MACERICH CO
Form 10-Q
November 06, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

Commission File No. 1-12504

THE MACERICH COMPANY

(Exact name of registrant as specified in its charter)

MARYLAND	**95-4448705**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

401 Wilshire Boulevard, Suite 700, Santa Monica, California 90401

(Address of principal executive office, including zip code)

(310) 394-6000

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 twelve (12) months (or such shorter period that the Registrant was required to file such report) and (2) has been subject to such filing requirements for the past ninety (90) days.

YES x NO o

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.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

YES o NO x

Number of shares outstanding of the registrant s common stock, as of November 1, 2007 Common Stock, par value $.01 per share: 72,518,069 shares

THE MACERICH COMPANY

FORM 10-Q

INDEX

THE MACERICH COMPANY

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

	September 30, 2007 (Unaudited)	**December 31, 2006**
ASSETS:		
Property, net	$ 6,045,958	$ 5,755,283
Cash and cash equivalents	42,850	269,435
Restricted cash	69,209	66,376
Marketable securities	29,368	30,019
Tenant receivables, net	127,868	117,855
Deferred charges and other assets, net	323,233	307,825
Loans to unconsolidated joint ventures	488	708
Due from affiliates	2,263	4,282
Investments in unconsolidated joint ventures	818,723	1,010,380
Total assets	$ 7,459,960	$ 7,562,163
LIABILITIES, PREFERRED STOCK AND COMMON STOCKHOLDERS EQUITY:		
Mortgage notes payable:		
Related parties	$ 226,745	$ 151,311
Others	3,073,368	3,179,787
Total	3,300,113	3,331,098
Bank and other notes payable	1,824,366	1,662,781
Accounts payable and accrued expenses	92,523	86,127
Other accrued liabilities	250,464	212,249
Preferred stock dividends payable	6,804	6,199
Total liabilities	5,474,270	5,298,454
Minority interest	330,573	387,183
Commitments and contingencies		
Class A participating convertible preferred units	213,786	213,786
Class A non-participating convertible preferred units	16,459	21,501
Series A cumulative convertible redeemable preferred stock, $.01 par value, 3,627,131 shares authorized, issued and outstanding at September 30, 2007 and December 31, 2006, respectively	98,934	98,934
Common stockholders equity:		
Common stock, $.01 par value, 145,000,000 shares authorized, 71,712,556 and 71,567,908 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	716	716
Additional paid-in capital	1,630,093	1,717,498
Accumulated deficit	(298,095)	(178,249)
Accumulated other comprehensive (loss) income	(6,776)	2,340
Total common stockholders equity	1,325,938	1,542,305
Total liabilities, preferred stock and common stockholders equity	$ 7,459,960	$ 7,562,163

The accompanying notes are an integral part of these consolidated financial statements.

3

THE MACERICH COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)
(Unaudited)

