Statements of Income. No stock-based compensation expense was capitalized during the three and six months ended June 30, 2009 or 2008. There were no stock options granted in the second quarter of 2009 and 2008. Refer to Note 12 of the Company s 2008 Form 10-K for additional information regarding stock-based compensation plans.

4. Inventories

Inventories consist of the following:

	December 31, 2008	June 30, 2009
	(In thousands)	
Raw materials and supplies	$ 55,470	$ 53,165
Work in progress	71,926	90,129
Finished goods	115,636	137,855
	243,032	$ 281,149
Less: allowance for obsolete and excess inventory	(20,829)	(22,045)
	$ 222,203	$ 259,104

5. Geographic Areas

	Three months ended June 30, 2008	Three months ended June 30, 2009	Six months ended June 30, 2008	Six months ended June 30, 2009
	(In thousands)			
Revenues:				
Western Hemisphere				
Products	$ 53,734	$ 56,869	$ 120,207	$ 110,271
Services	12,278	8,562	21,159	18,723
Intercompany	9,103	13,954	29,450	29,691
Total	$ 75,115	$ 79,385	$ 170,816	$ 158,685
Eastern Hemisphere				
Products	$ 45,594	$ 38,585	$ 77,903	$ 72,764
Services	8,359	8,935	17,501	18,543
Intercompany	55	923	987	1,320
Total	$ 54,008	$ 48,443	$ 96,391	$ 92,627
Asia Pacific				
Products	$ 18,387	$ 17,946	$ 31,772	$ 35,501
Services	4,192	2,289	6,415	4,906
Intercompany	799	1,118	1,376	1,117
Total	$ 23,378	$ 21,353	$ 39,563	$ 41,524
Summary				
Products	$ 117,715	$ 113,400	$ 229,882	$ 218,536
Services	24,829	19,786	45,075	42,172
Intercompany	9,957	15,995	31,813	32,128
Eliminations	(9,957)	(15,995)	(31,813)	(32,128)
Total	$ 142,544	$ 133,186	$ 274,957	$ 260,708
Income (loss) before income taxes:				
Western Hemisphere	$ 16,971	$ 20,774	$ 43,184	$ 36,903
Eastern Hemisphere	11,130	8,939	17,871	22,882
Asia Pacific	8,748	6,252	12,356	12,724
Eliminations	1,796	449	1,592	(1,271)
Total	$ 38,645	$ 36,414	$ 75,003	$ 71,238

	December 31, 2008	June 30, 2009
	(In thousands)	
Total Long-Lived Assets:		
Western Hemisphere	$ 147,460	$ 161,995
Eastern Hemisphere	22,892	27,833
Asia Pacific	16,402	16,891
Eliminations	(20,419)	(20,419)
Total	$ 166,335	$ 186,300

Total Assets:		
Western Hemisphere	$ 465,797	$ 495,485
Eastern Hemisphere	125,497	159,619
Asia Pacific	120,943	128,213
Eliminations	(31,628)	(34,818)
Total	$ 680,609	$ 748,499

6. Fair Value of Financial Instruments

On January 1, 2008, the Company adopted SFAS 157, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures under fair value measurements. On January 1, 2009 the Company adopted FSP FAS 157-2, for its nonfinancial assets and nonfinancial liabilities. The adoption of SFAS 157 and FSP FAS 157-2 did not have an effect on the Company s fair value measurements. The Company did not have any assets or liabilities that would be recognized or disclosed on a fair value basis as of June 30, 2009. Cash and cash equivalents include money market funds which are carried at cost.

7. Commitments and Contingencies

In 2006, the Company entered into a contract in the amount of approximately $47 million with MPF Corp. Ltd. (MPF) under which the Company was to construct risers and related equipment to be installed on an offshore drill ship being constructed for MPF. MPF and its affiliates filed a Chapter 11 bankruptcy case in September 2008 in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (Case No. 08-36084). Under the Bankruptcy Code, at some point MPF must either assume this contract or reject it. Since MPF is not required to make a decision on the handling of the contract right away, the Company cannot be sure as to when its rights under the contract will be clarified. Currently, the Company has possession of all the raw materials purchased to date and work-in-progress under the contract. At the time of the bankruptcy filing, the Company had recognized approximately $20 million in revenues under the contract and had received payments of approximately $16 million. No further revenue has been recognized since the second quarter of 2008. The Company believes the remaining $4 million of unpaid receivables will be realized through the workings of the contract or through its interest in the partially constructed inventory. While the Company has made filings in the bankruptcy proceedings that it believes are appropriate to protect its rights, there can be no assurance that the Company will be able to receive the expected benefits of the contract with MPF. While the Company does not expect the outcome of this matter to have a material adverse effect on the Company s operations, financial position or cash flows, the Company may be required to write down or forfeit some portion of the revenues recognized to date if it becomes probable that the Company will not receive such funds.

In August 2007, the Company s Brazilian subsidiary was served with assessments collectively valued at approximately $12.8 million from the State of Rio de Janiero, Brazil, to collect a state tax on the importation of goods. The Company believes that its subsidiary is not liable for the taxes and are vigorously contesting the assessments in the Brazilian administrative and judicial systems. At this time, the ultimate disposition of this matter cannot be determined and therefore, it is not possible to reasonably estimate the amount of loss or the range of possible losses that might result from an adverse judgment or settlement of these assessments. Accordingly, no liability has been accrued in conjunction with this matter. The Company does not expect the liability, if any, resulting from these assessments to have a material adverse effect on its operations, financial position or cash flows.

The Company operates its business and markets its products and services in most of the significant oil and gas producing areas in the world and is, therefore, subject to the risks customarily attendant to international operations and dependency on the condition of the oil and gas industry. Additionally, products of the Company are used in potentially hazardous drilling, completion, and production applications that can cause personal injury, product liability, and environmental claims. Although exposure to such risk has not resulted in any significant problems in the past, there can be no assurance that future developments will not adversely impact the Company.

The Company is also involved in a number of legal actions arising in the ordinary course of business. Although no assurance can be given with respect to the ultimate outcome of such legal action, in the opinion of management, the ultimate liability with respect thereto will not have a material adverse effect on the Company s operations, financial position or cash flows.

8. Subsequent Events

The Company has evaluated subsequent events through August 6, 2009, the date of the issuance of these condensed consolidated financial statements.

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

The following is management s discussion and analysis of certain significant factors that have affected certain aspects of the Company s financial position, results of operations or cash flows during the periods included in the accompanying unaudited condensed consolidated financial statements. This discussion should be read in conjunction with the unaudited condensed consolidated financial statements included elsewhere herein, as well as the discussion under Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and the annual consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Overview

Dril-Quip designs, manufactures, sells and services highly engineered offshore drilling and production equipment that is well suited for use in deepwater, harsh environment and severe service applications. The Company designs and manufactures subsea equipment, surface equipment and offshore rig equipment for use by major integrated, large independent and foreign national oil and gas companies in offshore areas throughout the world. The Company s principal products consist of subsea and surface wellheads, subsea and surface production trees, subsea control systems and manifolds, mudline hanger systems, specialty connectors and associated pipe, drilling and production riser systems, liner hangers, wellhead connectors and diverters. Dril-Quip also provides technical advisory assistance on an as-requested basis during installation of its products, as well as rework and reconditioning services for customer-owned Dril-Quip products and rental of running tools for use in connection with the installation and retrieval of the Company s products.

Both the market for offshore drilling and production equipment and services and the Company s business are substantially dependent on the condition of the oil and gas industry and, in particular, the willingness of oil and gas companies to make capital expenditures on exploration, drilling and production operations offshore. Oil and gas prices and the level of offshore drilling and production activity have historically been characterized by significant volatility. Declines in oil and gas prices may adversely affect the willingness of some oil and gas companies to make capital expenditures on exploration, drilling and production operations offshore, which could have an adverse impact on the Company s operations, financial position or cash flows.

According to the Energy Information Administration (EIA) of the U.S. Department of Energy, average crude oil (West Texas Intermediate Cushing) and natural gas (Henry Hub) closing prices are listed below for the periods covered by this report:

	Three months ended June 30,		Six months ended June 30,	
	2008	2009	2008	2009
Crude oil ($/Bbl)	$ 123.78	$ 59.61	$ 111.13	$ 51.51
Natural gas ($/Mcf)	11.73	3.83	10.33	4.27

During the second quarter of 2008, crude oil prices ranged between $100.92 per barrel and $139.96 per barrel with an average quarterly price of $123.78. For the second quarter of 2009, crude oil prices ranged between $45.82 per barrel and $72.69 per barrel with an average quarterly price of $59.61. During the six months ended June 30, 2008, crude oil process ranged between $87.16 per barrel and $139.96 per barrel with an average price of $111.13 per barrel, as compared to a range of $34.03 per barrel to $72.69 per barrel with an average price of $51.51 per barrel for the same period in 2009.

According to the July 2009 release of the Short-Term Energy Outlook published by the EIA, West Texas Intermediate crude oil prices are projected to average $60.35 per barrel in 2009 and $72.42 per barrel in 2010.

These projections for both 2009 and 2010 are higher than the EIA s March 2009 projections of $42.06 per barrel for 2009 and $53.17 per barrel for 2010. The EIA expects crude oil to average $70.00 per barrel through the second half of 2009. At June 30, 2009 the EIA reported West Texas Intermediate crude oil at a price of $69.82 per barrel.

In its July 2009 report, the EIA revised its projection for Henry Hub natural gas prices to $4.22 per Mcf in 2009 and $5.93 per Mcf in 2010 from its March 2009 projections of $4.67 per Mcf in 2009 and $5.87 per Mcf in 2010. According to the EIA, the monthly average Henry Hub natural gas spot price is expected to remain below $4.00 per Mcf until late in the year given plentiful U.S. natural gas supplies and weak demand, particularly in the industrial sector. At June 30, 2009, OilSpiel reported Henry Hub natural gas prices at a price of $3.73 per Mcf.

In July 2009, the EIA projected that OPEC crude oil production would be 28.6 million barrels per day in the second quarter of 2009, which is down slightly from the first quarter 2009 levels, and down 3.1 million barrels per day from the third quarter of 2008. OPEC crude output is expected to remain near current levels through the end of the year, then trend upward moderately in 2010 in response to projected higher demand. In its July 2009 Oil Market Report, the International Energy Agency projected oil demand in 2009 to be 83.3 million barrels per day, compared to an estimated 85.8 million barrels per day in 2008 and expects the demand to rebound in 2010 by 1.7%, or 1.4 million barrels per day.

Detailed below is the average contracted rig count for our geographic regions for the three and six months ended June 30, 2008 and 2009. The rig count data includes floating rigs (semi-submersibles and drill ships) and jack-ups. The Company has included only these types of rigs as they are the primary end users of the Company s products.

	Three months ended June 30,		**Six months ended June 30,**	
	2008	**2009**	**2008**	**2009**
Western Hemisphere	188	166	185	171
Eastern Hemisphere	161	153	160	157
Asia Pacific	233	233	230	236
	582	552	575	564

Source: ODS Petrodata RigBase June 30, 2008 and 2009

The table represents rigs under contract and includes rigs currently drilling as well as rigs committed, but not yet drilling.

