

MACERICH CO  
Form 10-Q  
November 04, 2011

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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 September 30, 2011**

**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 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

Smaller reporting company

(Do not check if a smaller

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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 November 3, 2011 of the registrant's common stock, par value \$0.01 per share: 131,941,163 shares

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**THE MACERICH COMPANY**

**FORM 10-Q**

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

(Unaudited)

	September 30, 2011	December 31, 2010
<b>ASSETS:</b>		
Property, net	\$ 5,827,308	\$ 5,674,127
Cash and cash equivalents	139,420	445,645
Restricted cash	77,680	71,434
Marketable securities	25,360	25,935
Tenant and other receivables, net	94,884	95,083
Deferred charges and other assets, net	355,012	316,969
Loans to unconsolidated joint ventures	3,961	3,095
Due from affiliates	4,360	6,599
Investments in unconsolidated joint ventures	1,101,119	1,006,123
<b>Total assets</b>	<b>\$ 7,629,104</b>	<b>\$ 7,645,010</b>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY:</b>		
<b>Mortgage notes payable:</b>		
Related parties	\$ 275,583	\$ 302,344
Others	2,896,534	2,957,131
<b>Total</b>	<b>3,172,117</b>	<b>3,259,475</b>
Bank and other notes payable	889,874	632,595
Accounts payable and accrued expenses	87,243	70,585
Other accrued liabilities	287,770	257,678
Distributions in excess of investments in unconsolidated joint ventures	78,698	65,045
Co-venture obligation	126,862	160,270
<b>Total liabilities</b>	<b>4,642,564</b>	<b>4,445,648</b>
<b>Redeemable noncontrolling interests</b>		<b>11,366</b>
<b>Commitments and contingencies</b>		
<b>Equity:</b>		
<b>Stockholders' equity:</b>		
Common stock, \$0.01 par value, 250,000,000 shares authorized, 132,111,519 and 130,452,032 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	1,321	1,304
Additional paid-in capital	3,484,207	3,456,569
Accumulated deficit	(768,816)	(564,357)
Accumulated other comprehensive income (loss)	3,019	(3,237)
<b>Total stockholders' equity</b>	<b>2,719,731</b>	<b>2,890,279</b>
<b>Noncontrolling interests</b>	<b>266,809</b>	<b>297,717</b>
<b>Total equity</b>	<b>2,986,540</b>	<b>3,187,996</b>

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Total liabilities, redeemable noncontrolling interests and equity      \$    7,629,104    \$    7,645,010

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

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**THE MACERICH COMPANY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Dollars in thousands, except per share amounts)

(Unaudited)

	For the Three Months September 30,		For the Nine Months September 30,	
	2011	2010	2011	2010
<b>Revenues:</b>				
Minimum rents	\$ 113,889	\$ 105,550	\$ 333,168	\$ 309,022
Percentage rents	4,137	3,862	10,235	9,957
Tenant recoveries	66,784	61,808	189,197	179,791
Management Companies	9,759	10,529	28,460	32,867
Other	8,114	7,722	22,614	20,515
<b>Total revenues</b>	<b>202,683</b>	<b>189,471</b>	<b>583,674</b>	<b>552,152</b>
<b>Expenses:</b>				
Shopping center and operating expenses	68,255	63,959	194,666	180,734
Management Companies' operating expenses	20,251	22,042	67,030	68,696
REIT general and administrative expenses	4,490	4,546	15,876	15,704
Depreciation and amortization	67,996	62,185	197,531	180,234
	160,992	152,732	475,103	445,368
<b>Interest expense:</b>				
Related parties	4,081	3,451	12,656	9,656
Other	45,072	48,211	137,526	149,655
	49,153	51,662	150,182	159,311
Loss (gain) on early extinguishment of debt	6	(2,096)	9,139	(1,608)
<b>Total expenses</b>	<b>210,151</b>	<b>202,298</b>	<b>634,424</b>	<b>603,071</b>
Equity in income of unconsolidated joint ventures	20,039	19,687	75,521	51,908
Co-venture expense	(1,281)	(269)	(3,779)	(3,646)
Income tax benefit	1,566	2,662	5,811	5,252
Gain (loss) on remeasurement, sale or write down of assets, net	1,041	(8)	(31,601)	574

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Income (loss) from continuing operations	13,897	9,245	(4,798)	3,169
Discontinued operations:				
Gain (loss) on sale or write down of assets, net	348	48	(1,913)	(23)
Income (loss) from discontinued operations	11	175	146	(484)
Income (loss) from discontinued operations	359	223	(1,767)	(507)
Net income (loss)	14,256	9,468	(6,565)	2,662
Less net income (loss) attributable to noncontrolling interests	1,315	1,039	(324)	1,030
Net income (loss) attributable to the Company	\$ 12,941	\$ 8,429	\$ (6,241)	\$ 1,632
Earnings per common share attributable to Company basic:				
Income (loss) from continuing operations	\$ 0.10	\$ 0.06	\$ (0.05)	\$
Discontinued operations			(0.01)	
Net income (loss) available to common stockholders	\$ 0.10	\$ 0.06	\$ (0.06)	\$
Earnings per common share attributable to Company diluted:				
Income (loss) from continuing operations	\$ 0.10	\$ 0.06	\$ (0.05)	\$
Discontinued operations			(0.01)	
Net income (loss) available to common stockholders	\$ 0.10	\$ 0.06	\$ (0.06)	\$
Weighted average number of common shares outstanding:				
Basic	132,096,000	130,213,000	131,459,000	116,992,000
Diluted	132,096,000	130,213,000	131,459,000	116,992,000

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





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## THE MACERICH COMPANY

CONSOLIDATED STATEMENT OF EQUITY AND  
REDEEMABLE NONCONTROLLING INTERESTS

(Dollars in thousands, except per share data)

(Unaudited)

	Common Stock			Accumulated Other Comprehensive Income		Total Stockholders' Equity	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
	Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	(Loss)				
Balance January 1, 2011	130,452,032	\$ 1,304	\$ 3,456,569	\$ (564,357)	\$ (3,237)	\$ 2,890,279	\$ 297,717	\$ 3,187,996	\$ 11,366
Comprehensive income:									
Net loss				(6,241)		(6,241)	(489)	(6,730)	165
Interest rate swap/cap agreements					6,256	6,256		6,256	
Total comprehensive income				(6,241)	6,256	15	(489)	(474)	165
Amortization of share and unit-based plans	591,066	6	15,043			15,049		15,049	
Exercise of stock options	2,000		49			49		49	
Employee stock purchases	7,405		320			320		320	
Distributions paid (\$1.50) per share				(198,218)		(198,218)		(198,218)	
Distributions to noncontrolling interests							(19,216)	(19,216)	(165)
Contributions from noncontrolling interests							81	81	
Other			985			985		985	
Conversion of noncontrolling interests to common shares	1,059,016	11	20,981			20,992	(20,992)		
Redemption of noncontrolling interests			(20)			(20)	(12)	(32)	(11,366)
Adjustment of noncontrolling interest in Operating Partnership			(9,720)			(9,720)	9,720		
Balance September 30, 2011	132,111,519	\$ 1,321	\$ 3,484,207	\$ (768,816)	\$ 3,019	\$ 2,719,731	\$ 266,809	\$ 2,986,540	\$

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 Nine Months  
 Ended September 30,

2011      2010

Cash flows from operating activities:		
Net (loss) income	\$ (6,565)	\$ 2,662
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Loss (gain) on early extinguishment of debt	139	(1,608)
Loss (gain) on remeasurement, sale or write down of assets, net	31,601	(574)
Loss on sale or write down of assets, net from discontinued operations	1,913	23
Depreciation and amortization	208,832	191,718
Amortization of net discount on mortgages, bank and other notes payable	6,993	1,503
Amortization of share and unit-based plans	9,428	11,204
Provision for doubtful accounts	2,375	3,427
Income tax benefit	(5,811)	(5,252)
Equity in income of unconsolidated joint ventures	(75,521)	(51,908)
Co-venture expense	3,779	3,646
Distributions of income from unconsolidated joint ventures	10,973	11,068
Changes in assets and liabilities, net of acquisitions and dispositions:		
Tenant and other receivables	(1,360)	19,461
Other assets	(2,658)	(37,289)
Due from affiliates	2,239	1,360
Accounts payable and accrued expenses	13,307	(6,794)
Other accrued liabilities	(19,179)	(15,822)
Net cash provided by operating activities	180,485	126,825
Cash flows from investing activities:		
Acquisitions of property, development, redevelopment and property improvements	(207,171)	(129,643)
Proceeds from note receivable		11,763
Maturities of marketable securities	772	654
Deferred leasing costs	(26,635)	(22,876)
Distributions from unconsolidated joint ventures	193,849	84,796
Contributions to unconsolidated joint ventures	(149,841)	(14,008)
Loans to unconsolidated joint ventures, net	(866)	(4,656)
Proceeds from sale of assets	6,255	
Restricted cash	(879)	(38,483)
Net cash used in investing activities	(184,516)	(112,453)
Cash flows from financing activities:		
Proceeds from mortgages, bank and other notes payable	432,000	612,227
Payments on mortgages, bank and other notes payable	(450,775)	(1,237,260)
Repurchase of convertible senior notes		(18,191)
Deferred financing costs	(17,604)	(7,596)