	For the Three Months Ended September 30, 2007	2006	For the Nine Months Ended September 30, 2007	2006
Revenues:				
Minimum rents	$ 130,371	$ 115,877	$ 380,256	$ 354,555
Percentage rents	4,992	4,702	11,620	9,618
Tenant recoveries	70,623	64,250	206,416	187,219
Management Companies	9,242	8,023	27,595	22,650
Other	8,756	9,225	25,554	21,814
Total revenues	223,984	202,077	651,441	595,856
Expenses:				
Shopping center and operating expenses	73,831	67,478	211,224	193,321
Management Companies operating expenses	17,908	14,455	54,182	41,295
REIT general and administrative expenses	1,992	2,551	11,777	9,540
Depreciation and amortization	60,171	53,542	177,665	168,965
	153,902	138,026	454,848	413,121
Interest expense:				
Related parties	3,772	2,730	9,634	8,142
Other	56,210	64,623	180,165	196,141
	59,982	67,353	189,799	204,283
Total expenses	213,884	205,379	644,647	617,404
Minority interest in consolidated joint ventures	(721)	(870)	(2,237)	(1,872)
Equity in income of unconsolidated joint ventures	18,648	18,490	52,128	57,367
Income tax (provision) benefit	(429)	(535)	478	(219)
Gain on sale of assets	147	538	4,181	37
Loss on early extinguishment of debt		(29)	(877)	(1,811)
Income from continuing operations	27,745	14,292	60,467	31,954
Discontinued operations:				
(Loss) gain on sale of assets	(905)	46,214	(2,325)	72,167
Income from discontinued operations	237	1,562	60	9,241
Total (loss) income from discontinued operations	(668)	47,776	(2,265)	81,408
Income before minority interest and preferred dividends	27,077	62,068	58,202	113,362
Less: minority interest in Operating Partnership	3,070	8,901	5,935	15,131
Net income	24,007	53,167	52,267	98,231
Less: preferred dividends	6,727	6,199	18,971	18,139
Net income available to common stockholders	$ 17,280	$ 46,968	$ 33,296	$ 80,092
Earnings per common share basic:				
Income from continuing operations	$ 0.25	$ 0.10	$ 0.49	$ 0.16
Discontinued operations	(0.01)	0.56	(0.03)	0.97
Net income	$ 0.24	$ 0.66	$ 0.46	$ 1.13
Earnings per common share diluted:				
Income from continuing operations	$ 0.25	$ 0.10	$ 0.49	$ 0.16
Discontinued operations	(0.01)	0.56	(0.03)	0.97
Net income	$ 0.24	$ 0.66	$ 0.46	$ 1.13
Weighted average number of common shares outstanding:				
Basic	71,674,000	71,479,000	71,625,000	70,587,000
Diluted	84,529,000	85,021,000	84,706,000	84,216,000

The accompanying notes are an integral part of these consolidated financial statements.

THE MACERICH COMPANY
CONSOLIDATED STATEMENT OF COMMON STOCKHOLDERS EQUITY
(Dollars in thousands, except per share data)
(Unaudited)

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) income	Total Common Stockholders Equity
Balance January 1, 2007	71,567,908	$ 716	$ 1,717,498	$ (178,249)	$ 2,340	$ 1,542,305
Comprehensive income:						
Net income				52,267		52,267
Reclassification of deferred losses					723	723
Interest rate swap/cap agreements					(9,839)	(9,839)
Total comprehensive income				52,267	(9,116)	43,151
Amortization of share and unit-based plans	213,996	2	15,859			15,861
Exercise of stock options	13,500		387			387
Employee stock purchases	8,113		557			557
Distributions paid ($2.13) per share				(153,142)		(153,142)
Preferred dividends				(18,971)		(18,971)
Conversion of partnership units and Class A non-participating convertible preferred units	716,039	6	19,322			19,328
Repurchase of common shares	(807,000)	(8)	(74,962)			(74,970)
Purchase of capped calls on convertible senior notes			(59,850)			(59,850)
Change in accounting principle due to adoption of FIN 48			(1,574)			(1,574)
Adjustment to reflect minority interest on a pro rata basis for period end ownership percentage of Operating Partnership units			12,856			12,856
Balance September 30, 2007	71,712,556	$ 716	$ 1,630,093	$ (298,095)	$ (6,776)	$ 1,325,938

The accompanying notes are an integral part of these consolidated financial statements.

