

MACERICH CO
Form 10-Q
May 08, 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 March 31, 2007

Commission File No. 1-12504

THE MACERICH COMPANY

(Exact name of registrant as specified in its charter)

MARYLAND

(State or other jurisdiction of incorporation
or organization)

95-4448705

(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 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.

Large accelerated filer Accelerated filer Non-accelerated filer

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

YES NO

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Number of shares outstanding of the registrant's common stock, as of May 3, 2007 Common Stock, par value \$.01 per share: 71,677,344 shares

THE MACERICH COMPANY

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THE MACERICH COMPANY

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS:		
Property, net	\$ 5,806,357	\$ 5,755,283
Cash and cash equivalents	47,945	269,435
Restricted cash	68,727	66,376
Marketable securities	29,783	30,019
Tenant receivables, net	110,022	117,855
Deferred charges and other assets, net	334,766	307,825
Loans to unconsolidated joint ventures	543	708
Due from affiliates	5,639	4,282
Investments in unconsolidated joint ventures	987,435	1,010,380
Total assets	\$ 7,391,217	\$ 7,562,163
LIABILITIES, PREFERRED STOCK AND COMMON STOCKHOLDERS EQUITY:		
Mortgage notes payable:		
Related parties	\$ 150,432	\$ 151,311
Others	2,977,036	3,179,787
Total	3,127,468	3,331,098
Bank and other notes payable	1,870,711	1,662,781
Accounts payable and accrued expenses	72,995	86,127
Other accrued liabilities	241,183	212,249
Preferred stock dividends payable	6,199	6,199
Total liabilities	5,318,556	5,298,454
Minority interest	352,465	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 March 31, 2007 and December 31, 2006, respectively	98,934	98,934
Common stockholders equity:		
Common stock, \$.01 par value, 145,000,000 shares authorized, 71,449,716 and 71,567,908 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively	715	716
Additional paid-in capital	1,618,303	1,717,498
Accumulated deficit	(226,886)	(178,249)
Accumulated other comprehensive (loss) income	(1,115)	2,340
Total common stockholders equity	1,391,017	1,542,305
Total liabilities, preferred stock and common stockholders equity	\$ 7,391,217	\$ 7,562,163

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

THE MACERICH COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended March 31,	
	2007	2006
Revenues:		
Minimum rents	\$ 123,985	\$ 122,089
Percentage rents	3,767	2,372
Tenant recoveries	67,654	62,341
Management Companies	8,754	7,257
Other	7,511	6,633
Total revenues	211,671	200,692
Expenses:		
Shopping center and operating expenses	68,622	61,845
Management Companies operating expenses	17,755	14,714
REIT general and administrative expenses	5,373	3,698
Depreciation and amortization	57,087	59,409
	148,837	139,666
Interest expense:		
Related parties	2,651	2,698
Other	64,904	66,083
	67,555	68,781
Total expenses	216,392	208,447
Minority interest in consolidated joint ventures	(1,491)	(463)
Equity in income of unconsolidated joint ventures	14,483	21,016
Income tax benefit	120	533
Gain (loss) on sale of assets	1,752	(502)
Loss on early extinguishment of debt	(878)	(1,782)
Income from continuing operations	9,265	11,047
Discontinued operations:		
Loss on sale of assets	(289)	
Income from discontinued operations	179	3,836
Total (loss) income from discontinued operations	(110)	3,836
Income before minority interest and preferred dividends	9,155	14,883
Less: minority interest in Operating Partnership	467	1,460
Net income	8,688	13,423
Less: preferred dividends	6,122	5,970
Net income available to common stockholders	\$ 2,566	\$ 7,453
Earnings per common share - basic:		
Income from continuing operations	\$ 0.04	\$ 0.06
Discontinued operations		0.05
Net income	\$ 0.04	\$ 0.11
Earnings per common share - diluted:		
Income from continuing operations	\$ 0.04	\$ 0.06
Discontinued operations		0.05
Net income	\$ 0.04	\$ 0.11
Weighted average number of common shares outstanding:		
Basic	71,669,000	68,738,000
Diluted	85,034,000	82,518,000

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

THE MACERICH COMPANY

CONSOLIDATED STATEMENT OF COMMON STOCKHOLDERS EQUITY

(Dollars in thousands, except per share data)

(Unaudited)

	Common Stock Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	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				8,688		8,688
Reclassification of deferred losses					238	238
Interest rate swap/cap agreements					(3,693)	(3,693)
Total comprehensive income				8,688	(3,455)	5,233
Amortization of share and unit-based plans	212,085	2	4,824			4,826
Exercise of stock options	9,500		274			274
Employee stock purchases	4,099		259			259
Distributions paid (\$0.71) per share				(51,203)		(51,203)
Preferred dividends				(6,122)		(6,122)
Conversion of Operating Partnership units and Class A non-participating convertible preferred units	463,124	5	16,910			16,915
Repurchase of common shares	(807,000)	(8)	(74,962)			(74,970)
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			14,924			14,924
Balance March 31, 2007	71,449,716	\$ 715	\$ 1,618,303	\$ (226,886)	\$ (1,115)	\$ 1,391,017