We believe that the number of rigs (semi-submersibles, drill ships and jack-ups) under construction impacts our revenue because our customers generally order some of our products during the construction of such rigs. As a result, an increase in rig construction activity tends to favorably impact our backlog, while a decrease in rig construction activity tends to negatively impact our backlog. According to ODS-Petrodata, at the end of both June 2008 and 2009, there were 186 and 149 rigs, respectively, under construction and the expected delivery dates for the rigs under construction at June 30, 2009 are as follows:

Remainder of 2009	33
2010	59
2011	43
2012	12
after 2012	2
	149

In mid-2008, crude oil and natural gas prices began to decline significantly. This decline has resulted in reduced capital spending by some oil and gas companies, many of which are our customers. Additional capital expenditure reductions could have an adverse impact on the Company s financial condition, results of operation and new customer orders. The Company believes that its backlog should help mitigate the impact of current market conditions; however, a prolonged decline in commodity prices or an extended continuation of the downturn in the global economy could have a negative impact on the Company. The Company s backlog at June 30, 2009 was approximately $618 million compared to approximately $560 million at June 30, 2008. The Company can give no assurance that backlog will remain at current levels. All of the Company s projects currently included in its backlog are subject to change and/or termination at the option of the customer. In the case of a change or termination, the customer is required to pay the Company for work performed and other costs necessarily incurred as a result of the change or termination. In the past, terminations and cancellations have been immaterial to the Company s overall operating results.

Revenues. Dril-Quip s revenues are generated from two sources: products and services. Product revenues are derived from the sale of offshore drilling and production equipment. Service revenues are earned when the Company provides technical advisory assistance for installation of the Company s products, reconditioning services of customer-owned Dril-Quip products and rental of running tools for installation and retrieval of the Company s products. For each of the six months ended June 30, 2008 and 2009, the Company derived 84% of its revenues from the sale of its products and 16% of its revenues from services. Product contracts are negotiated and sold separately from service contracts. In addition, service contracts are not included in the product contracts or related sales orders and are not offered to the customer as a condition of the sale of the Company s products. The demand for products and services is generally based on world-wide economic conditions in the offshore oil and gas industry, and is not based on a specific relationship between the two contracts. Substantially all of the Company s sales are made on a purchase order basis. Purchase orders are subject to change and/or termination at the option of the customer. In case of a change or termination, the customer is required to pay the Company for work performed and other costs necessarily incurred as a result of the change or termination.

The Company accounts for larger and more complex projects that have relatively longer manufacturing time frames on a percentage-of-completion basis. For the first six months of 2009, 15 projects representing approximately 18% of the Company s total revenues and 21% of its product revenues were accounted for using percentage-of-completion accounting compared to 21 projects representing approximately 30% of the Company s total revenue and 36% of its product revenue for the first six months of 2008. This percentage may fluctuate in the future. For revenues accounted for under the percentage-of-completion method, the Company calculates the percentage complete and applies the percentage to determine earned revenues and the appropriate portion of total estimated costs. Losses, if any, are recognized when they first become known. Amounts received from customers in excess of revenues recognized are classified as a current liability.

The Company has substantial international operations, with approximately 72% and 69% of its revenues derived from foreign sales for the three-months ended June 30, 2008 and 2009, respectively and 70% and 61% for the six months ended June 30, 2008 and 2009, respectively.

Cost of Sales. The principal elements of cost of sales are labor, raw materials and manufacturing overhead. Cost of sales as a percentage of revenues is influenced by the product mix sold in any particular period and market conditions. The Company s costs related to its foreign operations do not significantly differ from its domestic costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses include the costs associated with sales and marketing, general corporate overhead, compensation expense, stock option expense, legal expenses, foreign currency transaction gains and losses and other related administrative functions.

Engineering and Product Development Expenses. Engineering and product development expenses consist of new product development and testing, as well as application engineering related to customized products.

Income Tax Provision. Dril-Quip s effective income tax rate has historically been lower than the statutory rate primarily due to foreign income tax rate differentials, research and development credits and deductions related to domestic production activities.

Results of Operations

The following table sets forth, for the periods indicated, certain statement of operations data expressed as a percentage of revenues:

	Three months ended June 30,		Six months ended June 30,	
	2008	2009	2008	2009
Revenues:				
Products	82.6%	85.1%	83.6%	83.8%
Services	17.4	14.9	16.4	16.2
Total revenues	100.0	100.0	100.0	100.0
Cost of sales:				
Products	49.0	49.3	49.3	48.2
Services	9.7	8.8	9.5	9.1
Total cost of sales	58.7	58.1	58.8	57.3
Selling, general and administrative expenses	10.1	9.7	10.1	10.6
Engineering and product development expenses	4.8	4.9	4.8	4.9
Operating income	26.4	27.3	26.3	27.2
Interest income	0.7	0.1	1.0	0.1
Interest expense				
Income before income taxes	27.1	27.4	27.3	27.3
Income tax provision	7.7	7.3	8.0	7.6
Net income	19.4%	20.1%	19.3%	19.7%

The following table sets forth, for the periods indicated, a breakdown of our products and service revenues:

	Three months ended June 30,		Six months ended June 30,	
	2008	2009	2008	2009
	(In millions)			
Revenues:				
Products				
Subsea equipment	$ 83.1	$ 84.2	$ 153.8	$ 159.8
Surface equipment	7.8	8.6	14.7	15.0
Offshore rig equipment	26.8	20.6	61.4	43.7
Total products	117.7	113.4	229.9	218.5
Services	24.8	19.8	45.1	42.2
Total revenues	$ 142.5	$ 133.2	$ 275.0	$ 260.7

Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008.

Revenues. Revenues decreased by $9.3 million, or approximately 6.5%, to $133.2 million in the three months ended June 30, 2009 from $142.5 million in the three months ended June 30, 2008. Product revenues decreased by approximately $4.3 million for the three months ended

June 30, 2009 compared to the same period in 2008 as a result of decreased revenues of $6.2 million in offshore rig equipment, partially offset by increases of

$1.1 million in subsea equipment and $800,000 in surface equipment. The decrease in offshore rig equipment was primarily due to decreases in revenues as a result of a decrease in the number of long-term projects. During the second quarter of 2008 the Company recognized revenues related to 21 projects, compared to 15 projects during the same period of 2009. The majority of these projects related to offshore rig equipment. In the second quarter of 2008, projects accounted for using the percentage-of-completion method represented 24% of the Company s total revenues compared to 15% of total revenues for the same period in 2009. Product revenues decreased in the Eastern Hemisphere and Asia-Pacific by approximately $7.0 million and $400,000, respectively, partially offset by an increase in product revenues in the Western Hemisphere of $3.1 million. Service revenues decreased by approximately $5.0 million from decreased service revenues in the Western Hemisphere of $3.7 million and Asia-Pacific of $1.9 million, partially offset by an increase in the Eastern Hemisphere of $600,000. The majority of the decrease in service revenues related to a decrease in the rental of running tools and reconditioning of customer-owned Dril-Quip products.

Cost of Sales. Cost of sales decreased by $6.3 million, or approximately 7.5%, to $77.4 million for the three months ended June 30, 2009 from $83.7 million for the same period in 2008. As a percentage of revenues, cost of sales were approximately 58.1% and 58.7% for the three-month period ended June 30, 2009 and 2008, respectively. The decrease in cost of sales as a percentage of revenues resulted from a reduction in sales volume and changes in product mix.

Selling, General and Administrative Expenses. For the three months ended June 30, 2009, selling, general and administrative expenses decreased by approximately $1.3 million, or 9.2%, to $12.9 million from $14.2 million in the 2008 period. The decrease in selling, general and administrative expenses was primarily due to the effect of foreign currency transaction gains and decreased legal and professional fees, partially offset by increased stock option expenses. The Company experienced approximately $1.5 million in foreign currency transaction gains in the second quarter of 2009 as compared to $1.1 million in foreign currency transaction gains in the second quarter of 2008. Legal and professional fees decreased to $900,000 for the three months ended June 30, 2009, from $1.5 million for the same period in 2008. Stock option expense for the second quarter of 2009 totaled $912,000 compared to $740,000 in the second quarter of 2008. Selling, general and administrative expenses as a percentage of revenues decreased from 10.1% in 2008 to 9.7% in 2009.

Engineering and Product Development Expenses. For the three months ended June 30, 2009, engineering and product development expenses decreased by approximately $300,000, or 4.3%, to $6.6 million from $6.9 million in the same period of 2008. Engineering and product development expenses as a percentage of revenues increased from 4.8% in 2008 to 4.9% in 2009.

Interest Income. Interest income for the three months ended June 30, 2009 was approximately $132,000 as compared to $929,000 for the three-month period ended June 30, 2008. This decrease was due to reduced interest earned on short-term investments due to lower interest rates and reduced balances in short-term investments. Due to the current global financial crisis, the Company has transferred the majority of its short-term investments to funds which invest in U.S. Treasury obligations, which normally earn lower interest rates than money market funds.

Interest expense. Interest expense for the three months ended June 30, 2009 was $ 29,000 compared to $44,000 for the same period in 2008.

Income tax provision. Income tax expense for the three months ended June 30, 2009 was $9.7 million on income before taxes of $36.4 million, resulting in an effective tax rate of approximately 27%. Income tax expense for the three months ended June 30, 2008 was $10.9 million on income before taxes of $38.6 million, resulting in an effective tax rate of approximately 28%. The decrease in the effective income tax rate reflects the difference in income before income taxes among the Company s three geographic areas, which have different income tax rates.

Net Income. Net income was approximately $26.7 million for the three months ended June 30, 2009 and $27.7 million for the same period in 2008, for the reasons set forth above.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008.

Revenues. Revenues decreased by $14.3 million, or approximately 5.2%, to $260.7 million in the six months ended June 30, 2009 from $275.0 million in the six months ended June 30, 2008. Product revenues decreased by approximately $11.4 million for the six months ended June 30, 2009 compared to the same period in 2008 as a result of decreased revenues of $17.7 million in offshore rig equipment, partially offset by increases in subsea equipment of $6.0 million and $300,000 in surface equipment. The decrease in offshore rig equipment was primarily due to decreases in revenues as a result of a decrease in the number of long-term projects. During the first six months of 2008, the Company recognized revenues related to 21 projects, compared to 15 projects during the same period of 2009. The majority of these projects related to offshore rig equipment. In the first six months of 2008, projects accounted for using the percentage-of-completion method represented 30% of the Company s total revenues compared to 18% of total revenues for the same period in 2009. Product revenues decreased in the Western Hemisphere and Eastern Hemisphere by $10.0 million and $5.1 million, respectively, partially offset by an increase in product revenues in the Asia-Pacific of $3.7 million. Service revenues decreased by approximately $2.9 million from decreased service revenues in the Western Hemisphere of $2.4 million and Asia-Pacific of $1.5 million, partially offset by an increase in the Eastern Hemisphere of $1.0 million. The majority of the decrease in service revenues related to a decrease in the rental of running tools.

Cost of Sales. Cost of sales decreased by $12.1 million, or approximately 7.5%, to $149.4 million for the six months ended June 30, 2009 from $161.5 million for the same period in 2008. As a percentage of revenues, cost of sales were approximately 57.3% and 58.8% for the six-month periods ended June 30, 2009 and 2008, respectively. The decrease in cost of sales as a percentage of revenues resulted primarily from changes in product mix.

