MACERICH CO
Form 10-Q
August 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 June 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 August 3, 2007 Common Stock, par value $.01 per share: 71,871,268 shares

THE MACERICH COMPANY

FORM 10-Q

INDEX

THE MACERICH COMPANY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share amounts)

	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS:		
Property, net	$ 5,914,882	$ 5,755,283
Cash and cash equivalents	49,034	269,435
Restricted cash	70,619	66,376
Marketable securities	29,469	30,019
Tenant receivables, net	116,533	117,855
Deferred charges and other assets, net	326,465	307,825
Loans to unconsolidated joint ventures	447	708
Due from affiliates	4,344	4,282
Investments in unconsolidated joint ventures	987,021	1,010,380
Total assets	$ 7,498,814	$ 7,562,163
LIABILITIES, PREFERRED STOCK AND COMMON STOCKHOLDERS EQUITY:		
Mortgage notes payable:		
Related parties	$ 227,596	$ 151,311
Others	3,062,916	3,179,787
Total	3,290,512	3,331,098
Bank and other notes payable	1,833,037	1,662,781
Accounts payable and accrued expenses	85,307	86,127
Other accrued liabilities	240,647	212,249
Preferred stock dividends payable	6,199	6,199
Total liabilities	5,455,702	5,298,454
Minority interest	342,961	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 June 30, 2007 and December 31, 2006, respectively	98,934	98,934
Common stockholders equity:		
Common stock, $.01 par value, 145,000,000 shares authorized, 71,641,889 and 71,567,908 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	716	716
Additional paid-in capital	1,624,044	1,717,498
Accumulated deficit	(264,360)	(178,249)
Accumulated other comprehensive income	10,572	2,340
Total common stockholders equity	1,370,972	1,542,305
Total liabilities, preferred stock and common stockholders equity	$ 7,498,814	$ 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 June 30, 2007	2006	For the Six Months Ended June 30, 2007	2006
Revenues:				
Minimum rents	$ 125,901	$ 116,591	$ 249,883	$ 238,679
Percentage rents	2,862	2,546	6,627	4,916
Tenant recoveries	68,139	60,625	135,793	122,968
Management Companies	9,599	7,369	18,353	14,626
Other	9,287	5,960	16,800	12,592
Total revenues	215,788	193,091	427,456	393,781
Expenses:				
Shopping center and operating expenses	68,774	63,998	137,395	125,842
Management Companies operating expenses	18,519	12,125	36,274	26,839
REIT general and administrative expenses	4,412	3,292	9,785	6,990
Depreciation and amortization	60,404	56,010	117,494	115,421
	152,109	135,425	300,948	275,092
Interest expense:				
Related parties	3,213	2,714	5,862	5,412
Other	59,048	65,434	123,954	131,517
	62,261	68,148	129,816	136,929
Total expenses	214,370	203,573	430,764	412,021
Minority interest in consolidated joint ventures	(27)	(541)	(1,516)	(1,004)
Equity in income of unconsolidated joint ventures	18,997	17,861	33,480	38,877
Income tax benefit (provision)	787	(218)	907	315
Gain (loss) on sale of assets	2,279		4,031	(501)
Loss on early extinguishment of debt			(877)	(1,782)
Income from continuing operations	23,454	6,620	32,717	17,665
Discontinued operations:				
(Loss) gain on sale of assets	(1,124)	25,952	(1,413)	25,952
(Loss) income from discontinued operations	(362)	3,840	(181)	7,677
Total (loss) income from discontinued operations	(1,486)	29,792	(1,594)	33,629
Income before minority interest and preferred dividends	21,968	36,412	31,123	51,294
Less: minority interest in Operating Partnership	2,398	4,770	2,865	6,230
Net income	19,570	31,642	28,258	45,064
Less: preferred dividends	6,122	5,970	12,244	11,939
Net income available to common stockholders	$ 13,448	$ 25,672	$ 16,014	$ 33,125
Earnings per common share basic:				
Income from continuing operations	$ 0.21	$ 0.01	$ 0.24	$ 0.07
Discontinued operations	(0.02)	0.35	(0.02)	0.40
Net income	$ 0.19	$ 0.36	$ 0.22	$ 0.47
Earnings per common share diluted:				
Income from continuing operations	$ 0.21	$ 0.01	$ 0.24	$ 0.07
Discontinued operations	(0.02)	0.35	(0.02)	0.40
Net income	$ 0.19	$ 0.36	$ 0.22	$ 0.47
Weighted average number of common shares outstanding:				
Basic	71,528,000	71,458,000	71,597,000	70,152,000
Diluted	84,552,000	85,023,000	84,792,000	83,807,000