5

THE MACERICH COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	For the Nine Months Ended September 30, 2007	2006
Cash flows from operating activities:		
Net income available to common stockholders	$ 33,296	$ 80,092
Preferred dividends	18,971	18,139
Net income	52,267	98,231
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on early extinguishment of debt	877	1,811
Gain on sale of assets	(4,181)	(37)
Loss (gain) on sale of assets of discontinued operations	2,325	(72,167)
Depreciation and amortization	177,665	179,070
Amortization of net premium on mortgage and bank and other notes payable	(7,668)	(9,014)
Amortization of share and unit-based plans	11,119	6,533
Minority interest in Operating Partnership	5,935	15,131
Minority interest in consolidated joint ventures	2,237	2,284
Equity in income of unconsolidated joint ventures	(52,128)	(57,367)
Distributions of income from unconsolidated joint ventures	4,118	3,213
Changes in assets and liabilities, net of acquisitions:		
Tenant receivables, net	(10,371)	(5,982)
Other assets	(16,867)	(466)
Accounts payable and accrued expenses	8,925	(5,653)
Due from affiliates	1,989	(260)
Other accrued liabilities	31,829	(16,422)
Net cash provided by operating activities	208,071	138,905
Cash flows from investing activities:		
Acquisitions of property, development, redevelopment and property improvements	(434,133)	(492,578)
Issuance of note receivable		(10,000)
Purchase of marketable securities		(30,307)
Maturities of marketable securities	912	184
Deferred leasing costs	(24,359)	(20,359)
Distributions from unconsolidated joint ventures	248,176	162,519
Contributions to unconsolidated joint ventures	(18,532)	(24,681)
Repayments of loans to unconsolidated joint ventures	220	600
Proceeds from sale of assets	15,814	237,938
Restricted cash	(2,833)	(7,769)
Net cash used in investing activities	(214,735)	(184,453)
Cash flows from financing activities:		
Proceeds from mortgages and bank and other notes payable	1,648,068	1,451,321
Payments on mortgages and bank and other notes payable	(1,527,438)	(2,013,456)
Deferred financing costs	(1,919)	(6,559)
Purchase of Capped Calls	(59,850)	
Repurchase of common stock	(74,970)	
Proceeds from share and unit-based plans	944	408
Net proceeds from stock offering		746,804
Dividends and distributions	(186,390)	(208,126)
Dividends to preferred stockholders / preferred unit holders	(18,366)	(17,910)
Net cash used in financing activities	(219,921)	(47,518)
Net decrease in cash	(226,585)	(93,066)
Cash and cash equivalents, beginning of period	269,435	155,113
Cash and cash equivalents, end of period	$ 42,850	$ 62,047
Supplemental cash flow information:		
Cash payments for interest, net of amounts capitalized	$ 210,803	$ 230,547
Non-cash transactions:		
Increase in other accrued liabilities and additional paid-in capital recorded upon adoption of FIN 48	$ 1,574	$
Acquisition of property by assumption of mortgage note payable	$ 4,300	$
Reclassification from other accrued liabilities to additional paid-in capital recorded upon adoption of SFAS No. 123(R)	$	$ 6,000
Accrued development costs included in accounts payable and accrued expenses and other accrued liabilities	$ 30,259	$ 7,334

The accompanying notes are an integral part of these consolidated financial statements.

6

THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

1. Organization:

The Macerich Company (the Company) is involved in the acquisition, ownership, development, redevelopment, management and leasing of regional and community shopping centers (the Centers) located throughout the United States.

The Company commenced operations effective with the completion of its initial public offering on March 16, 1994. As of September 30, 2007, the Company is the sole general partner of and holds an 85% ownership interest in The Macerich Partnership, L.P. (the Operating Partnership). The interests in the Operating Partnership are known as OP Units. OP Units not held by the Company are redeemable, subject to certain restrictions, on a one-for-one basis for the Company s common stock or cash at the Company s option.

The Company is organized to qualify as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended. The 15% limited partnership interest of the Operating Partnership not owned by the Company is reflected in these financial statements as minority interest in the Operating Partnership.

The property management, leasing and redevelopment of the Company s portfolio is provided by the Company s management companies, Macerich Property Management Company, LLC, (MPMC, LLC) a single member Delaware limited liability company, Macerich Management Company (MMC), a California corporation, Westcor Partners, L.L.C., a single member Arizona limited liability company, Macerich Westcor Management LLC, a single member Delaware limited liability company, Westcor Partners of Colorado, LLC, a Colorado limited liability company, MACW Mall Management, Inc., a New York corporation and MACW Property Management, LLC, a single member New York limited liability company. The two MACW management companies are collectively referred to herein as the Wilmorite Management Companies. The three Westcor management companies are collectively referred to herein as the Westcor Management Companies. All seven of the management companies are collectively referred to herein as the Management Companies.

2. Basis of Presentation:

The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements and have not been audited by independent public accountants.

The accompanying consolidated financial statements include the accounts of the Company and the Operating Partnership. Investments in entities that are controlled by the Company or meet the definition of a variable interest entity in which an enterprise absorbs the majority of the entity s expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity are consolidated; otherwise they are accounted for under the equity method and are reflected as Investments in unconsolidated joint ventures.

The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. In the opinion of management, all adjustments

THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

2. Basis of Presentation: (Continued)

(consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements for the interim periods have been made. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accompanying consolidated balance sheet as of December 31, 2006 has been derived from the audited financial statements, but does not include all disclosures required by GAAP.