Selling, General and Administrative Expenses. For the six months ended June 30, 2009, selling, general and administrative expenses decreased by approximately $400,000, or 1.4%, to $27.4 million from $27.8 million in the 2008 period. The decrease in selling, general and administrative expenses was primarily due to lower legal and professional fees, partially offset by the effect of foreign currency transaction gains and increased stock option expenses. Legal and professional fees decreased to $1.8 million for the six months ended June 30, 2009, from $2.6 million for the same period in 2008. The Company experienced approximately $1.6 million in foreign currency transaction gains in the first six months of 2008 compared to $1.4 in foreign currency transactions gains in the first six months of 2009. Stock option expense of the first six months of 2009 totaled $1.9 million compared to $1.5 million in the first six months of 2008. Selling, general and administrative expenses as a percentage of revenues increased from 10.1% in 2008 to 10.6% in 2009.

Engineering and Product Development Expenses. For the six months ended June 30, 2009, engineering and product development expenses decreased by $200,000, or approximately 1.5%, to $12.9 million from $13.1 million in the same period of 2008. Engineering and product development expenses as a percentage of revenues increased from 4.8% in 2008 to 4.9% in 2009.

Interest Income. Interest income for the six months ended June 30, 2009 was $344,000 as compared to $2.6 million for the six-month period ended June 30, 2008. This decrease was due to reduced interest earned on short-term investments due to lower interest rates and reduced balances in short-term investments. Due to the current global financial crisis, the company has transferred the majority of its short-term investments to funds which invest in U.S. Treasury obligations, which normally earn lower interest rates than money market funds.

Interest Expense. Interest expense for the six months ended June 30, 2009 was $77,000 compared to $102,000 for the same period in 2008.

Income tax provision. Income tax expense for the six months ended June 30, 2009 was $19.9 million on income before taxes of $71.2 million, resulting in an effective tax rate of approximately 27%. Income tax expense for the six months ended June 30, 2008 was $21.9 million on income before taxes of $75.0 million, resulting in an effective tax rate of approximately 29%. The decrease in the effective income tax rate reflects the difference in income before income taxes among the Company s three geographic areas, which have different income tax rates.

Net Income. Net income was approximately $51.4 million for the six months ended June 30, 2009 and $53.1 million for the same period in 2008, for the reasons set forth above.

Liquidity and Capital Resources

Cash flows provided by (used in) type of activity were as follows:

	Six months ended June 30,	
	2008	**2009**
	(In thousands)	
Operating activities	$ 6,437	$ 44,165
Investing activities	(29,521)	(21,968)
Financing activities	(67,524)	(207)
	(90,608)	21,990
Effect of exchange rate changes on cash activities	(1,670)	(1,954)
Increase (decrease) in cash and cash equivalents	$ (92,278)	$ 20,036

Statements of cash flows for entities with international operations that are local currency functional exclude the effects of the changes in foreign currency exchange rates that occur during any given period, as these are noncash changes. As a result, changes reflected in certain accounts on the Condensed Consolidated Statements of Cash Flows may not reflect the changes in corresponding accounts on the Condensed Consolidated Balance Sheets.

The primary liquidity needs of the Company are (i) to fund capital expenditures to improve and expand facilities and manufacture additional running tools and (ii) to fund working capital. Recently, the Company s principal sources of funds have been cash flows from operations.

During the six months ended June 30, 2009, the Company generated $44.2 million of cash from operations as compared to $6.4 million for the same period in 2008. The primary reasons for the increase were the changes in operating assets and liabilities during the first six months of 2009 as compared to the same period in 2008. The increase in operating assets and liabilities during the first six months of 2009 primarily reflected an increase in inventory and a decrease in accounts payable and accrued expenses, offset by a decrease in receivables. The $26.6 million increase in inventory was mostly in the areas of work-in-progress and finished goods to meet future demand from the Company s backlog. The $9.8 million decrease in accounts payable and accrued expenses resulted largely from a reduction in customer prepayment liability related to long-term projects. The receipt of milestone payments on long-term projects during the first six-months of 2009 accounted for the majority of the $20.7 million decrease in receivables.

Capital expenditures by the Company were $22.9 million and $30.2 million in the first six months of 2009 and 2008, respectively. The capital expenditures for the first six months of 2009 were primarily $8.2 million for machinery and equipment, $6.6 million for facilities and $5.4 million for running tools and other expenditures of $2.7 million. Principal payments on long-term debt were approximately $326,000 during the six months ended June 30, 2009.

In May 2008 the Company announced that its Board of Directors had authorized a share repurchase program under which the Company could repurchase up to $100 million of its common stock. As of June 30, 2008, the Company had repurchased 1,167,225 shares at an average price of $58.14 per share (including commissions) for a total of approximately $67.9 million. All shares that were repurchased in the second quarter of 2008 were retired prior to the end of that quarter.

The Company has a credit facility with Guaranty Bank, FSB providing an unsecured revolving line of credit of up to $10 million. At the option of the Company, borrowing under this facility bears interest at either a rate equal to LIBOR (London Interbank Offered Rate) plus 1.75% or the Guaranty Bank base rate. The facility calls for quarterly interest payments. The facility was scheduled to terminate on June 1, 2009, however on May 27, 2009, the Company and Guaranty Bank agreed to extend the termination date to September 1, 2009. The facility also contains certain covenants including maintaining minimum tangible net worth levels, not exceeding specified funded debt amounts and required interest coverage ratios. As of June 30, 2008 and 2009, the Company had no borrowings under this facility and was in compliance with all loan covenants. The Company is currently exploring its options in regards to this credit facility.

Dril-Quip (Europe) Limited has a credit agreement with the Bank of Scotland dated March 21, 2001 in the original amount of U.K. Pounds Sterling 4.0 million (approximately U.S. $6.6 million). Borrowing under this facility bears interest at the Bank of Scotland base rate, which was 0.50% at June 30, 2009, plus 1%, and is repayable in 120 equal monthly installments, plus interest. Substantially all of this facility was used to finance capital expenditures in Norway. The outstanding balance of this facility at June 30, 2009 was approximately U.S. $1.2 million. The facility is secured by land and buildings in Aberdeen, Scotland and contains no restrictive financial covenants.

The Company believes that cash generated from operations plus cash on hand and its current line of credit will be sufficient to fund operations, working capital needs and anticipated capital expenditure requirements in 2009. However, any significant future declines in hydrocarbon prices could have a material adverse effect on the Company s liquidity. Should market conditions result in unexpected cash requirements, the Company believes that additional borrowing from commercial lending institutions would be available and more than adequate to meet such requirements.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Critical Accounting Policies

Refer to our Annual Report on Form 10-K for the year ended December 31, 2008 for a discussion of our critical accounting policies. During the six months ended June 30, 2009 there were no material changes in our judgments and assumptions associated with the development of our critical accounting policies.

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

The Company is currently exposed to certain market risks related to interest rate changes and fluctuations in foreign exchange rates. The Company does not engage in any material hedging transactions, forward contracts or currency trading which could mitigate the market risks inherent in such transactions.

Foreign Exchange Rate Risk

Through its subsidiaries, the Company conducts a portion of its business in currencies other than the United States dollar, principally the British pound sterling and to a lesser extent, the Brazilian real. The Company experienced a foreign currency pre-tax gain of approximately $1.5 million and $1.4 million during the three and six month periods ended June 30, 2009, respectively, compared to approximately $1.1 million and $1.6 million for the three and six month periods ended June 30, 2008, respectively. Historically, the Company s foreign currency gains and losses have not been significant. However, when significant disparities between the British pound sterling and the U.S. dollar or the Brazilian real and the U.S. dollar occur, there can be no assurance that the Company will be able to protect itself against such currency fluctuations.

Interest Rate Risk

As described in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, the Company has entered into two credit facilities or loans that require the Company to pay interest at a floating rate. These floating-rate obligations expose the Company to the risk of increased interest expense in the event of increases in the short-term interest rates. Based upon the June 30, 2009 balance of approximately $1.2 million related to these floating rate obligations, each 1.0% rise in interest rates would result in additional annual interest expense to the Company of approximately $12,000 or $3,000 per quarter.

Item 4. ***Controls and Procedures***

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of management, including the Company s Co-Chief Executive Officers and Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Company s Co-Chief Executive Officers and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of June 30, 2008 to provide reasonable assurance that information required to be disclosed in the Company s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and such information is accumulated and communicated to management, including the Company s Co-Chief Executive Officers and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Management s Annual Reports on Internal Control over Financial Reporting appears on page 34 of the 2008 annual report on Form 10-K.

There has been no change in the Company s internal controls over financial reporting that occurred during the quarter ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. ***Legal Proceedings.***
On December 1, 2006, Cameron International Corporation filed a patent infringement suit against the Company in the United States District Court for the District of Delaware. The lawsuit was dismissed on June 3, 2009.

See Note 7 to the condensed consolidated financial statements included in Item 1 of Part 1 of this report, as well as Legal Proceedings in Item 3 of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2008. The Company also is involved in a number of legal actions arising in the ordinary course of business. Although no assurance can be given with respect to the ultimate outcome of such legal actions, in the opinion of management, the ultimate liability with respect thereto will not have a material adverse effect on the Company s financial position.

Item 1A. ***Risk Factors.***
There have been no material changes from the risk factors disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds.***
None.

Item 3. ***Defaults Upon Senior Securities.***
None.

Item 4. ***Submission of Matters to a Vote of Security Holders.***
Dril-Quip s annual meeting of stockholders was held on May 14, 2009 for the purpose of electing three directors to serve for three-year terms, approving the appointment of BDO Seidman, LLP as independent registered public accountants of the Company for 2009 and re-approving the performance criteria for awards under the 2004 Incentive Plan.

1. Election of Directors

Stockholders elected Larry E. Reimert, Gary D. Smith and L.H. Dick Robertson, each for a three-year term expiring at the 2012 annual meeting. The vote tabulation was as follows:

Director	Votes Cast For	Votes Withheld
Larry E. Reimert	19,519,439	17,526,577
Gary D. Smith	19,597,878	17,448,138
L.H. Dick Robertson	19,008,314	18,037,702

Directors continuing in office were J. Mike Walker, Gary L. Stone, John V. Lovoi and Alexander P. Shukis.

2. Proposal approving the appointment of BDO Seidman, LLP as independent registered public accountants of the Company for 2009.

For	37,028,710
Against	11,580
Abstain	5,728

3. Re-Approval of Performance Criteria for Awards Under 2004 Incentive Plan.

For	26,105,699
Against	9,891,966
Abstain	23,314

Item 5. ***Other Information.***

FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes certain statements that may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Statements contained in all parts of this document that are not historical facts are forward-looking statements that involve risks and uncertainties that are beyond the control of Dril-Quip, Inc. (the Company or Dril-Quip). You can identify the Company s forward-looking statements by the words anticipate, estimate, expect, may, project, believe and similar expressions, or by the Company s discussion of strategies or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that these expectations will prove to be correct. These forward-looking statements include the following types of information and statements as they relate to the Company:

future operating results and cash flow;

scheduled, budgeted and other future capital expenditures;

working capital requirements;

the availability of expected sources of liquidity;

the introduction into the market of the Company s future products;

the market for the Company s existing and future products;

the Company s ability to develop new applications for its technologies;

the exploration, development and production activities of the Company s customers;

compliance with present and future environmental regulations and costs associated with environmentally related penalties, capital expenditures, remedial actions and proceedings;

effects of pending legal proceedings; and future operations, financial results, business plans and cash needs.