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

4

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	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				28,258		28,258
Reclassification of deferred losses					478	478
Interest rate swap/cap agreements					7,754	7,754
Total comprehensive income				28,258	8,232	36,490
Amortization of share and unit-based plans	212,994	2	10,262			10,264
Exercise of stock options	9,500		274			274
Employee stock purchases	4,099		259			259
Distributions paid ($1.42) per share				(102,125)		(102,125)
Preferred dividends				(12,244)		(12,244)
Conversion of Operating Partnership units and Class A non-participating convertible preferred units	654,388	6	20,542			20,548
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			11,595			11,595
Balance June 30, 2007	71,641,889	$ 716	$ 1,624,044	$ (264,360)	$ 10,572	$ 1,370,972

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 Six Months Ended June 30, 2007	2006
Cash flows from operating activities:		
Net income available to common stockholders	$ 16,014	$ 33,125
Preferred dividends	12,244	11,939
Net income	28,258	45,064
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on early extinguishment of debt	877	1,782
(Gain) loss on sale of assets	(4,031)	501
Loss (gain) on sale of assets of discontinued operations	1,413	(25,952)
Depreciation and amortization	117,491	122,951
Amortization of net premium on mortgage and bank and other notes payable	(5,171)	(5,949)
Amortization of share and unit-based plans	7,194	4,345
Minority interest in Operating Partnership	2,865	6,230
Minority interest in consolidated joint ventures	1,516	1,397
Equity in income of unconsolidated joint ventures	(33,480)	(38,877)
Distributions of income from unconsolidated joint ventures	2,658	1,189
Changes in assets and liabilities, net of acquisitions:		
Tenant receivables, net	1,322	(8,401)
Other assets	534	14,943
Accounts payable and accrued expenses	(15,795)	(17,453)
Due from affiliates	(62)	(3,109)
Other accrued liabilities	(3,617)	(14,410)
Net cash provided by operating activities	101,972	84,251
Cash flows from investing activities:		
Acquisitions of property, development, redevelopment and property improvements	(223,477)	(341,146)
Issuance of note receivable		(10,000)
Maturities of marketable securities	724	
Deferred leasing costs	(18,870)	(10,346)
Distributions from unconsolidated joint ventures	65,426	127,016
Contributions to unconsolidated joint ventures	(16,131)	(8,800)
Repayments of loans to unconsolidated joint ventures	261	531
Proceeds from sale of assets	14,550	116,800
Restricted cash	(4,243)	(1,149)
Net cash used in investing activities	(181,760)	(127,094)
Cash flows from financing activities:		
Proceeds from mortgages and bank and other notes payable	1,460,124	521,270
Payments on mortgages and bank and other notes payable	(1,334,479)	(1,175,205)
Deferred financing costs	(873)	(1,148)
Purchase of Capped Calls	(59,850)	
Repurchase of common stock	(74,970)	
Proceeds from share and unit-based plans	533	366
Net proceeds from stock offering		746,819
Dividends and distributions	(118,854)	(146,944)
Dividends to preferred stockholders / preferred unit holders	(12,244)	(11,939)
Net cash used in financing activities	(140,613)	(66,781)
Net decrease in cash	(220,401)	(109,624)
Cash and cash equivalents, beginning of period	269,435	155,113
Cash and cash equivalents, end of period	$ 49,034	$ 45,489
Supplemental cash flow information:		
Cash payments for interest, net of amounts capitalized	$ 137,960	$ 155,536
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 recorded upon adoption of SFAS No. 123(R)	$	$ 6,000
Accrued development costs included in accounts payable and accrued expenses and other accrued liabilities	$ 38,486	$ 5,796

