

MACERICH CO  
Form 10-Q  
August 04, 2015

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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, 2015

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

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding twelve (12) months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  (Do  
not check if a smaller reporting company)

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

YES  NO

Number of shares outstanding as of August 3, 2015 of the registrant's common stock, par value \$0.01 per share:

158,321,195 shares

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

	June 30, 2015	December 31, 2014
<b>ASSETS:</b>		
Property, net	\$11,046,427	\$11,067,890
Cash and cash equivalents	110,326	84,907
Restricted cash	12,005	13,530
Tenant and other receivables, net	118,398	132,026
Deferred charges and other assets, net	731,857	759,061
Due from affiliates	78,007	80,232
Investments in unconsolidated joint ventures	1,263,356	984,132
Total assets	\$13,360,376	\$13,121,778
<b>LIABILITIES AND EQUITY:</b>		
Mortgage notes payable:		
Related parties	\$284,641	\$289,039
Others	5,552,551	5,115,482
Total	5,837,192	5,404,521
Bank and other notes payable	902,016	887,879
Accounts payable and accrued expenses	109,396	115,406
Other accrued liabilities	528,407	568,716
Distributions in excess of investments in unconsolidated joint ventures	26,857	29,957
Co-venture obligation	71,861	75,450
Total liabilities	7,475,729	7,081,929
Commitments and contingencies		
Equity:		
Stockholders' equity:		
Common stock, \$0.01 par value, 250,000,000 shares authorized, 158,512,821 and 158,201,996 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	1,585	1,582
Additional paid-in capital	5,076,726	5,041,797
Retained earnings	415,017	596,741
Total stockholders' equity	5,493,328	5,640,120
Noncontrolling interests	391,319	399,729
Total equity	5,884,647	6,039,849
Total liabilities and equity	\$13,360,376	\$13,121,778

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Minimum rents	\$ 193,131	\$ 149,220	\$ 383,892	\$ 300,852
Percentage rents	2,576	2,372	5,824	5,222
Tenant recoveries	105,592	83,375	211,290	174,850
Other	15,321	10,594	28,324	21,024
Management Companies	6,174	8,776	11,799	16,897
Total revenues	322,794	254,337	641,129	518,845
Expenses:				
Shopping center and operating expenses	93,877	81,865	195,541	172,225
Management Companies' operating expenses	20,239	20,896	46,707	43,677
REIT general and administrative expenses	7,550	5,123	15,972	12,006
Costs related to unsolicited takeover offer	11,423	—	24,995	—
Depreciation and amortization	119,333	87,801	239,951	176,457
	252,422	195,685	523,166	404,365
Interest expense:				
Related parties	2,709	3,690	5,438	7,398
Other	52,187	42,110	102,744	84,740
	54,896	45,800	108,182	92,138
Loss (gain) on extinguishment of debt, net	1,609	—	(636)	) 358
Total expenses	308,927	241,485	630,712	496,861
Equity in income of unconsolidated joint ventures	9,094	13,903	17,368	27,672
Co-venture expense	(2,813)	) (2,212)	) (4,943)	) (4,032)
Income tax benefit	283	2,898	1,218	3,070
Loss on sale or write down of assets, net	(4,671)	) (9,455)	) (3,736)	) (11,065)
(Loss) gain on remeasurement of assets	(14)	) —	22,089	—
Net income	15,746	17,986	42,413	37,629
Less net income attributable to noncontrolling interests	1,351	1,898	3,407	3,722
Net income attributable to the Company	\$ 14,395	\$ 16,088	\$ 39,006	\$ 33,907
Earnings per common share—net income attributable to common stockholders:				
Basic	\$ 0.09	\$ 0.11	\$ 0.24	\$ 0.24
Diluted	\$ 0.09	\$ 0.11	\$ 0.24	\$ 0.24
Weighted average number of common shares outstanding:				
Basic	158,501,000	140,894,000	158,419,000	140,831,000
Diluted	158,633,000	141,036,000	158,587,000	140,929,000