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Proceeds from share and unit-based plans	369	376
Net proceeds from stock offering		1,220,880
Redemption of stock warrants		(17,639)
Redemption of noncontrolling interests	(11,398)	(9,592)
Dividends and distributions	(217,599)	(153,927)
Distributions to co-venture partner	(37,187)	(10,479)
Net cash (used in) provided by financing activities	(302,194)	378,799
Net (decrease) increase in cash and cash equivalents	(306,225)	393,171
Cash and cash equivalents, beginning of period	445,645	93,255
Cash and cash equivalents, end of period	\$ 139,420	\$ 486,426
Supplemental cash flow information:		
Cash payments for interest, net of amounts capitalized	\$ 128,105	\$ 153,739
Non-cash transactions:		
Accrued development costs included in accounts payable and accrued expenses and other accrued liabilities	\$ 14,828	\$ 42,651
Acquisition of properties by assumption of mortgage note payable and other accrued liabilities	\$ 192,566	\$
Disposition of property in exchange for investments in unconsolidated joint ventures	\$ 56,952	\$
Stock dividend	\$	\$ 43,086
Conversion of Operating Partnership units to common stock	\$ 20,992	\$ 4,331

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 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, 2011, the Company was the sole general partner of and held a 92% 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 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 ("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 in which the Company retains 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."

The Company had identified Shoppingtown Mall, L.P. ("Shoppingtown Mall") and Camelback Shopping Center Limited Partnership as variable interest entities that met the criteria for consolidation. On September 14, 2011, the Company redeemed the outside ownership interests in Shoppingtown Mall

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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)**

for a cash payment of \$11,366 (See Note 13 Noncontrolling Interests). As a result of the redemption, the property is wholly-owned by the Company. The net assets and results of operations of Camelback Shopping Center Limited Partnership included in the accompanying consolidated financial statements are insignificant to the net assets and results of operations of the Company.

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 Current Report on Form 8-K filed on September 9, 2011. 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, 2010 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)

**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 nine months ended September 30, 2011, and 2010 (shares in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Numerator</b>				
Income (loss) from continuing operations	\$ 13,897	\$ 9,245	\$ (4,798)	\$ 3,169
Income (loss) from discontinued operations	359	223	(1,767)	(507)
(Income) loss attributable to noncontrolling interests	(1,315)	(1,039)	324	(1,030)
Net income (loss) attributable to the Company	12,941	8,429	(6,241)	1,632
Allocation of earnings to participating securities	(288)	(551)	(1,119)	(2,073)
Numerator for basic and diluted earnings per share net income (loss) available to common stockholders	\$ 12,653	\$ 7,878	\$ (7,360)	\$ (441)
<b>Denominator</b>				
Denominator for basic and diluted earnings per share weighted average number of common shares outstanding(1)	132,096	130,213	131,459	116,992
<b>Earnings per common share basic:</b>				
Income (loss) from continuing operations	\$ 0.10	\$ 0.06	\$ (0.05)	\$
Discontinued operations			(0.01)	
Net income (loss) available to common stockholders	\$ 0.10	\$ 0.06	\$ (0.06)	\$
<b>Earnings per common share diluted:</b>				
Income (loss) from continuing operations	\$ 0.10	\$ 0.06	\$ (0.05)	\$
Discontinued operations			(0.01)	
Net income (loss) available to common stockholders	\$ 0.10	\$ 0.06	\$ (0.06)	\$

(1)

The Senior Notes (See Note 11 Bank and Other Notes Payable) are excluded from diluted EPS for the three and nine months ended September 30, 2011 and 2010, as their effect was antidilutive.

Diluted EPS excludes 208,640 convertible non-participating preferred units for the three and nine months ended September 30, 2011 and 2010, as their impact was antidilutive.

Diluted EPS excludes 1,191,854 and 1,218,880 of unexercised stock appreciation rights ("SARs") for the three and nine months ended September 30, 2011, and 1,150,172 of unexercised SARs for the three and nine months ended September 30, 2010, as their effect was

antidilutive.

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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"): (Continued)**

Diluted EPS excludes 94,897 and 119,705 of unexercised stock options for the three and nine months ended September 30, 2011, respectively, and 127,500 of unexercised stock options for the three and nine months ended September 30, 2010, as their effect was antidilutive.

Diluted EPS excludes 935,358 of unexercised stock warrants for the three and nine months ended September 30, 2011 and 2010, as their effect was antidilutive.

Diluted EPS excludes 11,055,013 and 11,807,680 of Operating Partnership units ("OP Units") for the three months ended September 30, 2011 and 2010, respectively, and 11,465,479 and 12,006,574 of OP Units for the nine months ended September 30, 2011 and 2010, respectively, as their effect was antidilutive.

**4. Investments in Unconsolidated Joint Ventures:**

The Company has recently made the following investments in unconsolidated joint ventures:

On February 24, 2011, the Company's joint venture in Kierland Commons, a 434,690 square foot community center in Scottsdale, Arizona, acquired the ownership interest of another partner in the joint venture for \$105,550. The Company's share of the purchase price consisted of a cash payment of \$34,161 and the assumption of a pro rata share of debt of \$18,613. As a result of the acquisition, the Company's ownership interest in Kierland Commons increased from 24.5% to 50.0%. The joint venture recognized a remeasurement gain of \$25,019 on the acquisition based on the difference of the fair value received and its previously held investment in Kierland Commons. The Company's pro rata share of the gain recognized was \$12,510.

On February 28, 2011, the Company in a 50/50 joint venture acquired The Shops at Atlas Park, a 400,000 square foot community center in Queens, New York for a total purchase price of \$53,750. The Company's share of the purchase price was \$26,875. The results of The Shops at Atlas Park are included below for the period subsequent to the acquisition.

On February 28, 2011, the Company acquired the additional 50% ownership interest in Desert Sky Mall, an 893,561 square foot regional shopping center in Phoenix, Arizona, that it did not own for \$27,625. The purchase price was funded by a cash payment of \$1,875 and the assumption of the third party's pro rata share of the mortgage note payable on the property of \$25,750. Concurrent with the purchase of the partnership interest, the Company paid off the \$51,500 loan on the property. Prior to the acquisition, the Company had accounted for its investment in Desert Sky Mall under the equity method. Since the date of acquisition, the Company has included Desert Sky Mall in its consolidated financial statements (See Note 15 Acquisitions).

On April 1, 2011, the Company's joint venture in SDG Macerich Properties, L.P. conveyed Granite Run Mall to the mortgage note lender with a deed-in-lieu of foreclosure. The mortgage note was non-recourse. The Company's pro rata share of gain on the early extinguishment of debt was \$7,792.

On June 3, 2011, the Company entered into a transaction with General Growth Properties, Inc., whereby the Company acquired an additional 33.3% ownership interest in Arrowhead Towne Center, a 1,196,941 square foot regional shopping center in Glendale, Arizona; an additional 33.3% ownership interest in Superstition Springs Center, a 1,204,803 square foot regional shopping center in Mesa,



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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**4. Investments in Unconsolidated Joint Ventures: (Continued)**

Arizona; and an additional 50% ownership interest in the land under Superstition Springs Center ("Superstition Springs Land") in exchange for six anchor locations, including five former Mervyn's stores (See Note 16 Discontinued Operations), and a cash payment of \$75,000. As a result of this transaction, the Company now owns a 66.7% ownership interest in Arrowhead Towne Center, a 66.7% ownership interest in Superstition Springs Center and a 100% ownership interest in Superstition Springs Land. Although the Company had a 66.7% ownership interest in Arrowhead Towne Center and Superstition Springs Center upon completion of the transaction, the Company does not have a controlling financial interest in these joint ventures due to the substantive participation rights of the outside partner and, therefore, continues to account for its investments in these joint ventures under the equity method of accounting. Accordingly, no remeasurement gain was recorded on the increase in ownership. The Company has consolidated its investment in Superstition Springs Land since the date of acquisition (See Note 15 Acquisitions) and has recorded a remeasurement gain of \$1,734 (See Note 6 Property) as a result of the increase in ownership. This transaction is referred to herein as the "GGP Exchange".

Combined and condensed balance sheets and statements of operations are presented below for all unconsolidated joint ventures.