These statements are based on assumptions and analyses in light of the Company s experience and perception of historical trends, current conditions, expected future developments and other factors the Company believes were appropriate in the circumstances when the statements were made. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such statements. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed under Item 1A. Risk Factors in Part 1 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and the following:

the volatility of oil and natural gas prices;

the cyclical nature of the oil and gas industry;

uncertainties associated with the United States and worldwide economies;

uncertainties regarding political tensions in the Middle East and elsewhere;

current and potential governmental regulatory actions in the United States and regulatory actions and political unrest in other countries;

operating interruptions (including explosions, fires, weather-related incidents, mechanical failure, unscheduled downtime, labor difficulties, transportation interruptions, spills and releases and other environmental risks);

the Company s reliance on product development;

technological developments;

the Company s dependence on key employees and skilled machinists, fabricators and technical personnel;

the Company s reliance on sources of raw materials;

control by certain stockholders;

impact of environmental matters;

competitive products and pricing pressures;

fluctuations in foreign currency;

the Company s reliance on significant customers;

creditworthiness of the Company s customers;

fixed price contracts;

the worldwide financial crisis;

access to capital markets; and

war and terrorist acts.

Many of such factors are beyond the Company s ability to control or predict. Any of the factors, or a combination of these factors, could materially affect the Company s future results of operations and the ultimate accuracy of the forward-looking statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels. Every forward-looking statement speaks only as of the date of the particular statement, and the Company undertakes no obligation to publicly update or revise any forward-looking statement.

Item 6.
The following exhibits are filed herewith:

Exhibit No.	Description
*3.1	Restated Certificate of Incorporation of the Company (Incorporated herein by reference to Exhibit 3.2 to the Company s Registration Statement on Form S-1 (Registration No. 333-33447)).
*3.2	Certificate of Designations of Series A Junior Participating Preferred Stock of the Company (Incorporated herein by reference to Exhibit 3.1 to the Company s report on Form 8-K dated November 25, 2008).
*3.3	Amended and Restated Bylaws of the Company (Incorporated herein by reference to Exhibit 3.1 to the Company s report on Form 8-K dated December 21, 2007.)
*4.1	Form of certificate representing Common Stock (Incorporated herein by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-1 (Registration No. 333-33447).
*4.2	Registration Rights Agreement among the Company and certain stockholders (Incorporated herein by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-1 (Registration No. 333-33447) 2008).
*4.3	Rights Agreement dated as of November 24, 2008 between Dril-Quip, Inc. and Mellon Investor Services LLC, as Rights Agent (Incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed on November 25, 2008).
+*10.1	Amendment No. 1 to 2004 Incentive Plan of Dril-Quip, Inc. (Incorporated herein by reference to Exhibit 10.1 to the Company s report on Form 10-Q dated March 31, 2008).
31.1	Rule 13a-14(a)/15d-14(a) Certification of Larry E. Reimert.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Gary D. Smith.
31.3	Rule 13a-14(a)/15d-14(a) Certification of J. Mike Walker.
31.4	Rule 13a-14(a)/15d-14(a) Certification of Jerry M. Brooks.
32.1	Section 1350 Certification of Larry E. Reimert.
32.2	Section 1350 Certification of Gary D. Smith.
32.3	Section 1350 Certification of J. Mike Walker.
32.4	Section 1350 Certification of Jerry M. Brooks.
99.1	Fifth Amendment to the Credit Agreement between Dril-Quip, Inc. and Guaranty Bank, FSP effective May 27, 2009.

* Incorporated herein by reference as indicated.
\+ Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-Q.

SIGNATURE

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

DRIL-QUIP, INC.

By: /s/ JERRY M. BROOKS
Jerry M. Brooks,

Vice-President Finance and

Chief Financial Officer
(Principal Accounting Officer and

Duly Authorized Signatory)

Date: August 6, 2009

/font>

(2,160)

(2,160)

Comprehensive income, excluding $957 attributable to preferred interests in the Operating Partnership and a $1,242 loss attributable to noncontrolling redeemable interests in properties

10,254

861,395

132,775

1,004,424

June 30, 2017

$

43,241

$

32

$

(103,872)

$

9,587,026

$

(4,731,402)

$

(1,068,310)

$

564,444

$

4,291,159

30

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

The Operating Partnership

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

	Preferred Units	Simon (Managing General Partner)	Limited Partners	Noncontrolling interests	Total Equity
January 1, 2017	$ 43,405	$ 4,267,043	$ 644,348	$ 5,116	$ 4,959,912
Limited partner units exchanged to units		1,353	(1,353)		—
Treasury unit purchase		(396,169)			(396,169)
LTIP Units			19,558		19,558
Purchase and disposition of noncontrolling interests, net and other	(164)	(33,812)		236	(33,740)
Adjustment to limited partners' interest from change in ownership in the Operating Partnership		68,335	(68,335)		—
Distributions to limited partners, excluding preferred interests classified as temporary equity	(1,669)	(1,093,256)	(165,741)	(2,160)	(1,262,826)
Comprehensive income, excluding $957 attributable to preferred interests in the Operating Partnership and a $1,242 loss attributable to noncontrolling redeemable interests in properties	1,669	869,980	131,703	1,072	1,004,424
June 30, 2017	$ 43,241	$ 3,683,474	$ 560,180	$ 4,264	$ 4,291,159

8. Commitments and Contingencies

Litigation

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

In May 2010, Opry Mills sustained significant flood damage. Insurance proceeds of $50 million have been funded by the primary insurer and remediation and restoration work has been completed. The property re opened on March 29, 2012. The excess insurance carriers (those providing coverage above $50 million) denied our claim under the policy for additional proceeds (of up to $150 million) to pay further amounts for restoration costs and business interruption losses. In the first quarter of 2015, summary judgment was granted in our favor, concluding that up to $150 million of additional coverage is available under our excess insurance policy for this claim. In July and August 2015, trial on the damages portion of our claim was completed and the jury entered a verdict for damages in the amount of $204.1 million (inclusive of the $50.0 million previously paid by the primary carrier). In April 2016, the court entered final judgment in the amount of the jury verdict, which amount will bear interest from the date of the jury’s verdict. We and the excess insurance carriers have appealed certain portions of the trial court’s rulings and the jury’s verdict, respectively. We will continue our efforts through the conclusion of the pending litigation, including any and all appeals, to recover our losses, including consequential damages, under the excess insurance policies for Opry Mills and we believe recovery is probable, but no assurance can be made that our efforts to recover these funds will be successful.

Guarantees of Indebtedness

Joint venture debt is the liability of the joint venture and is typically secured by the joint venture property, which is non-recourse to us. As of June 30, 2017 and December 31, 2016, the Operating Partnership guaranteed joint venture related mortgage indebtedness of $219.2 million and $400.5 million, respectively (of which we have a right of recovery

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

from our venture partners of $10.8 million). Mortgages guaranteed by the Operating Partnership are secured by the property of the joint venture which could be sold in order to satisfy the outstanding obligation and which has an estimated fair value in excess of the guaranteed amount.

Concentration of Credit Risk

Our U.S. Malls, Premium Outlets, and The Mills rely heavily upon anchor tenants to attract customers; however, anchor retailers do not contribute materially to our financial results as many anchor retailers own their spaces. All material operations are within the United States and no customer or tenant accounts for 5% or more of our consolidated revenues.

9. Real Estate Acquisitions and Dispositions

As discussed in Note 5, during the six months ended June 30, 2017, Klépierre disposed of its interest in certain shopping centers resulting in a gain of which our share was $5.0 million.

During January of 2016, we disposed of our interests in two unconsolidated multi-family residential investments and one consolidated retail property. Our share of the gross proceeds from these transactions was $72.4 million. The gain on the consolidated retail property was $10.6 million. The aggregate gain of $36.9 million from the sale of the two unconsolidated multi-family residential investments is included in other income and resulted in an additional $7.2 million in taxes included in income and other taxes.

On April 14, 2016, we acquired a 50% interest in The Shops at Crystals.

On January 1, 2016, we gained control of the European investee that held our interest in six Designer Outlet properties, requiring a remeasurement of our previously held equity interest to fair value and a corresponding non-cash gain of $12.1 million and which also resulted in the consolidation of two of the six properties, which had been previously unconsolidated. In February 2016, we and our partner, through this European investee, acquired a noncontrolling 75.0% ownership interest in an outlet center in Ochtrup, Germany for cash consideration of approximately $38.3 million. On July 25, 2016, as further discussed in Note 5, this European entity also acquired the remaining 33% interest in two Italian outlet centers in Naples and Venice. The consolidation of these two properties resulted in a remeasurement of our previously held equity interest to fair value and a corresponding non-cash gain of $29.3 million. On April 21, 2017, this European investee acquired a 100% interest in an outlet center in Roosendaal, Netherlands for cash consideration of $69.8 million and the assumption of existing mortgage debt of $40.1 million. In May, the assumed loan was refinanced with a $69.0 million 1.85% variable rate mortgage due in 2024, after available extension options.

Unless otherwise noted, gains and losses on the above transactions are included in gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net in the accompanying consolidated statements of operations and comprehensive income. We expense business acquisition, potential acquisition and disposition related costs as they are incurred. We incurred a minimal amount of transaction expenses during the three and six months ended June 30, 2017 and 2016.

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

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

Overview

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

We own, develop and manage premier shopping, dining, entertainment and mixed-use destinations, which consist primarily of malls, Premium Outlets®, and The Mills®. As of June 30, 2017, we owned or held an interest in 207 income producing properties in the United States, which consisted of 108 malls, 68 Premium Outlets, 14 Mills, four lifestyle centers, and 13 other retail properties in 37 states and Puerto Rico. In addition, we have redevelopment and expansion projects, including the addition of anchors, big box tenants, and restaurants, underway at 25 properties in the United States and Canada, and we have one outlet and one other significant retail project under development. Internationally, as of June 30, 2017, we had ownership interests in nine Premium Outlets in Japan, four Premium Outlets in South Korea, two Premium Outlets in Canada, two Premium Outlets in Malaysia and one Premium Outlet in Mexico. We also own an interest in eight Designer Outlet properties in Europe and one Designer Outlet property in Canada, of which six properties are consolidated. Of the eight properties in Europe, two are located in Italy, two are located in the Netherlands and one each is located in Austria, Germany, France and the United Kingdom. We also have one international outlet property under development. As of June 30, 2017, we also owned a 20.7% equity stake in Klépierre SA, or Klépierre, a publicly traded, Paris based real estate company which owns, or has an interest in, shopping centers located in 16 countries in Europe.

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

- base minimum rents,
- overage and percentage rents based on tenants' sales volumes, and
- recoverable expenditures such as property operating, real estate taxes, repair and maintenance, and advertising and promotional expenditures.

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

We invest in real estate properties to maximize total financial return which includes both operating cash flows and capital appreciation. We seek growth in earnings, funds from operations, or FFO, and cash flows by enhancing the profitability and operation of our properties and investments. We seek to accomplish this growth through the following:

- attracting and retaining high quality tenants and utilizing economies of scale to reduce operating expenses,
- expanding and re tenanting existing highly productive locations at competitive rental rates,
- selectively acquiring or increasing our interests in high quality real estate assets or portfolios of assets,

- generating consumer traffic in our retail properties through marketing initiatives and strategic corporate alliances, and
- selling selective non core assets.