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 June 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 (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 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 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 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 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 available to common stockholders and the weighted average number of common shares outstanding for the three and six months ended June 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 redeemable 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 June 30,					
	2007			**2006**		
	Net Income	**Shares**	**Per Share**	**Net Income**	**Shares**	**Per Share**
Net income	$ 19,570			$ 31,642		
Less: preferred dividends(1)	6,122			5,970		
Basic EPS:						
Net income available to common stockholders	13,448	71,528	$ 0.19	25,672	71,458	$ 0.36
Diluted EPS:						
Conversion of partnership units	2,398	12,726		4,770	13,280	
Employee stock options		298			285	
Net income available to common stockholders	$ 15,846	84,552	$ 0.19	$ 30,442	85,023	$ 0.36

	For the Six Months Ended June 30, 2007			2006		
	Net Income	Shares	Per Share	Net Income	Shares	Per Share
Net income	$ 28,258			$ 45,064		
Less: preferred dividends(1)	12,244			11,939		
Basic EPS:						
Net income available to common stockholders	16,014	71,597	$ 0.22	33,125	70,152	$ 0.47
Diluted EPS:						
Conversion of partnership units	2,865	12,890		6,230	13,365	
Employee stock options		305			290	
Net income available to common stockholders	$ 18,879	84,792	$ 0.22	$ 39,355	83,807	$ 0.47

(1) Preferred dividends include convertible preferred unit dividends of $3,547 and $3,503 for the three months ended June 30, 2007 and 2006, and $7,094 and $7,006 for the six months ended June 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 June 30, 2007	2006	For the Six Months Ended June 30, 2007	2006
Income from continuing operations	$ 2,623	$ 101	$ 3,108	$ 850
Discontinued operations:				
(Loss) gain on sale of assets	(170)	4,067	(215)	4,152
(Loss) income from discontinued operations	(55)	602	(28)	1,228
Total	$ 2,398	$ 4,770	$ 2,865	$ 6,230

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 June 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 %
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.

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:

	June 30, 2007	**December 31, 2006**
Assets(1):		
Properties, net	$ 4,222,099	$ 4,251,765
Other assets	442,844	429,028
Total assets	$ 4,664,943	$ 4,680,793
Liabilities and partners capital(1):		
Mortgage notes payable(2)	$ 3,541,566	$ 3,515,154
Other liabilities	153,034	140,889
The Company s capital(3)	538,123	559,172
Outside partners capital	432,220	465,578
Total liabilities and partners capital	$ 4,664,943	$ 4,680,793

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(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 June 30, 2007:			
Total Assets	*$ 899,509*	*$ 1,019,865*	*$ 641,167*
Total Liabilities	*$ 822,096*	*$ 845,216*	*$ 368,751*
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 June 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 $448,898 and $451,208 more than the underlying equity as reflected in the joint ventures financial statements as of June 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 $3,045 and $3,432 for the three months ended June 30, 2007 and 2006, and $6,452 and $7,015 for the six months ended June 30, 2007 and 2006, respectively.*