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## THE MACERICH COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

## 4. Investments in Unconsolidated Joint Ventures: (Continued)

## Combined and Condensed Balance Sheets of Unconsolidated Joint Ventures and Other Related Information:

	September 30, 2011	December 31, 2010
Assets(1):		
Properties, net	\$ 5,022,600	\$ 5,047,022
Other assets	479,572	470,922
 Total assets	 \$ 5,502,172	 \$ 5,517,944
Liabilities and partners' capital(1):		
Mortgage notes payable(2)	\$ 4,579,337	\$ 4,617,127
Other liabilities	203,656	211,942
Company's capital	323,130	349,175
Outside partners' capital	396,049	339,700
 Total liabilities and partners' capital	 \$ 5,502,172	 \$ 5,517,944
Investments in unconsolidated joint ventures:		
Company's capital	\$ 323,130	\$ 349,175
Basis adjustment(3)	699,291	591,903
 Investments in unconsolidated joint ventures	 \$ 1,022,421	 \$ 941,078
Assets Investments in unconsolidated joint ventures	\$ 1,101,119	\$ 1,006,123
Liabilities Distributions in excess of investments in unconsolidated joint ventures	(78,698)	(65,045)
	\$ 1,022,421	\$ 941,078

(1)

These amounts include the assets and liabilities of the following significant subsidiaries as of September 30, 2011 and December 31, 2010:

	SDG Macerich Properties, L.P.	Pacific Premier Retail Trust	Tysons Corner LLC
<i>As of September 30, 2011:</i>			
Total Assets	\$ 710,962	\$ 1,075,118	\$ 337,361
Total Liabilities	\$ 695,902	\$ 1,017,205	\$ 326,559
<i>As of December 31, 2010:</i>			
Total Assets	\$ 817,995	\$ 1,101,186	\$ 330,117
Total Liabilities	\$ 815,884	\$ 1,019,513	\$ 324,527

- (2) Certain mortgage notes payable could become recourse debt to the Company should the joint venture be unable to discharge the obligations of the related debt. As of September 30, 2011 and

**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**4. Investments in Unconsolidated Joint Ventures: (Continued)**

December 31, 2010, a total of \$368,629 and \$348,658, respectively, could become recourse debt to the Company. As of September 30, 2011 and December 31, 2010, the Company has indemnity agreements from joint venture partners for \$176,749 and \$162,451, respectively, of the guaranteed amount.

Included in mortgage notes payable are amounts due to affiliates of Northwestern Mutual Life ("NML") of \$666,299 and \$573,239 as of September 30, 2011 and December 31, 2010, respectively. NML is considered a related party because it is a joint venture partner with the Company in Macerich Northwestern Associates Broadway Plaza. Interest expense incurred on these borrowings amounted to \$11,166 and \$10,208 for the three months ended September 30, 2011 and 2010, respectively, and \$31,263 and \$30,637 for the nine months ended September 30, 2011 and 2010, respectively.

- (3) The Company amortizes the difference between the cost of its investments in unconsolidated joint ventures and the book value of the underlying equity into income on a straight-line basis consistent with the lives of the underlying assets. The amortization of this difference was \$2,923 and \$1,662 for the three months ended September 30, 2011 and 2010, respectively, and \$7,042 and \$4,942 for the nine months ended September 30, 2011 and 2010, respectively.

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## THE MACERICH COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

## 4. Investments in Unconsolidated Joint Ventures: (Continued)

## Combined and Condensed Statements of Operations of Unconsolidated Joint Ventures:

	SDG Macerich Properties, L.P.	Pacific Premier Retail Trust	Tysons Corner LLC	Other Joint Ventures	Total
<i>Three Months Ended</i>					
<i>September 30, 2011</i>					
Revenues:					
Minimum rents	\$ 20,807	\$ 31,841	\$ 15,618	\$ 90,284	\$ 158,550
Percentage rents	969	1,190	318	4,992	7,469
Tenant recoveries	10,370	13,867	10,270	41,967	76,474
Other	748	1,267	595	10,183	12,793
Total revenues	32,894	48,165	26,801	147,426	255,286
Expenses:					
Shopping center and operating expenses	11,959	14,477	8,290	55,968	90,694
Interest expense	9,974	13,402	3,073	38,378	64,827
Depreciation and amortization	6,770	10,403	5,068	34,070	56,311
Total operating expenses	28,703	38,282	16,431	128,416	211,832
Gain (loss) on sale/remeasurement of assets	40			(134)	(94)
Gain on early extinguishment of debt	77				77
Net income	\$ 4,308	\$ 9,883	\$ 10,370	\$ 18,876	\$ 43,437
Company's equity in net income	\$ 2,155	\$ 5,025	\$ 4,011	\$ 8,848	\$ 20,039
<i>Three Months Ended</i>					
<i>September 30, 2010</i>					
Revenues:					
Minimum rents	\$ 22,128	\$ 32,245	\$ 15,936	\$ 87,865	\$ 158,174
Percentage rents	888	987	375	4,444	6,694
Tenant recoveries	12,025	13,008	9,791	47,274	82,098
Other	759	2,436	742	8,301	12,238

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Total revenues		35,800	48,676	26,844	147,884	259,204
Expenses:						
Shopping center and operating expenses		12,784	14,494	7,999	58,511	93,788
Interest expense		11,722	13,148	4,055	38,878	67,803
Depreciation and amortization		7,705	10,012	4,671	30,103	52,491
Total operating expenses		32,211	37,654	16,725	127,492	214,082
Gain on sale of assets		3	468		985	1,456
Net income	\$	3,592	\$ 11,490	\$ 10,119	\$ 21,377	\$ 46,578
Company's equity in net income	\$	1,796	\$ 5,954	\$ 2,405	\$ 9,532	\$ 19,687

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## THE MACERICH COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

## 4. Investments in Unconsolidated Joint Ventures: (Continued)

	SDG Macerich Properties, L.P.	Pacific Premier Retail Trust	Tysons Corner LLC	Other Joint Ventures	Total
<i>Nine Months Ended September 30, 2011</i>					
Revenues:					
Minimum rents	\$ 62,982	\$ 97,185	\$ 45,947	\$ 263,174	\$ 469,288
Percentage rents	2,470	3,292	1,186	9,470	16,418
Tenant recoveries	33,054	41,134	30,748	124,255	229,191
Other	2,213	3,323	2,025	27,574	35,135
<b>Total revenues</b>	<b>100,719</b>	<b>144,934</b>	<b>79,906</b>	<b>424,473</b>	<b>750,032</b>
Expenses:					
Shopping center and operating expenses	38,182	43,683	24,972	161,716	268,553
Interest expense	31,317	36,826	10,891	114,813	193,847
Depreciation and amortization	20,969	30,884	14,974	95,564	162,391
<b>Total operating expenses</b>	<b>90,468</b>	<b>111,393</b>	<b>50,837</b>	<b>372,093</b>	<b>624,791</b>
Gain on sale/remeasurement of assets	40			24,411	24,451
Gain on early extinguishment of debt	15,583				15,583
<b>Net income</b>	<b>\$ 25,874</b>	<b>\$ 33,541</b>	<b>\$ 29,069</b>	<b>\$ 76,791</b>	<b>\$ 165,275</b>
Company's equity in net income	\$ 12,937	\$ 17,058	\$ 11,209	\$ 34,317	\$ 75,521
<i>Nine Months Ended September 30, 2010</i>					
Revenues:					
Minimum rents	\$ 66,283	\$ 95,841	\$ 45,010	\$ 263,491	\$ 470,625
Percentage rents	2,084	2,950	759	8,837	14,630
Tenant recoveries	33,647	37,420	28,765	135,761	235,593
Other	2,409	4,967	2,007	21,478	30,861

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Total revenues	104,423	141,178	76,541	429,567	751,709
Expenses:					
Shopping center and operating expenses	37,817	41,571	23,890	167,318	270,596
Interest expense	34,807	39,222	12,204	116,391	202,624
Depreciation and amortization	23,107	28,947	13,922	92,119	158,095
Total operating expenses	95,731	109,740	50,016	375,828	631,315
Gain on sale of assets	6	468		357	831
Loss on early extinguishment of debt		(1,352)			(1,352)
Net income	\$ 8,698	\$ 30,554	\$ 26,525	\$ 54,096	\$ 119,873
Company's equity in net income	\$ 4,349	\$ 15,691	\$ 10,225	\$ 21,643	\$ 51,908

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



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## THE MACERICH COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

**5. Derivative Instruments and Hedging Activities:**

The Company recorded other comprehensive income related to the marking-to-market of interest rate agreements of \$68 and \$4,056 for the three months ended September 30, 2011 and 2010, respectively, and \$6,256 and \$17,244 for the nine months ended September 30, 2011 and 2010, respectively.