All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Recent Accounting Pronouncements:

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments An Amendment of FASB Statements No. 133 and 140. This statement amended SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement also established a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. The adoption of this statement on January 1, 2007 did not have a material effect on the Company s results of operations or financial condition.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition of previously recognized income tax benefits, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted this statement on January 1, 2007. See Note 18 Income Taxes for the impact of the adoption of FIN 48 on the Company s results of operations or financial condition.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company is required to adopt SFAS No. 157 for the year 2008 and does not expect its adoption to have a material effect on the Company s results of operations or financial condition.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 108. SAB No. 108 establishes a framework for quantifying materiality of financial statement

THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

2. Basis of Presentation: (Continued)

misstatements. The adoption of SAB No. 108 on January 1, 2007 did not have a material impact on the Company s consolidated results of operations or financial condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115. SFAS No. 159 allows for the measurement of many financial instruments and certain other items at fair value. The Company is required to adopt SFAS No. 159 for the year 2008. The Company is currently evaluating the impact of adoption of this statement on its results of operations or financial condition.

Fair Value of Financial Instruments

The Company calculates the fair value of financial instruments and includes this additional information in the notes to consolidated financial statements when the fair value is different than the carrying value of those financial instruments. When the fair value reasonably approximates the carrying value, no additional disclosure is made. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

3. Earnings per Share:

The computation of basic earnings per share (EPS) is based on net income available to common stockholders and the weighted average number of common shares outstanding for the three and nine months ended September 30, 2007 and 2006. The computation of diluted earnings per share includes the effect of dilutive securities using the if-converted method and dilutive effect of employee stock options calculated using the treasury stock method. The OP Units and MACWH, LP common units not held by the Company have been included in the diluted EPS since they may be redeemed on a one-for-one basis for common stock or cash, at the Company s option. The following table computes the basic and diluted earnings per share calculation (dollars and shares in thousands):

	For the Three Months Ended September 30,					
	2007			2006		
	Net Income	Shares	Per Share	Net Income	Shares	Per Share
Net income	$ 24,007			$ 53,167		
Less: preferred dividends(1)	6,727			6,199		
Basic EPS:						
Net income available to common stockholders	17,280	71,674	$ 0.24	46,968	71,479	$ 0.66
Diluted EPS:						
Conversion of partnership units	3,070	12,546		8,901	13,247	
Employee stock options		309			295	
Net income available to common stockholders	$ 20,350	84,529	$ 0.24	$ 55,869	85,021	$ 0.66

9

THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

3. Earnings per Share: (Continued)

	For the Nine Months Ended September 30,					
	2007			2006		
	Net Income	Shares	Per Share	Net Income	Shares	Per Share
Net income	$ 52,267			$ 98,231		
Less: preferred dividends(1)	18,971			18,139		
Basic EPS:						
Net income available to common stockholders	33,296	71,625	$ 0.46	80,092	70,587	$ 1.13
Diluted EPS:						
Conversion of partnership units	5,935	12,775		15,131	13,337	
Employee stock options		306			292	
Net income available to common stockholders	$ 39,231	84,706	$ 0.46	$ 95,223	84,216	$ 1.13

(1) Preferred dividends include convertible preferred unit dividends of $3,825 and $3,624 for the three months ended September 30, 2007 and 2006, and $10,919 and $10,631 for the nine months ended September 30, 2007 and 2006, respectively.

The minority interest in the Operating Partnership as reflected in the Company s consolidated statements of operations has been allocated for EPS calculations as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Income from continuing operations	$ 3,170	$ 1,429	$ 6,278	$ 2,196
Discontinued operations:				
(Loss) gain on sale of assets	(135)	7,228	(352)	11,467
Income from discontinued operations	35	244	9	1,468
Total	$ 3,070	$ 8,901	$ 5,935	$ 15,131

10

THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

4. Investments in Unconsolidated Joint Ventures:

The following are the Company s investments in unconsolidated joint ventures. The Operating Partnership s interest in each joint venture property as of September 30, 2007 was as follows:

Joint Venture	Partnership s Ownership % (1)
Biltmore Shopping Center Partners LLC	50.0 %
Camelback Colonnade SPE LLC	75.0 %
Chandler Festival SPE, LLC	50.0 %
Chandler Gateway SPE LLC	50.0 %
Chandler Village Center, LLC	50.0 %
Coolidge Holding LLC	37.5 %
Corte Madera Village, LLC	50.1 %
Desert Sky Mall Tenants in Common	50.0 %
East Mesa Land, L.L.C.	50.0 %
East Mesa Mall, L.L.C. Superstition Springs Center	33.3 %
Jaren Associates #4	12.5 %
Kierland Tower Lofts, LLC	15.0 %
Macerich Northwestern Associates	50.0 %
MetroRising AMS Holding LLC	15.0 %
New River Associates Arrowhead Towne Center	33.3 %
NorthPark Land Partners, LP	50.0 %
NorthPark Partners, LP	50.0 %
Pacific Premier Retail Trust	51.0 %
PHXAZ/Kierland Commons, L.L.C.	24.5 %
Propcor Associates	25.0 %
Propcor II Associates, LLC Boulevard Shops	50.0 %
SanTan Village Phase 2 LLC	34.9 %
Scottsdale Fashion Square Partnership	50.0 %
SDG Macerich Properties, L.P.	50.0 %
The Market at Estrella Falls LLC	35.1 %
Tysons Corner Holdings LLC	50.0 %
Tysons Corner LLC	50.0 %
Tysons Corner Property Holdings II LLC	50.0 %
Tysons Corner Property Holdings LLC	50.0 %
Tysons Corner Property LLC	50.0 %
W.M. Inland, L.L.C.	50.0 %
West Acres Development, LLP	19.0 %
Westcor/Gilbert, L.L.C.	50.0 %
Westcor/Goodyear, L.L.C.	50.0 %
Westcor/Queen Creek Commercial LLC	37.6 %
Westcor/Queen Creek LLC	37.6 %
Westcor/Queen Creek Medical LLC	37.6 %

THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

4. Investments in Unconsolidated Joint Ventures: (Continued)

Joint Venture	Partnership s Ownership % (1)
Westcor/Queen Creek Residential LLC	37.6 %
Westcor/Surprise Auto Park LLC	33.3 %
Westcor/Surprise LLC	33.3 %
Westpen Associates	50.0 %
WM Ridgmar, L.P.	50.0 %

(1) The Operating Partnership s ownership interest in this table reflects its legal ownership interest but may not reflect its economic interest since each joint venture has various agreements regarding cash flow, profits and losses, allocations, capital requirements and other matters.

The Company generally accounts for its investments in joint ventures using the equity method of accounting unless the Company has a controlling interest in the joint venture or is the primary beneficiary in a variable interest entity. Although the Company has a greater than 50% interest in Pacific Premier Retail Trust, Camelback Colonnade SPE LLC and Corte Madera Village, LLC, the Company shares management control with the partners in these joint ventures and accounts for these joint ventures using the equity method of accounting.

THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

4. Investments in Unconsolidated Joint Ventures: (Continued)

Combined and Condensed Balance Sheets of Unconsolidated Joint Ventures:

	September 30, 2007	December 31, 2006
Assets(1):		
Properties, net	$ 4,249,548	$ 4,251,765
Other assets	440,670	429,028
Total assets	$ 4,690,218	$ 4,680,793
Liabilities and partners capital(1):		
Mortgage notes payable(2)	$ 3,859,229	$ 3,515,154
Other liabilities	175,032	140,889
The Company s capital(3)	379,758	559,172
Outside partners capital	276,199	465,578
Total liabilities and partners capital	$ 4,690,218	$ 4,680,793

(1) These amounts include the assets and liabilities of the following significant joint ventures:

	SDG Macerich Properties, L.P.	Pacific Premier Retail Trust	Tysons Corner LLC
As of September 30, 2007:			
Total Assets	$ 901,080	$ 1,021,317	$ 637,255
Total Liabilities	$ 822,213	$ 850,050	$ 364,316
As of December 31, 2006:			
Total Assets	$ 924,720	$ 1,027,132	$ 644,545
Total Liabilities	$ 823,327	$ 848,070	$ 371,360

(2) Certain joint ventures have debt that could become recourse debt to the Company should the joint venture be unable to discharge the obligations of the related debt. As of September 30, 2007 and December 31, 2006, the total amount of debt that could become recourse to the Company was $8,602 and $8,570, respectively.