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

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

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- offering property operating services to our tenants and others, including waste handling and facility services, and the provision of energy services,
- selling or leasing land adjacent to our properties, commonly referred to as “outlots” or “outparcels,” and
- generating interest income on cash deposits and investments in loans, including those made to related entities.

We focus on high quality real estate across the retail real estate spectrum. We expand or redevelop properties to enhance profitability and market share of existing assets when we believe the investment of our capital meets our risk reward criteria. We selectively develop new properties in markets we believe are not adequately served by existing retail outlet properties.

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

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

- provide the capital necessary to fund growth,
- maintain sufficient flexibility to access capital in many forms, both public and private, and
- manage our overall financial structure in a fashion that preserves our investment grade credit ratings.

We consider FFO, net operating income, or NOI, portfolio NOI and comparable property NOI (NOI for properties owned and operated in both periods under comparison) to be key measures of operating performance that are not specifically defined by accounting principles generally accepted in the United States, or GAAP. We use these measures internally to evaluate the operating performance of our portfolio and provide a basis for comparison with other real estate companies. Reconciliations of these measures to the most comparable GAAP measure are included below in this discussion.

Results Overview

Diluted earnings per share and diluted earnings per unit decreased $0.26 during the first six months of 2017 to $2.75 from $3.01 for the same period last year. The decrease in diluted earnings per share and diluted earnings per unit was primarily attributable to:

- a 2016 gain on acquisitions and dispositions of $26.9 million, or $0.07 per diluted share/unit, related to a non-cash gain on the consolidation of properties of $12.1 million, or $0.03 per diluted share/unit, and a gain on the sale of our interest in four properties of $14.8 million, or $0.04 per diluted share/unit,
- gains in 2016 related to the disposition of our interests in two multi-family residential investments of $29.7 million, net of tax, or $0.08 per diluted share/unit,
- a charge on early extinguishment of debt of $128.6 million, or $0.36 per diluted share/unit, in 2017, partially offset by
- improved operating performance and solid core business fundamentals in 2017 and the impact of our acquisition and expansion activity,
- increased consolidated lease settlement activity in 2017 of $12.2 million, or $0.03 per diluted share/unit, and
- decreased interest expense in 2017 of $27.8 million, or $0.08 per diluted share/unit.

Solid core business fundamentals during the first six months of 2017 were primarily driven by strong leasing activity. Portfolio NOI grew by 5.3% for the six month period in 2017 over the prior year period. Comparable property NOI grew 4.1% for our portfolio of U.S. Malls, Premium Outlets, and The Mills. Total sales per square foot, or psf, increased from $607 psf at June 30, 2016 to $618 psf at June 30, 2017, for our U.S. Malls and Premium Outlets. Average base minimum rent for U.S. Malls and Premium Outlets increased 3.3% to $52.10 psf as of June 30, 2017, from $50.43 psf as of June 30, 2016. Leasing spreads in our U.S. Malls and Premium Outlets were favorable as we were able to lease available square feet at higher rents, resulting in an open/close leasing spread (based on total tenant payments — base minimum rent plus common area maintenance) of \$8.13 psf (\$71.25 openings compared to \$63.12 closings) as of June 30, 2017, representing a 12.9% increase. Ending occupancy for our U.S. Malls and Premium Outlets decreased 0.7% to 95.2% as of June 30, 2017, from 95.9% as of June 30, 2016.

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Our effective overall borrowing rate at June 30, 2017 on our consolidated indebtedness decreased 49 basis points to 3.26% as compared to 3.75% at June 30, 2016. This reduction was primarily due to a decrease in the effective overall borrowing rate on fixed rate debt of 47 basis points (3.35% at June 30, 2017 as compared to 3.82% at June 30, 2016) and a decrease in the amount of our fixed rate debt partially offset by an increase in the effective overall borrowing rate on variable rate debt of 56 basis points (2.08% at June 30, 2017 as compared to 1.52% at March 31, 2016) and an increase in the amount of our variable rate date. At June 30, 2017, the weighted average years to maturity of our consolidated indebtedness was 7.2 years as compared to 7.4 years at December 31, 2016. Our financing activity for the six months ended June 30, 2017 included:

- Increasing our USD denominated borrowings by $585.0 million on the Operating Partnership's $4.0 billion unsecured revolving credit facility, or Credit Facility.
- Increasing our borrowings under the Operating Partnership's global unsecured commercial paper note program, or the Commercial Paper program, by $68.5 million through the issuance of U.S. dollar denominated notes.
- Completing the issuance, on June 1, 2017, of $600.0 million of senior unsecured notes at a fixed interest rate of 2.63% with a maturity date of June 15, 2022 and $750.0 million of senior unsecured notes at a fixed interest rate of 3.38% with a maturity date of June 15, 2027.
- Repaying our Euro denominated borrowings of $79.3 million (U.S. dollar equivalent) under the Commercial Paper program.
- Redeeming at par $600.0 million of senior unsecured notes with a fixed interest rate of 2.15%.
- Completing the early redemption of a series of senior unsecured notes comprising $1.25 billion with a fixed interest rate of 5.65%. We recorded a $128.6 million loss on extinguishment of debt in the second quarter of 2017 as a result of the early redemption.

United States Portfolio Data

The portfolio data discussed in this overview includes the following key operating statistics: ending occupancy, average base minimum rent per square foot, and total sales per square foot for our domestic assets. We include acquired properties in this data beginning in the year of acquisition and remove disposed properties in the year of disposition. For comparative purposes, we separate the information related to The Mills from our other U.S. operations. We also do not include any information for properties located outside the United States.

The following table sets forth these key operating statistics for:

- properties that are consolidated in our consolidated financial statements,
- properties we account for under the equity method of accounting as joint ventures, and
- the foregoing two categories of properties on a total portfolio basis.

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	June 30, 2017	June 30, 2016	%/Basis Points Change (1)
U.S. Malls and Premium Outlets:			
Ending Occupancy			
Consolidated	95.3%	96.2%	-90 bps
Unconsolidated	94.7%	94.9%	-20 bps
Total Portfolio	95.2%	95.9%	-70 bps
Average Base Minimum Rent per Square Foot			
Consolidated	$ 50.52	$ 48.48	4.2%
Unconsolidated	$ 56.48	$ 56.22	0.5%
Total Portfolio	$ 52.10	$ 50.43	3.3%
Total Sales per Square Foot			
Consolidated	$ 602	$ 592	1.7%
Unconsolidated	$ 665	$ 657	1.2%
Total Portfolio	$ 618	$ 607	1.8%
The Mills:			
Ending Occupancy	97.7%	98.7%	-100 bps
Average Base Minimum Rent per Square Foot	$ 30.56	$ 28.12	8.7%
Total Sales per Square Foot	$ 581	$ 562	3.4%

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

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

Total Sales per Square Foot. Total sales include total reported retail tenant sales on a trailing 12 month basis at owned GLA (for mall stores with less than 10,000 square feet) in the malls and The Mills and stores with less than 20,000 square feet in the Premium Outlets. Retail sales at owned GLA affect revenue and profitability levels because sales determine the amount of minimum rent that can be charged, the percentage rent realized, and the recoverable expenses (common area maintenance, real estate taxes, etc.) that tenants can afford to pay.

Current Leasing Activities

During the six months ended June 30, 2017, we signed 405 new leases and 634 renewal leases (excluding mall anchors and majors, new development, redevelopment and leases with terms of one year or less) with a fixed minimum rent across our U.S. Malls and Premium Outlets portfolio, comprising approximately 3.3 million square feet, of which 2.4 million square feet related to consolidated properties. During the comparable period in 2016, we signed 515 new leases and 769 renewal leases with a fixed minimum rent, comprising approximately 4.2 million square feet, of which 3.1 million square feet related to consolidated properties. The average annual initial base minimum rent for new leases was $59.09 per square foot in 2017 and $60.57 per square foot in 2016 with an average tenant allowance on new leases of $43.27 per square foot and $39.75 per square foot, respectively.

Japan Data

The following are selected key operating statistics for our Premium Outlets in Japan. The information used to prepare these statistics has been supplied by the managing venture partner.

	June 30, 2017	June 30, 2016	%/Basis Points Change
Ending Occupancy	99.7%	99.8%	-10 bps
Total Sales per Square Foot	¥ 102,308	¥ 100,783	1.51%
Average Base Minimum Rent per Square Foot	¥ 5,054	¥ 5,005	0.99%

Results of Operations

The following acquisitions, dispositions and openings of consolidated properties affected our consolidated results in the comparative periods:

· On April 21, 2017, through our European investee, we acquired Rosada Designer Outlet, a 247,500 square foot center in Roosendaal, Netherlands. We have a 94% interest in this new center.
· On April 13, 2017, through our European investee, we opened Provence Designer Outlet, a 269,000 square foot center in Miramas, France. We have a 90% interest in this new center.
· During the first quarter of 2016, we consolidated two Designer Outlet properties in Europe that had previously been accounted for under the equity method. During the third quarter of 2016, we consolidated two more Designer Outlet properties in Europe, which were previously accounted for under the equity method.
· During 2016, we disposed of three retail properties.

The following acquisitions, dispositions and openings of joint venture properties affected our income from unconsolidated entities in the comparative periods:

· On June 29, 2017, we and our partner opened Norfolk Premium Outlets, a 332,000 square foot center in Norfolk, Virginia. We have a 65% noncontrolling interest in this new center.
· On June 15, 2017, we and our partner opened Genting Highlands Premium Outlets in Kuala Lumpur, Malaysia. We have a 50% noncontrolling interest in this 278,000 square foot center.
· On April 6, 2017, we and our partner opened Siheung Premium Outlets, a 444,400 square foot center in Siheung (Seoul), South Korea. We have a 50% noncontrolling interest in this new center.
· On November 3, 2016, we and our partner opened a 500,000 square foot retail component of Brickell City Centre in Miami, Florida. We have a 25% noncontrolling interest in the retail component of this center.
· On October 27, 2016, we and our partner opened Clarksburg Premium Outlets, a 392,000 square foot outlet center in Clarksburg, Maryland. We have a 66% noncontrolling interest in this new center.
· On September 15, 2016, we were part of a consortium that completed the acquisition of Aéropostale, out of bankruptcy. Our noncontrolling interest in the retail operations venture and in the licensing venture is 49.05% and 28.45%, respectively.
· On June 24, 2016, we and our partner opened a 355,000 square foot outlet center in Columbus, Ohio. We have a 50% noncontrolling interest in this new center.
· On April 14, 2016, we acquired a 50% noncontrolling interest in The Shops at Crystals, a 262,000 square foot mall in Las Vegas, Nevada.
· On February 1, 2016, through our European investee, we and our partner acquired a 75.0% noncontrolling interest in an outlet center in Ochtrup, Germany.
· During 2016, we disposed of our interests in four retail properties.

For the purposes of the following comparison between the three and six months ended June 30, 2017 and 2016, the above transactions are referred to as the property transactions. In the following discussions of our results of operations,

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"comparable" refers to properties we owned or held interests in and operated in both of the periods under comparison.