The following derivatives were outstanding at September 30, 2011:

Property/Entity(1)	Notional Amount	Product	Rate	Maturity	Fair Value
La Cumbre Plaza	\$ 30,000	Cap	3.00%	12/9/2011	\$
Westside Pavilion	175,000	Cap	5.50%	6/5/2012	

(1)

See additional disclosure in Note 10 Mortgage Notes Payable.

	Balance Sheet Location	Asset Derivatives		Liability Derivatives		
		September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	Fair Value
<b>Derivatives designated as hedging instruments</b>						
Interest rate cap agreements	Other assets	\$	\$	Other liabilities	\$	\$
Interest rate swap agreements	Other assets			Other liabilities		6,061
Total derivatives designated as hedging instruments						6,061
<b>Derivatives not designated as hedging instruments</b>						
Interest rate cap agreements	Other assets			Other liabilities		
Interest rate swap agreements	Other assets			Other liabilities		
Total derivatives not designated as hedging instruments						
Total derivatives		\$	\$	\$	\$	6,061

Table of Contents**THE MACERICH COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except per share amounts)****(Unaudited)****6. Property:**

Property consists of the following:

	September 30, 2011	December 31, 2010
Land	\$ 1,189,371	\$ 1,158,139
Building improvements	5,181,458	4,934,391
Tenant improvements	438,593	398,556
Equipment and furnishings	121,337	124,530
Construction in progress	273,000	292,891
	7,203,759	6,908,507
Less accumulated depreciation	(1,376,451)	(1,234,380)
	\$ 5,827,308	\$ 5,674,127

Depreciation expense was \$56,283 and \$52,073 for the three months ended September 30, 2011 and 2010, respectively, and \$165,193 and \$151,102 for the nine months ended September 30, 2011 and 2010, respectively.

The Company recognized a gain (loss) on the sale or write-down of assets of \$1,011 and \$(8) for the three months ended September 30, 2011 and 2010, respectively, and \$526 and \$574 for the nine months ended September 30, 2011 and 2010, respectively.

During the nine months ended September 30, 2011, the Company recorded an impairment charge of \$35,729 related to Shoppingtown Mall. As a result of the maturity default on the mortgage note payable (See Note 10 Mortgage Notes Payable), the Company reduced the holding period of the underlying property and wrote down the long-lived assets to its estimated fair value of \$38,968. The Company has classified the estimated fair value as a Level 3 measurement due to the highly subjective nature of computation, which involve estimates of holding period, market conditions, future occupancy levels, rental rates, capitalization rates, lease-up periods and capital improvements.

In addition, during the nine months ended September 30, 2011, the Company recognized a gain of \$1,734 on the purchase of Superstition Springs Land (See Note 15 Acquisitions) in connection with the GGP Exchange (See Note 4 Investments in Unconsolidated Joint Ventures) and a gain of \$1,868 on the purchase of a 50% interest in Desert Sky Mall (See Note 15 Acquisitions).

Table of Contents**THE MACERICH COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except per share amounts)****(Unaudited)****7. Marketable Securities:**

Marketable securities consist of the following:

	September 30, 2011	December 31, 2010
Government debt securities, at par value	\$ 25,737	\$ 26,509
Less discount	(377)	(574)
	25,360	25,935
Unrealized gain	2,076	2,612
Fair value	\$ 27,436	\$ 28,547

Future contractual maturities of marketable securities are as follows:

1 year or less	\$ 1,378
2 to 5 years	24,359
	\$ 25,737

The proceeds from maturities and interest receipts from the marketable securities are restricted to the service of the Greeley Note (See Note 11 Bank and Other Notes Payable).

**8. Tenant and Other Receivables, net:**

Included in tenant and other receivables, net, is an allowance for doubtful accounts of \$3,980 and \$5,411 at September 30, 2011 and December 31, 2010, respectively. Also included in tenant and other receivables, net, are accrued percentage rents of \$1,707 and \$5,827 at September 30, 2011 and December 31, 2010, respectively.

Included in tenant and other receivables, net, are the following notes receivable:

On March 31, 2006, the Company received a note receivable that is secured by a deed of trust, bears interest at 5.5% and matures on March 31, 2031. At September 30, 2011 and December 31, 2010, the note had a balance of \$8,806 and \$8,992, respectively.

On August 18, 2009, the Company received a note receivable from J&R Holdings XV, LLC ("Pederson") that bears interest at 11.55% and matures on December 31, 2013. Pederson is considered a related party because it has an ownership interest in Promenade at Casa Grande. The note is secured by Pederson's interest in Promenade at Casa Grande. The balance on the note at September 30, 2011 and December 31, 2010 was \$3,445. Interest income on the note was \$104 and \$28 for the three months ended September 30, 2011 and 2010, respectively, and \$310 and \$111 for the nine months ended September 30, 2011 and 2010, respectively.

Table of Contents**THE MACERICH COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except per share amounts)****(Unaudited)****9. Deferred Charges and Other Assets, net:**

Deferred charges and other assets, net, consist of the following:

	September 30, 2011	December 31, 2010
Leasing	\$ 217,807	\$ 189,853
Financing	41,807	57,564
Intangible assets:		
In-place lease values	100,032	99,328
Leasing commissions and legal costs	30,833	29,088
Other assets	158,393	152,167
	548,872	528,000
Less accumulated amortization(1)	(193,860)	(211,031)
	\$ 355,012	\$ 316,969

(1)

Accumulated amortization includes \$97,711 and \$60,859 relating to intangible assets at September 30, 2011 and December 31, 2010, respectively. Amortization expense for intangible assets was \$4,171 and \$3,778 for the three months ended September 30, 2011 and 2010, respectively, and \$11,154 and \$11,557 for the nine months ended September 30, 2011 and 2010, respectively.

The allocated values of above-market leases included in deferred charges and other assets, net, and below-market leases included in other accrued liabilities, consist of the following:

	September 30, 2011	December 31, 2010
<i>Above-Market Leases</i>		
Original allocated value	\$ 64,894	\$ 50,615
Less accumulated amortization	(38,419)	(36,935)
	\$ 26,475	\$ 13,680
<i>Below-Market Leases</i>		
Original allocated value	\$ 140,872	\$ 121,813
Less accumulated amortization	(89,430)	(83,780)
	\$ 51,442	\$ 38,033

The allocated values of above and below-market leases are amortized into minimum rents on a straight-line basis over the individual remaining lease terms. The remaining lease terms of below-market leases may include certain below-market fixed-rate renewal periods. In considering whether or not a lessee will execute a below-market fixed-rate lease renewal option, the Company evaluates economic factors and certain qualitative factors at the time of acquisition such as tenant mix in the center, the Company's relationship with the tenant and the availability of competing tenant space.



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## THE MACERICH COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

**10. Mortgage Notes Payable:**

Mortgage notes payable at September 30, 2011 and December 31, 2010 consist of the following:

Property Pledged as Collateral	Carrying Amount of Mortgage Notes(1)				Interest Rate(2)	Monthly Payment Term(3)	Maturity Date
	September 30, 2011		December 31, 2010				
	Related Party	Other	Related Party	Other			
Capitola Mall(4)	\$	\$	\$ 33,459	\$			
Chandler Fashion Center(5)		156,476		159,360	5.50%	1,043	2012
Chesterfield Towne Center(6)				50,462			
Danbury Fair Mall	117,974	117,974	109,657	109,657	5.53%	1,351	2020
Deptford Mall		172,500		172,500	5.41%	778	2013
Deptford Mall		15,087		15,248	6.46%	101	2016
Fashion Outlets of Niagara Falls(7)		129,631			4.89%	596	2020
Fiesta Mall		84,000		84,000	4.98%	348	2015
Flagstaff Mall		37,000		37,000	5.03%	155	2015
Freehold Raceway Mall(5)		232,900		232,900	4.20%	805	2018
Fresno Fashion Fair	82,005	82,004	82,791	82,792	6.76%	1,104	2015
Great Northern Mall		37,466		38,077	5.19%	234	2013
Hilton Village(8)				8,581			
La Cumbre Plaza(9)		19,765		23,113	2.41%	18	2011
Northgate, The Mall at(10)		38,115		38,115	7.00%	191	2013
Oaks, The(11)		257,264		257,264	2.25%	482	2012
Pacific View(12)				84,096			
Paradise Valley Mall(13)		84,750		85,000	6.30%	445	2012
Prescott Gateway		60,000		60,000	5.86%	293	2011
Promenade at Casa Grande(14)		77,660		79,104	5.21%	291	2013
Rimrock Mall(15)				40,650			
Salisbury, Center at		115,000		115,000	5.83%	559	2016
SanTan Village Regional Center(16)		138,087		138,087	2.75%	316	2012
Shoppingtown Mall(17)		38,968		39,675	8.00%	319	2011
South Plains Mall		103,113		104,132	6.54%	648	2015
South Towne Center		86,833		87,726	6.39%	554	2015
Towne Mall		12,941		13,348	4.99%	100	2012
Tucson La Encantada	75,604		76,437		5.84%	448	2012
Twenty Ninth Street(18)		107,000		106,244	3.07%	274	2016
Valley River Center		120,000		120,000	5.59%	559	2016
Valley View Center(19)		125,000		125,000	5.72%	596	2011
Victor Valley, Mall of(20)		97,000		100,000	2.19%	177	2012
Vintage Faire Mall(21)		135,000		135,000	3.54%	398	2015
Westside Pavilion(22)		175,000		175,000	2.48%	362	2012
Wilton Mall(23)		40,000		40,000	1.23%	41	2013
	\$ 275,583	\$ 2,896,534	\$ 302,344	\$ 2,957,131			

(1)

The mortgage notes payable balances include the unamortized debt premiums (discounts). Debt premiums (discounts) represent the excess (deficiency) of the fair value of debt over (under) the principal value of debt assumed in various acquisitions and are amortized into interest expense over the remaining term of the related debt in a manner that approximates the effective interest method.