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

THE MACERICH COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net income available to common stockholders	\$ 2,566	\$ 7,453
Preferred dividends	6,122	5,970
Net income	8,688	13,423
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on early extinguishment of debt	878	1,782
(Gain) loss on sale of assets	(1,752)	502
Loss on sale of discontinued operations	289	
Depreciation and amortization	57,085	63,537
Amortization of net premium on mortgage and bank and other notes payable	(2,771)	(3,333)
Amortization of share and unit-based plans	3,393	2,479
Minority interest in Operating Partnership	467	1,460
Minority interest in consolidated joint ventures	1,491	463
Equity in income of unconsolidated joint ventures	(14,483)	(21,016)
Distributions of income from unconsolidated joint ventures	285	772
Changes in assets and liabilities, net of acquisitions:		
Tenant receivables, net	7,833	8,337
Other assets	(14,011)	3,639
Accounts payable and accrued expenses	(11,211)	(10,203)
Due from affiliates	(1,357)	(196)
Other accrued liabilities	21,470	(10,055)
Net cash provided by operating activities	56,294	51,591
Cash flows from investing activities:		
Acquisitions of property, development, redevelopment and property improvements	(105,618)	(262,672)
Issuance of note receivable		(10,000)
Maturities of marketable securities	322	
Deferred leasing costs	(8,873)	(6,533)
Distributions from unconsolidated joint ventures	42,789	24,199
Contributions to unconsolidated joint ventures	(9,309)	(2,871)
Repayments of loans to unconsolidated joint ventures	165	228
Proceeds from sale of assets	5,768	155
Restricted cash	(2,351)	(3,856)
Net cash used in investing activities	(77,107)	(261,350)
Cash flows from financing activities:		
Proceeds from mortgages and bank and other notes payable	1,172,263	312,845
Payments on mortgages and bank and other notes payable	(1,174,540)	(871,844)
Deferred financing costs	(504)	(900)
Purchase of Capped Calls	(59,850)	
Repurchase of common stock	(74,970)	
Proceeds from share-based plans	533	26
Net proceeds from stock offering		746,809
Dividends and distributions	(57,487)	(59,512)
Dividends to preferred stockholders / preferred unit holders	(6,122)	(5,970)
Net cash (used in) provided by financing activities	(200,677)	121,454
Net decrease in cash	(221,490)	(88,305)
Cash and cash equivalents, beginning of period	269,435	155,113
Cash and cash equivalents, end of period	\$ 47,945	\$ 66,808
Supplemental cash flow information:		

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Cash payments for interest, net of amounts capitalized	\$ 81,163	\$ 79,215
Non-cash transactions:		
Increase in other accrued liabilities and additional paid-in capital recorded upon adoption of FIN 48	\$ 1,574	\$
Reclassification from other accrued liabilities to additional paid-in capital upon adoption of SFAS No. 123(R)	\$	\$ 6,000
Accrued development costs included in accounts payable and accrued expenses and other accrued liabilities	\$ 23,987	\$ 6,112

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

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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 March 31, 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.

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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 (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 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 results of operations and 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 fiscal 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 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 fiscal year 2008. The Company is currently evaluating the impact of adoption of this statement on its results of operations and 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 and the weighted average number of common shares outstanding for the three months ended March 31, 2007 and 2006. The computation of diluted earnings per share includes the effect of dilutive securities using the if-converted method and the dilutive effect of employee stock options calculated using the treasury stock method. The OP Units and MACWHLP common units not held by the Company have been included in the diluted EPS since they may be redeemable on a one-for-one basis for common stock, 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 March 31, 2007			2006		
	Net Income	Shares	Per Share	Net Income	Shares	Per Share
Net income	\$ 8,688			\$ 13,423		
Less: Preferred dividends (1)	6,122			5,970		
Basic EPS:						
Net income available to common stockholders	2,566	71,669	\$ 0.04	7,453	68,738	\$ 0.11
Diluted EPS:						
Conversion of partnership units	467	13,053		1,460	13,485	
Employee stock options		312			295	
Net income available to common stockholders	\$ 3,033	85,034	\$ 0.04	\$ 8,913	82,518	\$ 0.11

(1) Preferred dividends include convertible preferred unit dividends of \$3,547 and \$3,503 for the three months ended March 31, 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 March 31,	
	2007	2006
Income from continuing operations	\$ 485	\$ 831
Discontinued operations:		
Loss on sale of assets	(44)	
Income from discontinued operations	26	629
Total	\$ 467	\$ 1,460

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 March 31, 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 %
Westcor/Queen Creek Residential LLC	37.6 %
Westcor/ Surprise Auto Park LLC	33.3 %
Westcor/ Surprise LLC	33.3 %
Westlinc Associates Hilton Village	50.0 %
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.

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The Company 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.

Combined and Condensed Balance Sheets of Unconsolidated Joint Ventures:

	March 31, 2007	December 31, 2006
Assets (1):		
Properties, net	\$ 4,228,955	\$ 4,251,765
Other assets	444,893	429,028
Total assets	\$ 4,673,848	\$ 4,680,793
Liabilities and partners' capital (1):		
Mortgage notes payable(2)	\$ 3,543,193	\$ 3,515,154
Other liabilities	156,415	140,889
The Company's capital(3)	538,642	559,172
Outside partners' capital	435,598	465,578
Total liabilities and partners' capital	\$ 4,673,848	\$ 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	Tyson's Corner LLC
<u>As of March 31, 2007:</u>			
Total Assets	\$ 902,312	\$ 1,023,991	\$