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 June 30, 2007					
Revenues:					
Minimum rents	$ 22,778	$ 30,823	$ 14,754	$ 61,211	$ 129,566
Percentage rents	513	872	129	2,669	4,183
Tenant recoveries	11,756	12,782	7,364	28,674	60,576
Other	847	991	487	4,927	7,252
Total revenues	35,894	45,468	22,734	97,481	201,577
Expenses:					
Shopping center and operating expenses	14,342	13,039	6,352	35,080	68,813
Interest expense	11,589	12,329	4,172	24,569	52,659
Depreciation and amortization	7,457	7,737	5,101	21,199	41,494
Total operating expenses	33,388	33,105	15,625	80,848	162,966
Gain on sale of assets	13			772	785
Net income	$ 2,519	$ 12,363	$ 7,109	$ 17,405	$ 39,396
Company s equity in net income	$ 1,260	$ 6,294	$ 3,169	$ 8,274	$ 18,997
Three Months Ended June 30, 2006					
Revenues:					
Minimum rents	$ 23,209	$ 30,517	$ 12,554	$ 53,641	$ 119,921
Percentage rents	500	1,019	283	2,155	3,957
Tenant recoveries	11,019	12,557	6,262	25,525	55,363
Other	815	1,006	537	4,402	6,760
Total revenues	35,543	45,099	19,636	85,723	186,001
Expenses:					
Shopping center and operating expenses	14,414	12,179	6,168	31,767	64,528
Interest expense	11,273	12,860	4,309	21,367	49,809
Depreciation and amortization	7,157	7,334	5,024	16,792	36,307
Total operating expenses	32,844	32,373	15,501	69,926	150,644
Gain on sale of assets				905	905
Net income	$ 2,699	$ 12,726	$ 4,135	$ 16,702	$ 36,262
Company s equity in net income	$ 1,349	$ 6,479	$ 1,695	$ 8,338	$ 17,861

	SDG Macerich Properties, L.P.	Pacific Premier Retail Trust	Tysons Corner LLC	Other Joint Ventures	Total
Six Months Ended June 30, 2007					
Revenues:					
Minimum rents	$ 45,927	$ 61,708	$ 30,700	$ 121,036	$ 259,371
Percentage rents	1,726	2,457	86	4,636	8,905
Tenant recoveries	23,717	24,802	15,616	58,188	122,323
Other	1,788	1,948	917	8,511	13,164
Total revenues	73,158	90,915	47,319	192,371	403,763
Expenses:					
Shopping center and operating expenses	29,141	25,471	12,602	67,934	135,148
Interest expense	23,059	24,617	8,369	50,209	106,254
Depreciation and amortization	14,720	15,320	10,365	47,267	87,672
Total operating expenses	66,920	65,408	31,336	165,410	329,074
(Loss) gain on sale of assets	(4,751)			772	(3,979)
Net income	$ 1,487	$ 25,507	$ 15,983	$ 27,733	$ 70,710
Company s equity in net income	$ 744	$ 12,987	$ 6,522	$ 13,227	$ 33,480
Six Months Ended June 30, 2006					
Revenues:					
Minimum rents	$ 47,233	$ 61,894	$ 28,500	$ 102,080	$ 239,707
Percentage rents	1,609	2,656	240	4,848	9,353
Tenant recoveries	22,639	24,066	14,514	51,691	112,910
Other	1,612	1,868	967	9,761	14,208
Total revenues	73,093	90,484	44,221	168,380	376,178
Expenses:					
Shopping center and operating expenses	29,030	24,250	12,418	60,986	126,684
Interest expense	20,443	25,684	8,506	38,003	92,636
Depreciation and amortization	14,524	14,491	10,288	33,326	72,629
Total operating expenses	63,997	64,425	31,212	132,315	291,949
Gain on sale of assets				905	905
Net income	$ 9,096	$ 26,059	$ 13,009	$ 36,970	$ 85,134
Company s equity in net income	$ 4,547	$ 13,192	$ 5,048	$ 16,090	$ 38,877

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 $129,117 and $132,170 as of June 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 $2,188 and $2,269 for the three months ended June 30, 2007 and 2006 and $4,367 and $4,545 for the six months ended June 30, 2007 and 2006, respectively.

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 six months ended June 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 June 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 will be recorded in the consolidated statements of operations.