Table of Contents**THE MACERICH COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except per share amounts)****(Unaudited)****10. Mortgage Notes Payable: (Continued)**

Debt premiums (discounts) consist of the following:

<b>Property Pledged as Collateral</b>	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Deptford Mall	\$ (26)	\$ (30)
Fashion Outlets of Niagara Falls	8,430	
Great Northern Mall	(62)	(82)
Hilton Village		(19)
Shoppingtown Mall		482
Towne Mall	112	183
	<b>\$ 8,454</b>	<b>\$ 534</b>

- (2) The interest rate disclosed represents the effective interest rate, including the debt premiums (discounts) and deferred finance costs.
- (3) The payment term represents the monthly payment of principal and interest.
- (4) On March 15, 2011, the loan was paid off in full.
- (5) On September 30, 2009, 49.9% of the loan was assumed by a third party in connection with entering into a co-venture arrangement with that unrelated party. See Note 12 Co-Venture Arrangement.
- (6) On February 1, 2011, the loan was paid off in full. As a result of the pay off of the debt, the Company recognized a loss on early extinguishment of debt of \$9,133, which included a \$9,000 prepayment penalty and \$133 of unamortized financing costs then outstanding.
- (7) On July 22, 2011, the Company purchased the Fashion Outlets of Niagara (See Note 15 Acquisitions). In connection with the acquisition, the Company assumed a mortgage note payable with a fair value of \$130,005 that bears interest at an effective rate of 4.89% and matures on October 6, 2020.
- (8) On September 30, 2011, the loan was paid off in full.
- (9) The loan bears interest at LIBOR plus 0.88% and matures on December 9, 2011 with an extension option, subject to certain conditions, to extend to June 9, 2012. The loan is covered by an interest rate cap agreement that effectively prevents LIBOR from exceeding 3.0% over the loan term. See Note 5 Derivative Instruments and Hedging Activities. The total interest rate was 2.41% and 2.44% at September 30, 2011 and December 31, 2010, respectively.
- (10) The loan bears interest at LIBOR plus 4.50% with a total interest rate floor of 6.0% and matures on January 1, 2013, with two one-year extension options. The loan also includes options for additional borrowings of up to \$20,000 depending on certain conditions. The total interest rate was 7.00% at September 30, 2011 and December 31, 2010.
- (11) The loan bears interest at LIBOR plus 1.75% and matures on July 10, 2012 with an additional one-year extension option. At September 30, 2011 and December 31, 2010, the total interest rate was 2.25% and 2.50%, respectively.



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- (12) On June 1, 2011, the loan was paid off in full.
- (13) The loan bears interest at LIBOR plus 4.0% with a total interest rate floor of 5.50% and matures on August 31, 2012 with two one-year extension options. At September 30, 2011 and December 31, 2010, the total interest rate was 6.30%.
- (14) The loan bears interest at LIBOR plus 4.0% with a LIBOR rate floor of 0.50% and matures on December 30, 2013. At September 30, 2011 and December 31, 2010, the total interest rate was 5.21%.
- (15) On July 1, 2011, the loan was paid off in full.
- (16) The loan bears interest at LIBOR plus 2.10% and matures on June 13, 2012, with a one-year extension option. At September 30, 2011 and December 31, 2010, the total interest rate was 2.75% and 2.94%, respectively.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**10. Mortgage Notes Payable: (Continued)**

- (17) As of May 11, 2011, the note was in maturity default. The property is under the control of the loan servicer and likely will be transferred to a receiver in the near future. The loan is non-recourse to the Company. The Company recognized an impairment charge of \$35,729 during the nine months ended September 30, 2011 to write down the carrying value of the underlying asset to its estimated fair value. See Note 6 Property.
- (18) On January 18, 2011, the Company replaced the existing loan on the property with a new \$107,000 loan that bears interest at LIBOR plus 2.63% and matures on January 18, 2016. At September 30, 2011, the total interest rate was 3.07%.
- (19) On July 15, 2010, a court appointed receiver ("Receiver") assumed operational control of Valley View Center and responsibility for managing all aspects of the property. The Company anticipates the disposition of the asset, which is under the control of the Receiver, will be executed through foreclosure, deed-in-lieu of foreclosure, or by some other means, and is expected to be completed within the next twelve months. Although the Company is no longer funding any cash shortfall, it will continue to record the operations of Valley View Center until the title for the Center is transferred and its obligation for the loan is discharged. Once title to the Center is transferred, the Company will remove the net assets and liabilities from the Company's consolidated balance sheets. The mortgage note payable on Valley View Center is non-recourse to the Company.
- (20) The loan bears interest at LIBOR plus 1.60% and was due to mature on May 6, 2011, with two one-year extension options. On May 6, 2011, the Company exercised an option to extend the maturity to May 6, 2012. At September 30, 2011 and December 31, 2010, the total interest rate on the loan was 2.19% and 6.94%, respectively.
- (21) The loan bears interest at LIBOR plus 3.0% and matures on April 27, 2015. At September 30, 2011 and December 31, 2010, the total interest rate was 3.54% and 8.37%, respectively.
- (22) The loan bears interest at LIBOR plus 2.00% and was set to mature on June 5, 2011. The Company has exercised an option to extend the loan to June 5, 2012 and has an additional one-year extension option. The loan is covered by an interest rate cap agreement that effectively prevents LIBOR from exceeding 5.50% over the loan term. See Note 5 Derivative Instruments and Hedging Activities. At September 30, 2011 and December 31, 2010, the total interest rate on the loan was 2.48% and 7.81%, respectively.
- (23) The loan bears interest at LIBOR plus 0.675% and matures on August 1, 2013. As additional collateral for the loan, the Company is required to maintain a deposit of \$40,000 with the lender. The interest on the deposit is not restricted. At September 30, 2011 and December 31, 2010, the total interest rate on the loan was 1.23% and 1.26%, respectively.

Most of the mortgage loan agreements contain a prepayment penalty provision for the early extinguishment of the debt.

The Company expects all loan maturities during the next twelve months, except Valley View Center and Shoppingtown Mall, will be refinanced, restructured, extended and/or paid-off from the Company's line of credit or with cash on hand.

Total interest expense capitalized was \$2,979 and \$6,618 during the three months ended September 30, 2011 and 2010, respectively, and \$9,598 and \$23,127 for the nine months ended September 30, 2011 and 2010, respectively.

Related party mortgage notes payable are amounts due to affiliates of NML. See Note 18 Related-Party Transactions for interest expense associated with loans from NML.

The fair value of mortgage notes payable at September 30, 2011 and December 31, 2010 was \$3,353,874 and \$3,438,674, respectively, based on current interest rates for comparable loans. The method for computing fair value was determined using a present value model and an interest rate that included a credit value adjustment based on the estimated value of the property that serves as collateral for the underlying debt.



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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**11. Bank and Other Notes Payable:**

Bank and other notes payable consist of the following:

*Convertible Senior Notes ("Senior Notes"):*

On March 16, 2007, the Company issued \$950,000 in Senior Notes that are to mature on March 15, 2012. The Senior Notes bear interest at 3.25%, payable semiannually, are senior to the unsecured debt of the Company and are guaranteed by the Operating Partnership. Prior to December 14, 2011, upon the occurrence of certain specified events, the Senior Notes will be convertible at the option of the holder into cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the election of the Company, at an initial conversion rate of 8.9702 shares per \$1 principal amount. On and after December 15, 2011, the Senior Notes will be convertible at any time prior to the second business day preceding the maturity date at the option of the holder at the initial conversion rate. The initial conversion price of approximately \$111.48 per share represented a 20% premium over the closing price of the Company's common stock on March 12, 2007. In addition, the Senior Notes are covered by two capped calls that effectively increased the conversion price of the Senior Notes to approximately \$130.06, which represents a 40% premium to the March 12, 2007 closing price of \$92.90 per common share of the Company. The initial conversion rate is subject to adjustment under certain circumstances. Holders of the Senior Notes do not have the right to require the Company to repurchase the Senior Notes prior to maturity except in connection with the occurrence of certain fundamental change transactions.