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

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

	Stockholders' Equity Common Stock			Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Par Value	Additional Paid-in Capital				
Balance at January 1, 2015	158,201,996	\$1,582	\$5,041,797	\$596,741	\$5,640,120	\$399,729	\$6,039,849
Net income	—	—	—	39,006	39,006	3,407	42,413
Amortization of share and unit-based plans	219,920	2	24,113	—	24,115	—	24,115
Employee stock purchases	11,349	—	745	—	745	—	745
Distributions paid (\$1.30) per share	—	—	—	(220,730 )	(220,730 )	—	(220,730 )
Distributions to noncontrolling interests	—	—	—	—	—	(1,181 )	(1,181 )
Contributions from noncontrolling interests	—	—	—	—	—	23	23
Other	—	—	(398 )	—	(398 )	—	(398 )
Conversion of noncontrolling interests to common shares	79,556	1	1,558	—	1,559	(1,559 )	—
Redemption of noncontrolling interests	—	—	(145 )	—	(145 )	(44 )	(189 )
Adjustment of noncontrolling interests in Operating Partnership	—	—	9,056	—	9,056	(9,056 )	—
Balance at June 30, 2015	158,512,821	\$1,585	\$5,076,726	\$415,017	\$5,493,328	\$391,319	\$5,884,647

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

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

	For the Six Months Ended	
	June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$42,413	\$37,629
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gain) loss on extinguishment of debt, net	(636)	) 358
Loss on sale or write down of assets, net	3,736	11,065
Gain on remeasurement of assets	(22,089)	) —
Depreciation and amortization	243,526	180,374
Amortization of net premium on mortgage notes payable	(12,382)	) (2,704)
Amortization of share and unit-based plans	19,207	20,839
Straight-line rent adjustment	(1,663)	) (3,098)
Amortization of above and below-market leases	(9,784)	) (2,719)
Provision for doubtful accounts	3,156	3,430
Income tax benefit	(1,218)	) (3,070)
Equity in income of unconsolidated joint ventures	(17,368)	) (27,672)
Distributions of income from unconsolidated joint ventures	—	177
Co-venture expense	4,943	4,032
Changes in assets and liabilities, net of acquisitions and dispositions:		
Tenant and other receivables	10,991	10,966
Other assets	(4,334)	) 487
Due from affiliates	2,225	940
Accounts payable and accrued expenses	7,756	(15,085)
Other accrued liabilities	4,400	(25,377)
Net cash provided by operating activities	272,879	190,572
Cash flows from investing activities:		
Acquisitions of property	(26,250)	) (15,233)
Development, redevelopment, expansion and renovation of properties	(132,212)	) (82,457)
Property improvements	(16,851)	) (14,597)
Proceeds from notes receivable	909	—
Deferred leasing costs	(18,128)	) (13,772)
Distributions from unconsolidated joint ventures	46,326	33,382
Contributions to unconsolidated joint ventures	(312,367)	) (108,316)
Loans to unconsolidated joint ventures, net	—	(640)
Proceeds from sale of assets	1,440	25,414
Restricted cash	(987)	) 1,420
Net cash used in investing activities	(458,120)	) (174,799)

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

	For the Six Months Ended June 30,	
	2015	2014
Cash flows from financing activities:		
Proceeds from mortgages, bank and other notes payable	1,565,674	301,655
Payments on mortgages, bank and other notes payable	(1,120,090 )	(121,571 )
Deferred financing costs	(5,060 )	(603 )
Proceeds from share and unit-based plans	745	645
Redemption of noncontrolling interests	(189 )	(221 )
Contribution from noncontrolling interests	23	—
Payment of contingent consideration	—	(9,000 )
Dividends and distributions	(221,911 )	(191,200 )
Distributions to co-venture partner	(8,532 )	(8,693 )
Net cash provided by (used in) financing activities	210,660	(28,988 )
Net increase (decrease) in cash and cash equivalents	25,419	(13,215 )
Cash and cash equivalents, beginning of period	84,907	69,715
Cash and cash equivalents, end of period	\$ 110,326	\$ 56,500
Supplemental cash flow information:		
Cash payments for interest, net of amounts capitalized	\$ 119,291	\$ 97,083
Non-cash investing and financing transactions:		
Accrued development costs included in accounts payable and accrued expenses and other accrued liabilities	\$ 43,085	\$ 24,933
Assumption of mortgage note payable from unconsolidated joint venture	\$ 50,000	\$ —
Mortgage note payable settled by deed-in-lieu of foreclosure	\$ 34,149	\$ —
Acquisition of property in exchange for investment in unconsolidated joint venture	\$ 76,250	\$ 15,767
Notes receivable issued in connection with sale of property	\$ —	\$ 9,603
Conversion of Operating Partnership Units to common stock	\$ 1,559	\$ 984