(3) The Company s investment in unconsolidated joint ventures was $438,965 and $451,208 more than the underlying equity as reflected in the joint ventures financial statements as of September 30, 2007 and December 31, 2006, respectively. This represents the difference between the cost of the investment and the book value of the underlying equity of the joint venture. The Company is amortizing this difference into income on a straight-line basis, consistent with the depreciable lives on property. The amortization of this difference was $2,407 and $5,024 for the three months ended September 30, 2007 and 2006, and $8,859 and $12,039 for the nine months ended September 30, 2007 and 2006, respectively.

THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

4. Investments in Unconsolidated Joint Ventures: (Continued)

Combined and Condensed Statements of Operations of Unconsolidated Joint Ventures:

	SDG Macerich Properties, L.P.	Pacific Premier Retail Trust	Tysons Corner LLC	Other Joint Ventures	Total
Three Months Ended September 30, 2007					
Revenues:					
Minimum rents	$ 23,189	$ 30,894	$ 17,157	$ 60,695	$ 131,935
Percentage rents	1,166	1,546	560	4,019	7,291
Tenant recoveries	12,591	13,411	7,808	30,069	63,879
Other	1,017	1,033	495	8,804	11,349
Total revenues	37,963	46,884	26,020	103,587	214,454
Expenses:					
Shopping center and operating expenses	14,506	14,019	6,833	37,423	72,781
Interest expense	11,716	12,367	4,129	28,125	56,337
Depreciation and amortization	7,987	8,184	5,036	20,424	41,631
Total operating expenses	34,209	34,570	15,998	85,972	170,749
Loss on sale of assets				(9)	(9)
Net income	$ 3,754	$ 12,314	$ 10,022	$ 17,606	$ 43,696
Company s equity in net income	$ 1,877	$ 6,267	$ 5,011	$ 5,493	$ 18,648
Three Months Ended September 30, 2006					
Revenues:					
Minimum rents	$ 23,063	$ 30,482	$ 14,752	$ 63,275	$ 131,572
Percentage rents	796	1,429	540	4,538	7,303
Tenant recoveries	12,732	12,532	7,228	29,520	62,012
Other	1,218	1,047	487	5,791	8,543
Total revenues	37,809	45,490	23,007	103,124	209,430
Expenses:					
Shopping center and operating expenses	14,149	13,896	6,228	36,879	71,152
Interest expense	11,869	12,742	4,310	24,711	53,632
Depreciation and amortization	7,195	7,385	4,728	22,936	42,244
Total operating expenses	33,213	34,023	15,266	84,526	167,028
Gain (loss) on sale of assets	2			(4)	(2)
Net income	$ 4,598	$ 11,467	$ 7,741	$ 18,594	$ 42,400
Company s equity in net income	$ 2,300	$ 5,838	$ 3,870	$ 6,482	$ 18,490

THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

4. Investments in Unconsolidated Joint Ventures: (Continued)

	SDG Macerich Properties, L.P.	Pacific Premier Retail Trust	Tysons Corner LLC	Other Joint Ventures	Total
Nine Months Ended September 30, 2007					
Revenues:					
Minimum rents	$ 69,116	$ 92,602	$ 47,857	$ 181,731	$ 391,306
Percentage rents	2,892	4,003	646	8,655	16,196
Tenant recoveries	36,308	38,213	23,424	88,257	186,202
Other	2,805	2,981	1,412	17,315	24,513
Total revenues	111,121	137,799	73,339	295,958	618,217
Expenses:					
Shopping center and operating expenses	43,647	39,490	19,435	105,357	207,929
Interest expense	34,775	36,984	12,498	78,334	162,591
Depreciation and amortization	22,707	23,504	15,401	67,691	129,303
Total operating expenses	101,129	99,978	47,334	251,382	499,823
(Loss) gain on sale of assets	(4,751)			763	(3,988)
Net income	$ 5,241	$ 37,821	$ 26,005	$ 45,339	$ 114,406
Company s equity in net income	$ 2,621	$ 19,254	$ 13,002	$ 17,251	$ 52,128
Nine Months Ended September 30, 2006					
Revenues:					
Minimum rents	$ 70,296	$ 92,376	$ 43,252	$ 165,355	$ 371,279
Percentage rents	2,405	4,085	780	9,386	16,656
Tenant recoveries	35,371	36,598	21,742	81,211	174,922
Other	2,830	2,915	1,454	15,552	22,751
Total revenues	110,902	135,974	67,228	271,504	585,608
Expenses:					
Shopping center and operating expenses	43,179	38,146	18,646	97,865	197,836
Interest expense	32,312	38,426	12,816	62,714	146,268
Depreciation and amortization	21,719	21,876	15,016	56,262	114,873
Total operating expenses	97,210	98,448	46,478	216,841	458,977
Gain on sale of assets	2			901	903
Net income	$ 13,694	$ 37,526	$ 20,750	$ 55,564	$ 127,534
Company s equity in net income	$ 6,847	$ 19,030	$ 10,375	$ 21,115	$ 57,367