During the nine months ended September 30, 2010, the Company repurchased and retired \$18,468 of the Senior Notes for \$18,191 and recorded a loss on early extinguishment of debt of \$489. The repurchase was funded by cash proceeds from the Company's April 2010 common stock offering.

The carrying value of the Senior Notes at September 30, 2011 and December 31, 2010 was \$614,826 and \$606,971, respectively, which included an unamortized discount of \$4,806 and \$12,661, respectively. The unamortized discount is amortized into interest expense over the term of the Senior Notes in a manner that approximates the effective interest method. As of September 30, 2011 and December 31, 2010, the effective interest rate was 5.41%. The fair value of the Senior Notes at September 30, 2011 and December 31, 2010 was \$619,632 based on the quoted market price on each date.

On October 3, 2011, the Company repurchased and retired \$60,000 of the Senior Notes at par value. On October 20, 2011, the Company repurchased and retired an additional \$120,341 of the Senior Notes at par value. The repurchases were funded by borrowings under the Company's line of credit.

*Line of Credit:*

The Company had a \$1,500,000 revolving line of credit that bore interest at LIBOR plus a spread of 0.75% to 1.10% that matured on April 25, 2011. On May 2, 2011, the Company obtained a new \$1,500,000 revolving line of credit that bears interest at LIBOR plus a spread of 1.75% to 3.0% depending on the Company's overall leverage and matures on May 2, 2015 with a one-year extension option. Based on the Company's current leverage levels, the borrowing rate on the new facility is LIBOR plus 2.0%. The line of credit can be expanded, depending on certain conditions, up to a total

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**11. Bank and Other Notes Payable: (Continued)**

facility of \$2,000,000. As of September 30, 2011, borrowings under the line of credit were \$250,000 at an average interest rate of 2.81%. The fair value of the line of credit at September 30, 2011 was \$251,066 based on a present value model using a credit interest rate spread offered to the Company for comparable debt.

*Greeley Note:*

On July 27, 2006, concurrent with the sale of Greeley Mall, the Company provided marketable securities to replace Greeley Mall as collateral for the mortgage note payable on the property (See Note 7 Marketable Securities). As a result of this transaction, the mortgage note payable was reclassified to bank and other notes payable. This note bears interest at an effective rate of 6.34% and matures in September 2013. At September 30, 2011 and December 31, 2010, the Greeley Note had a balance outstanding of \$25,048 and \$25,624, respectively. The fair value of the note at September 30, 2011 and December 31, 2010 was \$27,017 and \$23,967, respectively, based on current interest rates for comparable loans. The method for computing fair value was determined using a present value model and an interest rate that included a credit value adjustment based on the estimated value of the collateral for the underlying debt.

As of September 30, 2011 and December 31, 2010, the Company was in compliance with all applicable financial loan covenants.

**12. Co-Venture Arrangement:**

On September 30, 2009, the Company formed a joint venture whereby a third party acquired a 49.9% interest in Freehold Raceway Mall and Chandler Fashion Center. As part of this transaction, the Company issued a warrant in favor of the third party to purchase 935,358 shares of common stock of the Company at an exercise price of \$46.68 per share. See "Warrants" in Note 14 Stockholders' Equity. The Company received approximately \$174,650 in cash proceeds for the overall transaction of which \$6,496 was attributed to the warrants.

As a result of the Company having certain rights under the agreement to repurchase the assets after the seventh year of the venture formation, the transaction did not qualify for sale treatment. The Company, however, is not obligated to repurchase the assets. The transaction has been accounted for as a profit-sharing arrangement, and, accordingly, the assets, liabilities and operations of the properties remain on the books of the Company and a co-venture obligation was established for the net cash proceeds received from the third party less costs allocated to the warrant. The co-venture obligation is increased for the allocation of income to the co-venture partner and decreased for distributions to the co-venture partner.

**13. Noncontrolling Interests:**

The Company allocates net income of the Operating Partnership based on the weighted average ownership interest during the period. The net income of the Operating Partnership that is not attributable to the Company is reflected in the consolidated statements of operations as noncontrolling interests. The Company adjusts the noncontrolling interests in the Operating Partnership at the end of

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**13. Noncontrolling Interests: (Continued)**

each period to reflect its ownership interest in the Company. The Company had a 92% ownership interest in the Operating Partnership as of September 30, 2011 and December 31, 2010. The remaining 8% limited partnership interest as of September 30, 2011 and December 31, 2010, was owned by certain of the Company's executive officers and directors, certain of their affiliates, and other third party investors in the form of OP Units. The OP Units may be redeemed for shares of stock or cash, at the Company's option. The redemption value for each OP Unit as of any balance sheet date is the amount equal to the average of the closing price per share of the Company's common stock, par value \$0.01 per share, as reported on the New York Stock Exchange for the ten trading days ending on the respective balance sheet date. Accordingly, as of September 30, 2011 and December 31, 2010, the aggregate redemption value of the then-outstanding OP Units not owned by the Company was \$491,599 and \$538,794, respectively.

The Company issued common and preferred units of MACWH, LP in April 2005 in connection with the acquisition of the Wilmorite portfolio. The common and preferred units of MACWH, LP are redeemable at the election of the holder, the Company may redeem them for cash or shares of the Company's stock at the Company's option and they are classified as permanent equity.

Included in permanent equity are outside ownership interests in various consolidated joint ventures. The joint ventures do not have rights that require the Company to redeem the ownership interests in either cash or stock.

The outside ownership interests in the Company's joint venture in Shoppingtown Mall had a purchase option for \$11,366. In addition, under certain conditions as defined by the partnership agreement, these partners had the right to "put" their partnership interests to the Company. Due to the redemption feature of the ownership interest in Shoppingtown Mall, these noncontrolling interests were included in temporary equity as redeemable noncontrolling interests. The Company exercised its right to redeem the outside ownership interests in the partnership for cash and the redemption closed on September 14, 2011.

**14. Stockholders' Equity:**

*Stock Dividends:*

On March 22, 2010, the Company issued 1,449,542 common shares to its common stockholders and OP Unit holders in connection with a declaration of a quarterly dividend of \$0.60 per share of common stock to holders of record on February 16, 2010, consisting of a combination of cash and shares of the Company's common stock. The cash component of the dividend (not including cash paid in lieu of fractional shares) was 10% in the aggregate, or \$0.06 per share, with the balance paid in shares of the Company's common stock.

In accordance with the provisions of Internal Revenue Service Revenue Procedure 2010-12, stockholders were asked to make an election to receive the dividends all in cash or all in shares. To the extent that more than 10% of cash was elected in the aggregate, the cash portion was prorated. Stockholders who elected to receive the dividends in cash received a cash payment of at least \$0.06 per share. Stockholders who did not make an election received 10% in cash and 90% in shares of common stock. The number of shares issued on March 22, 2010 as a result of the dividend was calculated based

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**14. Stockholders' Equity: (Continued)**

on the volume weighted average trading price of the Company's common stock on the New York Stock Exchange on March 10, 2010 through March 12, 2010 of \$38.53 per share.

*Warrants:*

On September 3, 2009, the Company issued three warrants in connection with the sale of a 75% ownership interest in FlatIron Crossing. The warrants provided for a purchase in the aggregate of 1,250,000 shares of the Company's common stock. The warrants were valued at \$8,068 and recorded as a credit to additional paid-in capital. In May 2010, the warrants were exercised pursuant to the holders' net issue exercise request and the Company delivered a cash payment of \$17,589 in exchange for the warrants.

On September 30, 2009, the Company issued a warrant in connection with its formation of a co-venture to own and operate Freehold Raceway Mall and Chandler Fashion Center. (See Note 12 Co-Venture Arrangement.) The warrant provides for the purchase of 935,358 shares of the Company's common stock. The warrant was valued at \$6,496 and recorded as a credit to additional paid-in capital. The warrant was immediately exercisable upon its issuance and will expire 30 days after the refinancing or repayment of each loan encumbering the Centers has closed. The warrant has an exercise price of \$46.68 per share, with such price subject to anti-dilutive adjustments. The warrant allows for either gross or net issue settlement at the option of the warrant holder. In the event that the warrant holder elects a net issue settlement, the Company may elect to settle the warrant in cash or shares; provided, however, that in the event the Company elects to deliver cash, the holder may elect to instead have the exercise of the warrant satisfied in shares. In addition, the Company entered into a registration rights agreement with the warrant holder whereby the Company provided certain registration rights regarding the resale of shares of common stock underlying the warrant.

The issuance of the warrants was exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 4(2) of the Securities Act. Each investor represented that it was an accredited investor, as defined in Rule 501 of Regulation D of the Securities Act, and that it was acquiring the securities for its own account, not as nominee or agent, and not with a view to the resale or distribution of any part thereof in violation of the Securities Act.

