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.

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.

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	$					