Significant accounting policies used by the unconsolidated joint ventures are similar to those used by the Company.

Included in mortgage notes payable are amounts due to affiliates of Northwestern Mutual Life (NML) of $127,576 and $132,170 as of September 30, 2007 and December 31, 2006, respectively. NML is considered a related party because it is a joint venture partner with the Company in Macerich Northwestern Associates. Interest expense incurred on these borrowings amounted to $2,164 and $2,285 for the three months ended September 30, 2007 and 2006 and $6,530 and $6,830 for the nine months ended September 30, 2007 and 2006, respectively.

THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

5. Derivative Instruments and Hedging Activities

The Company recognizes and measures all derivatives in the consolidated financial statements at fair value. The Company uses derivative financial instruments in the normal course of business to manage or reduce its exposure to adverse fluctuations in interest rates. The Company designs its hedges to be effective in reducing the risk exposure that they are designated to hedge. Any instrument that meets the cash flow hedging criteria in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, is formally designated as a cash flow hedge at the inception of the derivative contract. On an ongoing quarterly basis, the Company adjusts its balance sheet to reflect the current fair value of its derivatives. To the extent they are effective, changes in fair value of derivatives are recorded in comprehensive income. Ineffective portions, if any, are included in net income. No ineffectiveness was recorded in net income during the three or nine months ended September 30, 2007 or 2006. If any derivative instrument used for risk management does not meet the hedging criteria, it is marked-to-market each period in the consolidated statements of operations. As of September 30, 2007, three of the Company s derivative instruments were not designated as a cash flow hedge. Changes in the market value of these derivative instruments are recorded in the consolidated statements of operations.

As of September 30, 2007 and December 31, 2006, the Company had $529 and $1,252, respectively, reflected in other comprehensive income related to treasury rate locks settled in prior years. The Company reclassified $245 and $339 for the three months ended September 30, 2007 and 2006 and $723 and $1,008 for the nine months ended September 30, 2007 and 2006, respectively, related to treasury rate lock transactions settled in prior years from accumulated other comprehensive (loss) income to earnings. It is anticipated that an additional $243 will be reclassified during the remainder of the current year.

Interest rate swap and cap agreements are purchased by the Company from third parties to manage the risk of interest rate changes on some of the Company s floating rate debt. Payments received as a result of these agreements are recorded as a reduction of interest expense. The fair value of the instrument is included in deferred charges and other assets if the fair value is an asset or in other accrued liabilities if the fair value is a deficit. The Company recorded other comprehensive (loss) income related to the marking-to-market of interest rate swap/cap agreements of ($17,593) and ($11,348) for the three months ended September 30, 2007 and 2006 and ($9,839) and $90 for the nine months ended September 30, 2007 and 2006, respectively. The amount expected to be reclassified to interest expense in the next 12 months is immaterial.

THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

6. Property:

Property consists of the following:

	September 30, 2007	December 31, 2006
Land	$ 1,157,095	$ 1,147,464
Building improvements	4,827,750	4,743,960
Tenant improvements	250,665	231,210
Equipment and furnishings	86,150	82,456
Construction in progress	585,358	294,115
	6,907,018	6,499,205
Less accumulated depreciation	(861,060)	(743,922)
	$ 6,045,958	$ 5,755,283

Depreciation expense was $45,647 and $39,867 for the three months ended September 30, 2007 and 2006 and $132,809 and $118,523 for the nine months ended September 30, 2007 and 2006, respectively.