The accompanying notes are an integral part of these consolidated 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/power 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, 2015, the Company was the sole general partner of and held a 94% ownership interest in The Macerich Partnership, L.P. (the "Operating Partnership"). The Company was organized to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code").

The property management, leasing and redevelopment of the Company's portfolio is provided by the Company's management companies, Macerich Property Management Company, LLC, a single member Delaware limited liability company, Macerich Management Company, a California corporation, Macerich Arizona Partners LLC, a single member Arizona limited liability company, Macerich Arizona Management LLC, a single member Delaware limited liability company, Macerich Partners of Colorado, LLC, a single member 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. All seven of the management companies are collectively referred to herein as the "Management Companies."

All references to the Company in this Quarterly Report on Form 10-Q include the Company, those entities owned or controlled by the Company and predecessors of the Company, unless the context indicates otherwise.

2. Summary of Significant Accounting Policies:

Basis of Presentation:

The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States ("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 an independent registered public accounting firm.

The accompanying consolidated financial statements include the accounts of the Company and the Operating Partnership. Investments in entities in which the Company has a controlling financial interest or entities that meet the definition of a variable interest entity in which the Company has, as a result of ownership, contractual or other financial interests, both the power to direct activities that most significantly impact the economic performance of the variable interest entity and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the variable interest entity are consolidated; otherwise they are accounted for under the equity method of accounting and are reflected as investments in unconsolidated joint ventures.

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

The unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial statements for the interim periods have been made. The preparation of consolidated 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 consolidated 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, 2014 has been derived from the audited financial statements but does not include all disclosures required by GAAP.





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THE MACERICH COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

2. Summary of Significant Accounting Policies: (Continued)

Recent Accounting Pronouncements:

In February 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis,” which makes certain changes to both the variable interest model and the voting model, including changes to (1) the identification of variable interests (fees paid to a decision maker or service provider), (2) the variable interest entity characteristics for a limited partnership or similar entity and (3) the primary beneficiary determination. ASU 2015-02 is effective for the Company beginning January 1, 2016. Early adoption is permitted. The Company does not expect the adoption of this standard to have a significant impact on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected. ASU 2015-03 is effective for the Company beginning January 1, 2016. Early adoption is permitted. Upon adoption, the Company will apply the new standard on a retrospective basis and adjust the balance sheet of each individual period to reflect the period-specific effects of applying the new standard. The Company does not expect the adoption of this standard to have a significant impact on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, “Revenue From Contracts With Customers,” which outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 states that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” While ASU 2014-09 specifically references contracts with customers, it may apply to certain other transactions such as the sale of real estate or equipment. In July 2015, the FASB voted to defer the effective date of ASU 2014-09 by one year. Accordingly, ASU 2014-09 is effective for the Company beginning January 1, 2018, with early adoption permitted beginning January 1, 2017. The Company does not expect the adoption of this standard to have a significant impact on the consolidated financial statements.

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THE MACERICH COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

3. Earnings per Share ("EPS"):

The following table reconciles the numerator and denominator used in the computation of earnings per share for the three and six months ended June 30, 2015 and 2014 (shares in thousands):

	For the Three Months		For the Six Months	
	Ended June 30, 2015	2014	Ended June 30, 2015	2014
Numerator				
Net income	\$ 15,746	\$ 17,986	\$ 42,413	\$ 37,629
Net income attributable to noncontrolling interests	(1,351 )	(1,898 )	(3,407 )	