Three months ended June 30, 2017 vs. Three months ended June 30, 2016

Minimum rents increased $29.3 million during 2017, of which the property transactions accounted for $15.3 million of the increase. Comparable rents increased $14.0 million, or 1.8%, primarily attributable to an increase in base minimum rents as well as incremental revenue from our redevelopment and expansion activity.

Tenant reimbursements increased $13.5 million, due to a $5.1 million increase attributable to the property transactions and a $8.4 million, or 2.4%, increase in the comparable properties due to annual fixed contractual increases related to common area maintenance.

Total other income increased $8.0 million, primarily due to an increase in lease settlement income, land and other non-retail real estate sales and gift card revenue, offset partially by a decrease in financing fees and interest income.

Depreciation and amortization expense increased $18.8 million primarily due to the additional depreciable assets related to the property transactions and our continued redevelopment and expansion activities.

Interest expense decreased $6.8 million primarily due to the net impact of our financing activities and the reduction in our effective overall borrowing rate as previously discussed.

During 2017, we recorded a loss on extinguishment of debt of $128.6 million as a result of an early redemption of a series of senior unsecured notes.

Income from unconsolidated entities increased $7.0 million primarily due to favorable results of operations primarily from our international investments.

During the second quarter of 2017, we recorded a $5.0 million gain related to Klépierre's sale of certain assets. During the second quarter of 2016, we recorded a gain of $4.2 million on the sale of two consolidated retail properties and the disposition of our interest in one unconsolidated retail property.

Simon's net income attributable to noncontrolling interests decreased $12.6 million due to a decrease in the net income of the Operating Partnership.

Six months ended June 30, 2017 vs. Six months ended June 30, 2016

Minimum rents increased $57.6 million during 2017, of which the property transactions accounted for $24.9 million of the increase. Comparable rents increased $32.7 million, or 2.1%, primarily attributable to an increase in base minimum rents as well as incremental revenue from our redevelopment and expansion activity.

Tenant reimbursements increased $20.8 million, due to a $7.2 million increase attributable to the property transactions and a $13.6 million, or 1.9%, increase in the comparable properties due to annual fixed contractual increases related to common area maintenance.

Total other income decreased $15.0 million, primarily due to a $36.2 million pre-tax gain on the sale of our interests in two multi-family residential investments during 2016, partially offset by an increase in gift card revenue, lease settlement income and land and other non-retail real estate sales.

Depreciation and amortization expense increased $29.0 million primarily due to the additional depreciable assets related to the property transactions and our continued redevelopment and expansion activities.

Interest expense decreased $27.8 million primarily due to the net impact of our financing activities during 2017 and 2016 and the reduction in our effective overall borrowing rate as previously discussed.

During 2017, we recorded a loss on extinguishment of debt of $128.6 million as a result of an early redemption of a series of senior unsecured notes.

Income and other taxes decreased $19.8 million as a result of a taxable gain on the sale of a multi-family residential investment during 2016, as well as higher taxes on certain of our international investments in 2016. Additionally, in 2017, there was a tax benefit related to our investment in the retail operations venture of Aéropostale due to the normal seasonal operating losses retailers typically experience in the first half of the year.

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Income from unconsolidated entities decreased $14.5 million primarily as a result of our investment in the retail operations venture of Aéropostale due to the normal seasonal operating losses retailers typically experience in the first half of the year.

During 2017, we recorded a $5.0 million gain related to Klépierre's sale of certain assets. During 2016, we recorded a gain of $14.8 million on the sale of three consolidated retail properties and disposition of our interest in one unconsolidated retail property. We also recorded a non-cash remeasurement gain of $12.1 million related to the change in control of our interest in the European outlet properties as further discussed in Note 5 of the accompanying condensed notes to consolidated financial statements.

Simon's net income attributable to noncontrolling interests decreased $22.1 million due to a decrease in the net income of the Operating Partnership.

Liquidity and Capital Resources

Because we own long lived income producing assets, our financing strategy relies primarily on long term fixed rate debt. Floating rate debt comprised only 7.0% of our total consolidated debt at June 30, 2017. We also enter into interest rate protection agreements to manage our interest rate risk. We derive most of our liquidity from positive net cash flow from operations and distributions of capital from unconsolidated entities that totaled $2.1 billion in the aggregate during the six months ended June 30, 2017. In addition, the Credit Facilities and the Commercial Paper program provide alternative sources of liquidity as our cash needs vary from time to time. Borrowing capacity under these sources may be increased as discussed further below.

Our balance of cash and cash equivalents decreased $71.4 million during the first six months of 2017 to $488.6 million as of June 30, 2017 as further discussed in "Cash Flows" below.

On June 30, 2017, we had an aggregate available borrowing capacity of $5.6 billion under the Credit Facilities, net of outstanding borrowings of $908.6 million and amounts outstanding under the Commercial Paper program of $942.8 million and letters of credit of $19.8 million. For the six months ended June 30, 2017, the maximum aggregate amount outstanding under the Credit Facilities was $960.9 million and the weighted average amount outstanding was $371.9 million. The weighted average interest rate was 1.09% for the six months ended June 30, 2017.

Simon has historically had access to public equity markets and the Operating Partnership has historically had access to private and public long and short-term unsecured debt markets and access to secured debt and private equity from institutional investors at the property level.

Our business model and Simon's status as a REIT require us to regularly access the debt markets to raise funds for acquisition, development and redevelopment activity, and to refinance maturing debt. Simon may also, from time to time, access the equity capital markets to accomplish our business objectives. We believe we have sufficient cash on hand and availability under the Credit Facilities and the Commercial Paper program to address our debt maturities and capital needs through 2017.

Cash Flows

Our net cash flow from operating activities and distributions of capital from unconsolidated entities for the six months ended June 30, 2017 totaled $2.1 billion. In addition, we had net proceeds from our debt financing and repayment activities, including the $128.6 million debt extinguishment charge, of $35.7 million in 2017. These activities are further discussed below under "Financing and Debt." During the first six months of 2017, we also:

- funded the acquisition of our interests in two international retail properties, the aggregate cash portion of which was $87.7 million,
- paid stockholder dividends and unitholder distributions totaling approximately $1.3 billion and preferred unit distributions totaling $2.6 million,
- funded consolidated capital expenditures of $318.9 million (including development and other costs of $28.1 million, redevelopment and expansion costs of $199.1 million, and tenant costs and other operational capital expenditures of $91.7 million),
- funded investments in unconsolidated entities of $93.5 million, and
- funded the repurchase of our common stock of $396.2 million.

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

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

We expect to generate positive cash flow from operations in 2017, and we consider these projected cash flows in our sources and uses of cash. These cash flows are principally derived from rents paid by our retail tenants. A significant deterioration in projected cash flows from operations could cause us to increase our reliance on available funds from the Credit Facilities and Commercial Paper program, curtail planned capital expenditures, or seek other additional sources of financing as discussed above.

Financing and Debt

Unsecured Debt

At June 30, 2017, our unsecured debt consisted of $15.0 billion of senior unsecured notes of the Operating Partnership, $585.0 million outstanding under the Operating Partnership's Credit Facility, $323.6 million outstanding under the Operating Partnership's Supplemental Facility and $942.8 million outstanding under the Operating Partnership's Commercial Paper program. The June 30, 2017 balance on the Supplemental Facility included $198.6 million (U.S. dollar equivalent) of Yen-denominated borrowings. Foreign currency denominated borrowings under the Supplemental Facility are designated as net investment hedges of a portion of our international investments.

On June 30, 2017, we had an aggregate available borrowing capacity of $5.6 billion under the Credit Facilities. The maximum aggregate outstanding balance under the Credit Facilities during the six months ended June 30, 2017 was $960.9 million and the weighted average outstanding balance was $371.9 million. Letters of credit of $19.8 million were outstanding under the Credit Facilities as of June 30, 2017.

On March 17, 2017, the Operating Partnership amended and extended the Credit Facility. The initial borrowing capacity of $4.0 billion may be increased to $5.0 billion during its term and provides for borrowings denominated in U.S. dollars, Euros, Yen, Sterling, Canadian dollars and Australian dollars. Borrowings in currencies other than the U.S. dollar are limited to 95% of the maximum revolving credit amount, as defined. The initial maturity date of the Credit Facility was extended to June 30, 2021 and can be extended for an additional year to June 30, 2022 at our sole option, subject to our continued compliance with the terms thereof. The base interest rate on the Credit Facility was reduced to LIBOR plus 77.5 basis points from 80 basis points with a facility fee of 10 basis points.

The Supplemental Facility's borrowing capacity of $3.50 billion may be increased to $4.25 billion during its term. The initial maturity date of the Supplemental Facility is June 30, 2019, which can be extended for an additional year to June 30, 2020 at our sole option, subject to our continued compliance with the terms thereof. The base interest rate on the Supplemental Facility is LIBOR plus 80 basis points with an additional facility fee of 10 basis points. The Supplemental Facility provides for borrowings denominated in U.S. dollars, Euro, Yen, Sterling, Canadian dollars and Australian dollars.

The Operating Partnership also has available a Commercial Paper program of $1.0 billion, or the non-U.S. dollar equivalent thereof. The Operating Partnership may issue unsecured commercial paper notes, denominated in U.S.

dollars, Euros and other currencies. Notes issued in non-U.S. currencies may be issued by one or more subsidiaries of the Operating Partnership and are guaranteed by the Operating Partnership. Notes will be sold under customary terms in the U.S. and Euro commercial paper note markets and rank (either by themselves or as a result of the guarantee described above) pari passu with the Operating Partnership's other unsecured senior indebtedness. The Commercial Paper program is supported by the Credit Facilities and, if necessary or appropriate, we may make one or more draws under either of the Credit Facilities to pay amounts outstanding from time to time on the Commercial Paper program. On June 30, 2017, we had $942.8 million outstanding under the Commercial Paper program, fully comprised of U.S. dollar denominated notes with a weighted average interest rate of 1.13%. These borrowings mature on various dates through October 2, 2017 and reduce amounts otherwise available under the Credit Facilities.

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On June 1, 2017, the Operating Partnership completed the issuance of $600.0 million of senior unsecured notes at a fixed interest rate of 2.63% with a maturity date of June 15, 2022 and $750.0 million of senior unsecured notes at a fixed interest rate of 3.38% with a maturity date of June 15, 2027. Proceeds from the unsecured notes offering were used to pay down the Credit Facility and for the early redemption of senior unsecured notes in June 2017 as discussed below.

During the six months ended June 30, 2017, the Operating Partnership redeemed at par $600.0 million of senior unsecured notes with a fixed interest rate of 2.15% and completed the early redemption of a series of senior unsecured notes comprising $1.25 billion with a fixed interest rate of 5.65%. We recorded a $128.6 million loss on extinguishment of debt in the second quarter of 2017 as a result of the early redemption.

Mortgage Debt

Total mortgage indebtedness was $6.7 billion and $6.5 billion at June 30, 2017 and December 31, 2016, respectively.

On April 21, 2017, as discussed in Note 5, through our European investee, we acquired Rosada Designer Outlet in Roosendaal, Netherlands, subject to an existing Euribor-based variable rate mortgage loan of $40.1 million (U.S. dollar equivalent).

Covenants

Our unsecured debt agreements contain financial and other non-financial covenants. If we were to fail to comply with these covenants, after the expiration of the applicable cure periods, the debt maturity could be accelerated or other remedies could be sought by the lender, including adjustments to the applicable interest rate. As of June 30, 2017, we were in compliance with all covenants of our unsecured debt.