*Stock Offering:*

On April 20, 2010, the Company completed an offering of 30,000,000 newly issued shares of its common stock and on April 23, 2010 issued an additional 1,000,000 newly issued shares of common stock in connection with the underwriters' exercise of its over-allotment option. The net proceeds of the offering, after giving effect to the issuance and sale of all 31,000,000 shares of common stock at an initial price to the public of \$41.00 per share, were approximately \$1,220,829 after deducting underwriting discounts, commissions and other transaction costs. The Company used a portion of the net proceeds of the offering to pay down its line of credit in full and reduce certain property indebtedness. The Company used the remaining cash for debt repayments and/or general corporate purposes.

Table of Contents**THE MACERICH COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except per share amounts)****(Unaudited)****15. Acquisitions:***Desert Sky Mall:*

On February 28, 2011, the Company acquired the additional 50% ownership interest in Desert Sky Mall, an 893,561 square foot regional shopping center in Phoenix, Arizona, that it did not own for \$27,625. The acquisition was completed in order to gain 100% ownership and control over this well located asset. The purchase price was funded by a cash payment of \$1,875 and the assumption of the third party's pro rata share of the mortgage note payable on the property of \$25,750. Concurrent with the purchase of the partnership interest, the Company paid off the \$51,500 loan on the property. Prior to the acquisition, the Company had accounted for its investment under the equity method (See Note 4 Investments in Unconsolidated Joint Ventures). As a result of this transaction, the Company obtained 100% ownership of Desert Sky Mall.

The following is a summary of the allocation of the fair value of Desert Sky Mall:

Property	\$ 46,603
Deferred charges, net	5,474
Cash and cash equivalents	6,057
Tenant receivables	202
Other assets, net	4,481
 Total assets acquired	 62,817
Mortgage note payable	51,500
Accounts payable	33
Other accrued liabilities	3,017
 Total liabilities assumed	 54,550
 Fair value of acquired net assets (at 100% ownership)	 \$ 8,267

The Company determined that the purchase price represented the fair value of the additional ownership interest in Desert Sky Mall that was acquired. Accordingly, the Company also determined that the fair value of the acquired ownership interest in Desert Sky Mall equaled the fair value of the Company's existing ownership interest.

Fair value of existing ownership interest (at 50% ownership)	\$ 4,164
Carrying value of investment in Desert Sky Mall	(2,296)
 Gain on remeasurement	 \$ 1,868

The Company has included the gain in gain (loss) on remeasurement, sale or write down of assets, net for the nine months ended September 30, 2011 (See Note 6 Property).

Since the date of acquisition, the Company has included Desert Sky Mall in its consolidated financial statements. Desert Sky Mall has generated incremental revenue of \$6,351 and incremental expense of \$5,847.





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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**15. Acquisitions: (Continued)**

*Superstition Springs Land:*

On June 3, 2011, the Company acquired the additional 50% ownership interest in Superstition Springs Land that it did not own in connection with the GGP Exchange (See Note 4 Investments in Unconsolidated Joint Ventures). Prior to the acquisition, the Company had accounted for its investment in Superstition Springs Land under the equity method. As a result of this transaction, the Company obtained 100% ownership of the land.

The Company recorded the fair value of Superstition Springs Land at \$12,914. As a result of obtaining control of this property, the Company recognized a gain of \$1,734, which is included in gain (loss) on remeasurement, sale or write down of assets, net for the nine months ended September 30, 2011 (See Note 6 Property). Since the date of acquisition, the Company has included Superstition Springs Land in its consolidated financial statements.

*Fashion Outlets of Niagara Falls:*

On July 22, 2011, the Company acquired the Fashion Outlets of Niagara Falls, a 526,000 square foot outlet center in Niagara Falls, New York. The initial purchase price of \$200,000 was funded by a cash payment of \$78,579 and the assumption of the mortgage note payable of \$121,421. The cash purchase price was funded from borrowings under the Company's line of credit.

The purchase and sale agreement includes contingent consideration based on the performance of the Fashion Outlets of Niagara Falls from the acquisition date through July 21, 2014 that could increase the purchase price from the initial \$200,000 up to a maximum of \$218,667. The Company has estimated the fair value of the contingent consideration at September 30, 2011 to be \$14,245, which has been included in other accrued liabilities as part of the fair value of the total liabilities assumed.

Table of Contents**THE MACERICH COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except per share amounts)****(Unaudited)****15. Acquisitions: (Continued)**

The following is a summary of the allocation of the fair value of the Fashion Outlets of Niagara Falls:

Property	\$ 228,720
Restricted cash	5,367
Deferred charges	10,383
Other assets, net	3,090
<b>Total assets acquired</b>	<b>247,560</b>
Mortgage note payable	130,006
Accounts payable	231
Other accrued liabilities	38,037
<b>Total liabilities assumed</b>	<b>168,274</b>
Fair value of acquired net assets	\$ 79,286

The Company determined that the purchase price, including the estimated fair value of contingent consideration, represented the fair value of the assets acquired and liabilities assumed.

Since the date of acquisition, the Company has included the Fashion Outlets of Niagara Falls in its consolidated financial statements. The Fashion Outlets of Niagara Falls has generated incremental revenue of \$4,485 and incremental expense of \$5,069.

*Other:*

On April 29, 2011, the Company purchased a fee interest in a freestanding Kohl's store at Capitola Mall for \$28,500. The purchase price was paid from cash on hand.

**16. Discontinued Operations:**

On March 4, 2011, the Company sold a former Mervyn's store in Santa Fe, New Mexico, for \$3,732, resulting in a loss of \$1,913. The proceeds from the sale were used for general corporate purposes.

On June 3, 2011, the Company disposed of six anchor stores at centers not owned by the Company (collectively referred to as the "GGP Anchor Stores"), including five former Mervyn's stores, as part of the GGP Exchange (See Note 4 Investments in Unconsolidated Joint Ventures). The Company determined that the fair value received in exchange for the GGP Anchor Stores was equal to their carrying value.

Revenues from discontinued operations consisted of \$0 and \$1,211 for the three months ended September 30, 2011 and 2010, respectively, and \$1,861 and \$2,521 for the nine months ended September 30, 2011 and 2010, respectively. Income (loss) from discontinued operations was \$359 and \$223 for the three months ended September 30, 2011 and 2010, respectively, and \$(1,767) and \$(507) for the nine months ended September 30, 2011 and 2010, respectively.

Table of Contents**THE MACERICH COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except per share amounts)****(Unaudited)****17. Commitments and Contingencies:**

The Company has certain properties that are subject to non-cancelable operating ground leases. The leases expire at various times through 2107, subject in some cases to options to extend the terms of the lease. Certain leases provide for contingent rent payments based on a percentage of base rental income, as defined in the lease. Ground rent expense was \$2,091 and \$1,593 for the three months ended September 30, 2011 and 2010, respectively, and \$6,475 and \$4,361 for the nine months ended September 30, 2011 and 2010, respectively. No contingent rent was incurred during the three or nine months ended September 30, 2011 or 2010.

As of September 30, 2011 and December 31, 2010, the Company was contingently liable for \$19,552 and \$26,771, respectively, in letters of credit guaranteeing performance by the Company of certain obligations relating to the Centers. The Company does not believe that these letters of credit will result in a liability to the Company.

The Company has entered into a number of construction agreements related to its redevelopment and development activities. Obligations under these agreements are contingent upon the completion of the services within the guidelines specified in the agreement. At September 30, 2011, the Company had \$3,645 in outstanding obligations under these agreements, which it believes will be settled in the next twelve months.

A putative class action complaint was filed on September 1, 2010 involving a single plaintiff based on alleged wage and hour violations. The parties have reached a settlement that is subject to court approval. The court hearing to approve the final settlement is scheduled for December 9, 2011. The Company has accrued an estimate for the amount of the settlement, which is not material to the Company's consolidated financial statements.

**18. Related-Party Transactions:**

Certain unconsolidated joint ventures and third-parties have engaged the Management Companies to manage the operations of the Centers. Under these arrangements, the Management Companies are reimbursed for compensation paid to on-site employees, leasing agents and project managers at the Centers, as well as insurance costs and other administrative expenses. The following are fees charged to unconsolidated joint ventures and third-party managed properties:

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Management Fees	\$ 6,661	\$ 6,662	\$ 19,472	\$ 19,612
Development and Leasing Fees	2,344	2,754	6,094	9,470
	\$ 9,005	\$ 9,416	\$ 25,566	\$ 29,082

Certain mortgage notes on the properties are held by NML (See Note 10 Mortgage Notes Payable). Interest expense in connection with these notes was \$4,081 and \$3,451 for the three months ended September 30, 2011 and 2010, respectively, and \$12,656 and \$9,656 for the nine months ended September 30, 2011 and 2010, respectively. Included in accounts payable and accrued expenses is

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**18. Related-Party Transactions: (Continued)**

interest payable on these notes of \$1,351 and \$1,439 at September 30, 2011 and December 31, 2010, respectively.