As of June 30, 2007 and December 31, 2006, the Company had $773 and $1,252, respectively, reflected in other comprehensive income related to treasury rate locks settled in prior years. The Company reclassified $241 and $336 for the three months ended June 30, 2007 and 2006 and $478 and $668 for the six months ended June 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 $488 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 income related to the marking-to-market of interest rate swap/cap agreements of $11,447 and $4,854 for the three months ended June 30, 2007 and 2006 and $7,754 and $11,438 for the six months ended June 30, 2007 and 2006, respectively. The amount expected to be reclassified to interest expense in the next 12 months will be immaterial.

6. Property:

Property consists of the following:

	June 30, 2007	December 31, 2006
Land	$ 1,178,137	$ 1,147,464
Building improvements	4,776,347	4,743,960
Tenant improvements	244,870	231,210
Equipment and furnishings	83,943	82,456
Construction in progress	455,552	294,115
	6,738,849	6,499,205
Less accumulated depreciation	(823,967)	(743,922)
	$ 5,914,882	$ 5,755,283

Depreciation expense was $44,586 and $39,182 for the three months ended June 30, 2007 and 2006 and $87,162 and $78,655 for the six months ended June 30, 2007 and 2006, respectively.

Gain (loss) on sale of assets consists of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Building improvements and equipment	$	$	$ 35	$ (622)
Land and Building	2,279		3,996	121
	$ 2,279	$	$ 4,031	$ (501)

7. Marketable Securities:

Marketable securities consist of the following:

	June 30, 2007	December 31, 2006
Government debt securities, at par value	$ 31,142	31,866
Less discount	(1,673)	(1,847)
	29,469	30,019
Unrealized gain	310	514
Fair value	$ 29,779	30,533

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

1 year or less	$ 1,405
1 to 5 years	3,900
5 to 10 year	25,837
	$ 31,142

The proceeds from maturities and interest receipts from the marketable securities are restricted to the service of the $27,981 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:

	June 30, 2007	December 31, 2006
Leasing	$ 102,039	$ 115,657
Financing	45,410	40,906
Intangible assets resulting from SFAS No. 141 allocations:		
In-place lease values	200,095	207,023
Leasing commissions and legal costs	35,455	36,177
	382,999	399,763
Less accumulated amortization(1)	(144,150)	(171,073)
	238,849	228,690
Other assets	87,616	79,135
	$ 326,465	$ 307,825

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(1) Accumulated amortization includes $84,971 and $86,172 relating to intangibles resulting from SFAS No. 141 allocations at June 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:

	June 30, 2007	**December 31, 2006**
Above Market Leases		
Original allocated value	$ 65,752	$ 64,718
Less accumulated amortization	(34,951)	(36,058)
	$ 30,801	$ 28,660
Below Market Leases		
Original allocated value	$ 156,667	$ 150,300
Less accumulated amortization	(83,768)	(77,261)
	$ 72,899	$ 73,039

9. Mortgage Notes Payable:

Mortgage notes payable consist of the following:

	Carrying Amount of Mortgage Notes(a)					Monthly	
	June 30, 2007		December 31, 2006		Interest	Payment	Maturity
Property Pledged as Collateral	**Other**	**Related Party**	**Other**	**Related Party**	**Rate**	**Term(b)**	**Date**
Borgata(c)	$ 14,609	$	$ 14,885	$	5.39 %	$ 115	2007
Capitola Mall		40,166		40,999	7.13 %	380	2011
Carmel Plaza	26,465		26,674		8.18 %	202	2009
Casa Grande(d)	26,833		7,304		6.75 %	151	2009
Chandler Fashion Center	171,367		172,904		5.48 %	1,043	2012
Chesterfield Towne Center(e)	56,445		57,155		9.07 %	548	2024
Danbury Fair Mall	179,688		182,877		4.64 %	1,225	2011
Deptford Mall(f)	172,500		100,000		5.41 %	453	2013
Eastview Commons	8,966		9,117		5.46 %	66	