At June 30, 2017, we or our subsidiaries were the borrowers under 46 non recourse mortgage notes secured by mortgages on 49 properties, including two separate pools of cross defaulted and cross collateralized mortgages encumbering a total of five properties. Under these cross default provisions, a default under any mortgage included in the cross defaulted pool may constitute a default under all mortgages within that pool and may lead to acceleration of the indebtedness due on each property within the pool. Certain of our secured debt instruments contain financial and other non financial covenants which are specific to the properties that serve as collateral for that debt. If the applicable borrower under these non-recourse mortgage notes were to fail to comply with these covenants, the lender could accelerate the debt and enforce its rights against their collateral. At June 30, 2017, the applicable borrowers under these non recourse mortgage notes were in compliance with all covenants where non compliance could individually, or giving effect to applicable cross default provisions in the aggregate, have a material adverse effect on our financial condition, liquidity or results of operations.

Summary of Financing

Our consolidated debt, adjusted to reflect outstanding derivative instruments, and the effective weighted average interest rates as of June 30, 2017 and December 31, 2016, consisted of the following (dollars in thousands):

	Adjusted Balance as of June 30, 2017	Effective Weighted Average Interest Rate(1)	Adjusted Balance as of December 31, 2016	Effective Weighted Average Interest Rate(1)
Debt Subject to Fixed Rate	$ 21,745,360	3.35%	$ 22,083,330	3.46%

Variable Rate	1,677,325	2.08%	893,774	1.76%
	$ 23,422,685	3.26%	$ 22,977,104	3.39%

(1) Excludes the impact of net discounts and debt issuance costs.

Contractual Obligations

There have been no material changes to our outstanding capital expenditure and lease commitments previously disclosed in the combined 2016 Annual Reports on Form 10 K of Simon and the Operating Partnership.

In regards to long term debt arrangements, the following table summarizes the material aspects of these future obligations on our consolidated indebtedness as of June 30, 2017, for the remainder of 2017 and subsequent years thereafter (dollars in thousands), assuming the obligations remain outstanding through initial maturities, including applicable exercise of available extension options:

	2017	2018 - 2019	2020 - 2021	After 2021	Total
Long Term Debt (1)	$ 1,595,170	$ 1,535,448	$ 5,147,615	$ 15,280,923	$ 23,559,156
Interest Payments (2)	376,735	1,432,849	1,266,114	3,425,596	6,501,294

(1) Represents principal maturities only and, therefore, excludes net discounts and debt issuance costs.
(2) Variable rate interest payments are estimated based on the LIBOR rate at June 30, 2017.

Off Balance Sheet Arrangements

Our off balance sheet arrangements consist primarily of our investments in joint ventures which are common in the real estate industry and are described in Note 5 of the condensed notes to our consolidated financial statements. Our joint ventures typically fund their cash needs through secured debt financings obtained by and in the name of the joint venture entity. The joint venture debt is secured by a first mortgage, is without recourse to the joint venture partners, and does not represent a liability of the partners, except to the extent the partners or their affiliates expressly guarantee the joint venture debt. As of June 30, 2017, the Operating Partnership guaranteed joint venture related mortgage indebtedness of $219.2 million (of which we have a right of recovery from our joint venture partners of $10.8 million). Mortgages guaranteed by the Operating Partnership are secured by the property of the applicable joint venture which could be sold in order to satisfy the outstanding obligation and which has an estimated fair value in excess of the guaranteed amount. We may elect to fund cash needs of a joint venture through equity contributions (generally on a basis proportionate to our ownership interests), advances or partner loans, although such fundings are not typically required contractually or otherwise.

Acquisitions and Dispositions

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

Acquisitions. In February 2016, we and our partner, through our European investee, acquired a noncontrolling 75.0% ownership interest in an outlet center in Ochtrup, Germany for cash consideration of approximately $38.3 million. On July 25, 2016, this European investee also acquired the remaining 33% interest in two Italian outlet centers in Naples and Venice as well as the remaining interests in related expansion projects and working capital for cash consideration of approximately €145.5 million. This resulted in the consolidation of these two properties on the acquisition date, requiring a remeasurement of our previously held equity interest to fair value and the recognition of a non-cash gain of $29.3 million in earnings during the third quarter of 2016.

On April 21, 2017, this European investee acquired a 100% interest in an outlet center in Roosendaal, Netherlands for cash consideration of $69.8 million and the assumption of existing mortgage debt of $40.1 million. In May, the assumed loan was refinanced with a $69.0 million 1.85% variable rate mortgage due in 2024, after available extension options.

On April 14, 2016, we and our joint venture partner completed the acquisition of The Shops at Crystals, a 262,000 square foot luxury shopping center on the Las Vegas Strip, for $1.1 billion. The transaction was funded with a combination of cash on hand, cash from our partner, and a $550.0 million 3.74% fixed-rate mortgage financing that will mature on July 1, 2026. We have a 50% noncontrolling interest in this joint venture and manage the day-to-day operations.

Dispositions. We continue to pursue the disposition of properties that no longer meet our strategic criteria or that are not a primary retail venue within their trade area.

As discussed in Note 5, during the six months ended June 30, 2017, Klépierre disposed of its interests in certain shopping centers resulting in a gain of which our share was $5.0 million.

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During 2016, we disposed of our interests in two unconsolidated multi-family residential investments and a consolidated retail property. Our share of the gross proceeds from these transactions was $72.4 million. The gain on the consolidated retail property was $10.6 million. The aggregate gain of $36.9 million from the sale of the two unconsolidated multi-family residential investments is included in other income and resulted in an additional $7.2 million in taxes included in income and other tax benefit (expense).

Joint Venture Formation Activity

On September 15, 2016, we and our partners, through two separate joint ventures, acquired certain assets and liabilities of Aéropostale, a retailer of apparel and accessories, out of bankruptcy. Our noncontrolling interest in the retail operations venture and in the licensing venture is 49.05% and 28.45%, respectively. Our aggregate initial investment in these ventures was $33.1 million, which includes our share of working capital funded into the retail business.

Development Activity

We routinely incur costs related to construction for significant redevelopment and expansion projects at our properties. Redevelopment and expansion projects, including the addition of anchors, big box tenants, and restaurants, are underway at 25 properties in the United States and Canada.

Our share of the costs of all new development, redevelopment and expansion projects currently under construction is approximately $1.3 billion. We expect to fund these capital projects with cash flows from operations. We seek a stabilized return on invested capital in the range of 7 10% for all of our new development, expansion and redevelopment projects.

New Domestic Developments, Redevelopments and Expansions.

On June 29, 2017, we and our partner opened Norfolk Premium Outlets, a 332,000 square foot center in Norfolk, Virginia. We own a 65% noncontrolling interest in this project. Our share of the cost of this project is $70.9 million.

During the second quarter of 2017, construction began on Denver Premium Outlets, a 328,000 square foot project in Thornton (Denver), Colorado, projected to open in September 2018. We own a 100% interest in this project. The estimated cost of this project is $120.6 million.

In addition, construction continues on The Shops at Clearfork, a 545,000 square foot project located in Fort Worth, Texas, which is scheduled to open in September 2017. We own a 45% noncontrolling interest in this project. Our estimated share of the cost of this project is $114.7 million.

International Development Activity. We typically reinvest net cash flow from our international joint ventures to fund future international development activity. We believe this strategy mitigates some of the risk of our initial investment and our exposure to changes in foreign currencies. We have also funded most of our foreign investments with local currency denominated borrowings that act as a natural hedge against fluctuations in exchange rates. Our consolidated net income exposure to changes in the volatility of the Euro, Yen, Won, and other foreign currencies is not material. We expect our share of international development costs for 2017 will be approximately $241 million, primarily funded through reinvested joint venture cash flow and construction loans.

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The following table describes these new development and expansion projects as well as our share of the estimated total cost as of June 30, 2017 (in millions):

Property	Location	Gross Leasable Area (sqft)	Our Ownership Percentage	Our Share of Projected Net Cost (in Local Currency)	Our Share of Projected Net Cost (in USD)	Projected Opening Date
New Development Projects:						
Genting Highlands Premium Outlets	Kuala Lumpur, Malaysia	278,000	50%	MYR 120.7	$ 28.1	Opened Jun. - 2017
Siheung Premium Outlets	Siheung, Korea	444,400	50%	KRW 123,695	$ 108.1	Opened Apr. -2017
Provence Designer Outlet	Miramas, France	269,000	90%	EUR 104.1	$ 118.9	Opened Apr. - 2017
Premium Outlet Collection – Edmonton International Airport	Edmonton (Alberta), Canada	428,000	50%	CAD 108.2	$ 183.3	May - 2018
Expansions:						
Roermond Designer Outlet Phase 4	Roermond, Netherlands	125,000	42%	EUR 29.0	$ 33.1	Opened Apr. - 2017
Toronto Premium Outlets Phase 2	Toronto (Ontario), Canada	145,000	50%	CAD 57.9	$ 44.6	Nov. - 2018

Dividends, Distributions and Stock Repurchase Program

Simon paid a common stock dividend of $1.75 per share in the second quarter of 2017 and $3.50 per share for the six months ended June 30, 2017. The Operating Partnership paid distributions per unit for the same amounts. In 2016, Simon paid dividends of $1.60 and $3.20 per share for the three and six month periods ended June 30, 2016, respectively. The Operating Partnership paid distributions per unit for the same amounts. Simon’s Board of Directors declared a quarterly cash dividend for the third quarter of 2017 of $1.80 per share of common stock payable on August 31, 2017 to stockholders of record on August 17, 2017. The distribution rate on units is equal to the dividend rate on common stock. In order to maintain its status as a REIT, Simon must pay a minimum amount of dividends. Simon’s future dividends and the Operating Partnership’s future distributions will be determined by Simon’s Board of Directors, in its sole discretion, based on actual and projected financial condition, liquidity and results of operations, cash available for dividends and limited partner distributions, cash reserves as deemed necessary for capital and operating expenditures, financing covenants, if any, and the amount required to maintain Simon's status as a REIT.

On February 13, 2017, Simon's Board of Directors authorized a two-year extension of the previously authorized $2.0 billion common stock repurchase plan through March 31, 2019. Simon may repurchase the shares in the open market or in privately negotiated transactions as market conditions warrant. During the six months ended June 30, 2017, Simon repurchased 2,399,051 shares at an average price of $165.14 per share of its common stock as part of this program. As Simon repurchases shares under this program, the Operating Partnership repurchases an equal number of units from Simon.