Gain on sale of assets consists of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Building, improvements and equipment	$	$ 22	$ 35	$ (600)
Land	147	516	4,146	637
	$ 147	$ 538	$ 4,181	$ 37

7. Marketable Securities:

Marketable securities consist of the following:

	September 30, 2007	December 31, 2006
Government debt securities, at par value	$ 30,954	$ 31,866
Less discount	(1,586)	(1,847)
	29,368	30,019
Unrealized gain	1,015	514
Fair value	$ 30,383	$ 30,533

Future contractual maturities of marketable securities at September 30, 2007 are as follows:

1 year or less	$ 1,217
2 to 5 years	4,000
6 to 10 years	25,737
	$ 30,954

THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

7. Marketable Securities: (Continued)

The proceeds from maturities and interest receipts from the marketable securities are restricted to the service of the $27,832 note on which the Company remains obligated following the sale of Greeley Mall on July 27, 2006 (See Note 10 Bank and Other Notes Payable).

8. Deferred Charges And Other Assets:

Deferred charges and other assets are summarized as follows:

	September 30, 2007	December 31, 2006
Leasing	$ 111,579	$ 115,657
Financing	47,033	40,906
Intangible assets resulting from SFAS No. 141 allocations:		
In-place lease values	200,497	207,023
Leasing commissions and legal costs	35,440	36,177
	394,549	399,763
Less accumulated amortization(1)	(158,686)	(171,073)
	235,863	228,690
Other assets	87,370	79,135
	$ 323,233	$ 307,825

(1) Accumulated amortization includes $92,813 and $86,172 relating to intangibles resulting from SFAS No. 141 allocations at September 30, 2007 and December 31, 2006, respectively.

The allocated values of above market leases included in other assets and the below market leases included in other accrued liabilities, related to SFAS No. 141, consist of the following:

	September 30, 2007	December 31, 2006
Above Market Leases		
Original allocated value	$ 65,752	$ 64,718
Less accumulated amortization	(36,856)	(36,058)
	$ 28,896	$ 28,660
Below Market Leases		
Original allocated value	$ 156,667	$ 150,300
Less accumulated amortization	(88,767)	(77,261)
	$ 67,900	$ 73,039

THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)

9. Mortgage Notes Payable:

Mortgage notes payable consist of the following:

	Carrying Amount of Mortgage Notes(a)					Monthly	
	September 30, 2007		December 31, 2006		Interest	Payment	Maturity
Property Pledged as Collateral	Other	Related Party	Other	Related Party	Rate	Term(b)	Date
Borgata(c)	$	$	$ 14,885	$	5.39 %	$	
Capitola Mall		39,746		40,999	7.13 %	380	2011
Carmel Plaza	26,362		26,674		8.18 %	202	2009
Casa Grande(d)	45,544		7,304		6.67 %	253	2009
Chandler Fashion Center	170,584		172,904		5.48 %	1,043	2012
Chesterfield Towne Center(e)	56,077		57,155		9.07 %	548	2024
Danbury Fair Mall	178,095		182,877		4.64 %	1,225	2011
Deptford Mall(f)	172,500		100,000		5.41 %	778	2013
Eastview Commons	8,891		9,117		5.46 %	66	2010
Eastview Mall	101,484		102,873		5.10 %	592	2014
Fiesta Mall	84,000		84,000		4.88 %	341	2015
Flagstaff Mall	37,000		37,000		4.97 %	153	2015
FlatIron Crossing	188,580		191,046		5.23 %	1,102	2013
Freehold Raceway Mall	179,164		183,505		4.68 %	1,184	2011
Fresno Fashion Fair	63,850		64,595		6.52 %	437	2008
Great Northern Mall	40,455		40,947		5.19 %	234	2013
Greece Ridge Center(g)	72,000		72,000		6.40 %	384	2008
Hilton Village(h)	8,600				5.21 %	37	2012
La Cumbre Plaza(i)	30,000		30,000		6.63 %	166	2008
La Encantada(j)							