Forward Looking Statements

Certain statements made in this section or elsewhere in this Quarterly Report on Form 10-Q may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained, and it is possible that our actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks, uncertainties and other factors. Such factors include, but are not limited to: changes in economic and market conditions that adversely affect the general retail environment; the potential loss of anchor stores or major tenants; the inability to collect rent due to the bankruptcy or insolvency of tenants or otherwise; decreases in market rental rates; the intensely competitive market environment in the retail industry; the inability to lease newly developed properties and renew leases and relet space at existing properties on favorable terms; risks related to international activities, including, without limitation, the impact of the United Kingdom's vote to leave the European Union; changes to applicable laws or regulations or the interpretation thereof; risks associated with the acquisition, development, redevelopment, expansion, leasing and management of properties; general risks related

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to real estate investments, including the illiquidity of real estate investments; the impact of our substantial indebtedness on our future operations; any disruption in the financial markets that adversely affects our ability to access capital for growth and satisfy our ongoing debt service requirements; any change in our credit rating; changes in market rates of interest and foreign exchange rates for foreign currencies; changes in the value of our investments in foreign entities; our ability to hedge interest rate and currency risk; our continued ability to maintain our status as a REIT; changes in tax laws or regulations that result in adverse tax consequences; risks relating to our joint venture properties; environmental liabilities; changes in insurance costs, the availability of comprehensive insurance coverage; security breaches that could compromise our information technology or infrastructure; natural disasters; the potential for terrorist activities; and the loss of key management personnel. We discussed these and other risks and uncertainties under the heading "Risk Factors" in the combined 2016 Annual Report on Form 10-K of Simon and the Operating Partnership. We may update that discussion in subsequent other periodic reports, but, except as required by law, we undertake no duty or obligation to update or revise these forward-looking statements, whether as a result of new information, future developments, or otherwise.

Non GAAP Financial Measures

Industry practice is to evaluate real estate properties in part based on performance measures such as FFO, diluted FFO per share, NOI, Portfolio NOI and comparable property NOI. We believe that these non GAAP measures are helpful to investors because they are widely recognized measures of the performance of REITs and provide a relevant basis for comparison among REITs. We also use these measures internally to measure the operating performance of our portfolio.

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

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

We have adopted NAREIT's clarification of the definition of FFO that requires us to include the effects of nonrecurring items not classified as extraordinary, cumulative effect of accounting changes, or a gain or loss resulting from the sale of, or any impairment charges related to, previously depreciated retail operating properties.

We include in FFO gains and losses realized from the sale of land, outlot buildings, marketable and non marketable securities, and investment holdings of non retail real estate. We also include in FFO the impact of foreign currency exchange gains and losses, legal expenses, transaction expenses and other items required by GAAP.

You should understand that our computations of these non GAAP measures might not be comparable to similar measures reported by other REITs and that these non GAAP measures:

· do not represent cash flow from operations as defined by GAAP,
· should not be considered as alternatives to consolidated net income determined in accordance with GAAP as a measure of operating performance, and
· are not alternatives to cash flows as a measure of liquidity.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Funds from Operations (A)	$ 884,743	$ 952,871	$ 1,869,755	$ 1,904,703
Change in FFO from prior period	(7.1) %	(0.3) %	(1.8) %	6.6 %
Consolidated Net Income	$ 441,373	$ 527,325	$ 992,448	$ 1,091,164
Adjustments to Arrive at FFO:				
Depreciation and amortization from consolidated properties	318,585	300,179	626,273	597,376
Our share of depreciation and amortization from unconsolidated entities, including Klépierre and HBS	135,476	134,893	266,694	253,135
Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net	(4,989)	(4,209)	(4,989)	(26,897)
Net (income) loss attributable to noncontrolling interest holders in properties	(74)	(565)	170	(1,294)
Noncontrolling interests portion of depreciation and amortization	(4,315)	(3,439)	(8,215)	(6,155)
Preferred distributions and dividends	(1,313)	(1,313)	(2,626)	(2,626)
FFO of the Operating Partnership (A)	$ 884,743	$ 952,871	$ 1,869,755	$ 1,904,703
FFO allocable to limited partners	116,599	127,386	246,028	264,285
Dilutive FFO allocable to common stockholders (A)	$ 768,144	$ 825,485	$ 1,623,727	$ 1,640,418
Diluted net income per share to diluted FFO per share reconciliation:				
Diluted net income per share	$ 1.23	$ 1.45	$ 2.75	$ 3.01
Depreciation and amortization from consolidated properties and our share of depreciation and amortization from unconsolidated entities, including Klépierre and HBS, net of noncontrolling interests portion of depreciation and amortization	1.25	1.19	2.46	2.33
Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net	(0.01)	(0.01)	(0.01)	(0.07)
Diluted FFO per share (A)	$ 2.47	$ 2.63	$ 5.20	$ 5.27
Basic and Diluted weighted average shares outstanding	311,579	313,399	312,191	311,408
Weighted average limited partnership units outstanding	47,287	48,363	47,304	50,170
Basic and Diluted weighted average shares and units outstanding	358,866	361,762	359,495	361,578

(A) Includes a loss on extinguishment of debt of $128.6 million for the three and six months ended June 30, 2017. Includes Diluted FFO per share/unit related to a loss on extinguishment of debt of $0.36 for the three and six months ended June 30, 2017. Includes Diluted FFO allocable to common stockholders of $111.7 million for the three and six months ended June 30, 2017.

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The following schedule reconciles consolidated net income to NOI and sets forth the computations of Portfolio NOI and Comparable NOI.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)		(in thousands)	
Reconciliation of NOI of consolidated entities:				
Consolidated Net Income	$ 441,373	$ 527,325	$ 992,448	$ 1,091,164
Income and other taxes	5,990	7,115	2,470	22,301
Interest expense	207,174	213,995	405,373	433,185
Income from unconsolidated entities	(92,017)	(84,990)	(161,101)	(175,616)
Loss on extinguishment of debt	128,618	—	128,618	—
Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net	(4,989)	(4,209)	(4,989)	(26,897)
Operating Income	686,149	659,236	1,362,819	1,344,137
Depreciation and amortization	322,396	303,585	633,228	604,199
NOI of consolidated entities	$ 1,008,545	$ 962,821	$ 1,996,047	$ 1,948,336
Reconciliation of NOI of unconsolidated entities:				
Net Income	$ 204,051	$ 200,938	$ 401,794	$ 455,649
Interest expense	146,440	151,022	288,647	294,781
Gain on sale or disposal of assets and interests in unconsolidated entities	—	(6,049)	—	(60,522)
Operating Income	350,491	345,911	690,441	689,908
Depreciation and amortization	159,748	149,721	313,202	281,200
NOI of unconsolidated entities	$ 510,239	$ 495,632	$ 1,003,643	$ 971,108
Add: Our share of NOI from Klépierre, HBS, and other corporate investments	67,201	62,219	108,947	116,930
Total NOI	$ 1,585,985	$ 1,520,672	$ 3,108,637	$ 3,036,374
Less: Corporate and Other NOI Sources (1)	39,733	47,616	47,624	128,912
Portfolio NOI	$ 1,546,252	$ 1,473,056	$ 3,061,013	$ 2,907,462
Portfolio NOI Growth	5.0 %		5.3 %	
Less: Our share of NOI from Klépierre and HBS	66,856	62,219	125,223	116,930
Less: International Properties (2)	107,045	99,337	208,396	190,059
Less: NOI from New Development, Redevelopment, Expansion and Acquisitions (3)	19,800	15,723	53,346	31,942
Comparable Property NOI (4)	$ 1,352,551	$ 1,295,777	$ 2,674,048	$ 2,568,531
Comparable Property NOI Growth	4.4 %		4.1 %	

(1) Includes income components excluded from Portfolio NOI and Comparable NOI (domestic lease termination income, interest income, land sale gains, straight line rent, above/below market lease adjustments), gains on sale of marketable securities, Simon management company operations, and our TMLP interests and other assets.

(2) Includes International Premium Outlets and International Designer Outlets.

(3)

Includes total property NOI for properties undergoing redevelopment as well as incremental NOI for expansion properties not yet included in comparable properties.

(4) Includes Malls, Premium Outlets, The Mills and Lifestyle Centers opened and operating as comparable for the period.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

Sensitivity Analysis. We disclosed a qualitative and quantitative analysis regarding market risk in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the combined 2016 Annual Report on Form 10 K of Simon and the Operating Partnership. There have been no material changes in the assumptions used or results obtained regarding market risk since December 31, 2016.

Item 4. Controls and Procedures

Simon

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of Simon's disclosure controls and procedures as of June 30, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2017, Simon's disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting. There have not been any changes in Simon's internal control over financial reporting (as defined in Rule 13a 15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, Simon's internal control over financial reporting.

The Operating Partnership

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Operating Partnership's disclosure controls and procedures as of June 30, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2017, the Operating Partnership's disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting. There have not been any changes in the Operating Partnership's internal control over financial reporting (as defined in Rule 13a 15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

Part II — Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Through the period covered by this report, there were no material changes to the Risk Factors disclosed under Item 1A. Risk Factors in Part I of the combined 2016 Annual Report on Form 10 K of Simon and the Operating Partnership.

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

Simon

Unregistered Sales of Equity Securities

During the quarter ended June 30, 2017, we issued 106,349 shares of common stock to limited partners of the Operating Partnership in exchange for an equal number of units pursuant to the partnership agreement of the Operating Partnership, as follows:

- 191 shares on April 6, 2017
- 105,871 shares on April 4, 2017, and
- 287 shares on April 3, 2017

In each case, the issuance of shares of common stock was exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

Period	Total number of shares purchased		Average price paid per share	Total number of shares purchased as part of publicly announced programs	Approximate value of shares that may yet be purchased under programs (2)
April 1, 2017-April 30, 2017	14,506	(1)	$ 172.03	—	$ 1,250,036,239
May 1, 2017-May 31, 2017	1,398,408	(1)	$ 160.46	1,398,359	$ 1,025,650,432
June 1, 2017-June 30, 2017	130,000		$ 154.56	130,000	$ 1,005,557,111
	1,542,914		$ 160.08	1,528,359	

(1) Includes shares withheld by us and transferred to treasury shares in connection with employee payroll tax withholding upon the vesting of certain restricted stock awards. Includes 14,506 shares for the period April 1, 2017 – April 30, 2017, and 49 shares for the period May 1, 2017 – May 30, 2017, respectively.

(2) On February 13, 2017, Simon's Board of Directors authorized a two-year extension of the previously authorized $2.0 billion common stock repurchase plan through March 31, 2019. Simon may repurchase the shares in the open market or in privately negotiated transactions as market conditions warrant.

The Operating Partnership

Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities made by the Operating Partnership during the quarter ended June 30, 2017.

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Issuer Purchases of Equity Securities

There were no purchases of equity securities made by the Operating Partnership during the quarter ended June 30, 2017.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

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

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Item 6. Exhibits

Exhibit Number	Exhibit Descriptions
31.1	Simon Property Group, Inc. — Certification by the Chief Executive Officer pursuant to Rule 13a 14(a)/15d 14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.2	Simon Property Group, Inc. — Certification by the Chief Financial Officer pursuant to Rule 13a 14(a)/15d 14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.3	Simon Property Group, L.P. — Certification by the Chief Executive Officer pursuant to Rule 13a 14(a)/15d 14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.4	Simon Property Group, L.P. — Certification by the Chief Financial Officer pursuant to Rule 13a 14(a)/15d 14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32.1	Simon Property Group, Inc. — Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
32.2	Simon Property Group, L.P. — Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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SIGNATURES

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

SIMON PROPERTY GROUP, INC.

/s/ Andrew Juster
Andrew Juster
Executive Vice President and
Chief Financial Officer
Date: August 4, 2017

SIMON PROPERTY GROUP, L.P.

/s/ Andrew Juster
Andrew Juster
Executive Vice President and Chief Financial Officer of
Simon Property Group, Inc., General Partner
Date: August 4, 2017