As of September 30, 2011 and December 31, 2010, the Company had loans to unconsolidated joint ventures of \$3,961 and \$3,095, respectively. Interest income associated with these notes was \$67 and \$121 for the three months ended September 30, 2011 and 2010, respectively, and \$210 and \$234 for the nine months ended September 30, 2011 and 2010, respectively. These loans represent initial funds advanced to development stage projects prior to construction loan funding. Correspondingly, loan payables in the same amount have been accrued as an obligation by the various joint ventures.

Due from affiliates of \$4,360 and \$6,599 at September 30, 2011 and December 31, 2010, respectively, represents unreimbursed costs and fees due from unconsolidated joint ventures under management agreements.

**19. Share and Unit-Based Plans:**

On February 28, 2011, the Company granted 190,000 limited partnership units of the Operating Partnership ("LTIP Units") under the Long-Term Incentive Plan ("LTIP") to four executive officers at a weighted average grant date fair value of \$43.30 per LTIP Unit. The new grants vest over a service period ending January 31, 2012 based on the percentile ranking of the Company in terms of total return to stockholders (the "Total Return") per common stock share relative to the Total Return of a group of peer REITs, as measured at the end of the measurement period. Upon the occurrence of specified events and subject to the satisfaction of applicable vesting conditions, LTIP Units (after conversion into OP Units) are ultimately redeemable for common stock of the Company on a one-unit for one-share basis.

The fair value of the Company's LTIP Units granted in 2011 was estimated on the date of grant using a Monte Carlo Simulation model. The stock price of the Company, along with the stock prices of the group of peer REITs, was assumed to follow the Multivariate Geometric Brownian Motion Process. Multivariate Geometric Brownian Motion Process modeling is commonly used in financial markets, as it allows the modeled quantity (in this case, the stock price) to vary randomly from its current value based on the stock price's expected volatility and current market interest rates. The volatilities of the returns on the price of the Company and the peer group REITs were estimated based on a .92-year look-back period. The expected growth rate of the stock prices over the derived service period was determined with consideration of the risk free rate as of the grant date.

During the nine months ended September 30, 2011, as part of the separation agreements with six former employees, the Company modified the terms of 61,570 stock units, 2,281 stock awards and 40,000 SARs then outstanding. As a result of these modifications, the Company recognized additional compensation cost of \$3,333 during the nine months ended September 30, 2011.

Table of Contents**THE MACERICH COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Dollars in thousands, except per share amounts)

(Unaudited)

**19. Share and Unit-Based Plans: (Continued)**

The following summarizes the compensation cost under the share and unit-based plans:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
LTIP units	\$ 2,239	\$ 3,669	\$ 6,716	\$ 9,110
Stock awards	85	493	663	2,579
Stock units	891	2,181	6,634	7,227
Stock options		107		402
SARs	3	730	626	1,681
Phantom stock units	243	241	726	699
	\$ 3,461	\$ 7,421	\$ 15,365	\$ 21,698

The Company capitalized share and unit-based compensation costs of \$609 and \$3,183 for the three months ended September 30, 2011 and 2010, respectively, and \$5,621 and \$10,494 for the nine months ended September 30, 2011 and 2010, respectively.

The following table summarizes the activity of the non-vested LTIP Units, stock awards, phantom stock and stock units:

	LTIP Units		Stock Awards		Phantom Stock		Stock Units	
	Units	Value(1)	Shares	Value(1)	Units	Value(1)	Shares	Value(1)
Balance at January 1, 2011	272,226	\$ 50.68	63,351	\$ 53.69	29,783	\$ 34.18	1,038,549	\$ 7.17
Granted	422,631	46.38	11,350	48.47	8,123	48.43	64,463	48.36
Vested	(504,857)	49.85	(53,571)	57.36	(18,221)	39.81	(519,272)	7.17
Forfeited							(7,400)	12.35
Balance at September 30, 2011	190,000	\$ 43.30	21,130	\$ 40.68	19,685	\$ 34.84	576,340	\$ 11.71

(1)

Value represents the weighted-average grant date fair value.

The following table summarizes the activity of the SARs and stock options outstanding:

	SARs		Stock Options	
	Units	Price(1)	Stock Options	Price(1)
Balance at January 1, 2011	1,242,314	\$ 56.56	132,314	\$ 67.16

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Granted					
Exercised			(2,000)	24.63	
Forfeited	(85,329)	\$ 56.63	(108,012)	76.05	
Balance at September 30, 2011	1,156,985	\$ 56.55	22,302	\$ 27.93	

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(1) Value represents the weighted-average exercise price.

Table of Contents**THE MACERICH COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except per share amounts)****(Unaudited)****19. Share and Unit-Based Plans: (Continued)**

Unrecognized compensation cost of share and unit-based plans at September 30, 2011 consisted of \$2,994 from LTIP Units, \$651 from stock awards, \$686 from phantom stock units and \$2,869 from stock units.

**20. Income Taxes:**

The Company has made taxable REIT subsidiary elections for all of its corporate subsidiaries other than its qualified REIT subsidiaries. The elections, effective for the year beginning January 1, 2001 and future years were made pursuant to section 856(l) of the Code. The Company's Taxable REIT Subsidiaries ("TRSs") are subject to corporate level income taxes which are provided for in the Company's consolidated financial statements. The Company's primary TRSs include Macerich Management Company and Macerich Arizona Partners LLC.

The income tax benefit of the TRSs is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Current	\$	\$	\$	\$
Deferred	1,566	2,662	5,811	5,252
<b>Total income tax benefit</b>	<b>\$ 1,566</b>	<b>\$ 2,662</b>	<b>\$ 5,811</b>	<b>\$ 5,252</b>

The net operating loss carryforwards are currently scheduled to expire through 2031, beginning in 2021. Net deferred tax assets of \$26,315 and \$19,525 were included in deferred charges and other assets, net at September 30, 2011 and December 31, 2010, respectively.

The tax returns for the years 2007-2010 remain open to examination by the taxing jurisdictions to which the Company is subject. The Company does not expect that the total amount of unrecognized tax benefits will materially change within the next 12 months.

**21. Subsequent Events:**

On October 3, 2011, the Company repurchased and retired \$60,000 of the Senior Notes at par value. On October 20, 2011, the Company repurchased and retired an additional \$120,341 of the Senior Notes at par value. The repurchases were funded by borrowings under the Company's line of credit.

On October 27, 2011, the Company announced a dividend/distribution of \$0.55 per share for common stockholders and OP Unit holders of record on November 11, 2011. All dividends/distributions will be paid 100% in cash on December 8, 2011.



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**IMPORTANT INFORMATION RELATED TO FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q of The Macerich Company (the "Company") contains or incorporates statements that constitute forward-looking statements within the meaning of the federal securities laws. Any statements that do not relate to historical or current facts or matters are forward-looking statements. You can identify some of the forward-looking statements by the use of forward-looking words, such as "may," "will," "could," "should," "expects," "anticipates," "intends," "projects," "predicts," "plans," "believes," "seeks," "estimates," "scheduled" and variations of these words and similar expressions. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. Forward-looking statements appear in a number of places in this Form 10-Q and include statements regarding, among other matters:

expectations regarding the Company's growth;

the Company's beliefs regarding its acquisition, redevelopment, development, leasing and operational activities and opportunities, including the performance of its retailers;

the Company's acquisition, disposition and other strategies;

regulatory matters pertaining to compliance with governmental regulations;

the Company's capital expenditure plans and expectations for obtaining capital for expenditures;

the Company's expectations regarding income tax benefits;

the Company's expectations regarding its financial condition or results of operations; and

the Company's expectations for refinancing its indebtedness, entering into and servicing debt obligations and entering into joint venture arrangements.

Stockholders are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company or the industry to differ materially from the Company's future results, performance or achievements, or those of the industry, expressed or implied in such forward-looking statements. You are urged to carefully review the disclosures we make concerning risks and other factors that may affect our business and operating results, including those made in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010, as well as our other reports filed with the Securities and Exchange Commission (the "SEC"), which disclosures are incorporated herein by reference. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. The Company does not intend, and undertakes no obligation, to update any forward-looking information to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events, unless required by law to do so.

**Management's Overview and Summary**

The Company is involved in the acquisition, ownership, development, redevelopment, management and leasing of regional and community shopping centers located throughout the United States. The Company is the sole general partner of, and owns a majority of the ownership interests in, the Operating Partnership. As of September 30, 2011, the Operating Partnership owned or had an ownership interest in 71 regional shopping centers and 14 community shopping centers totaling approximately 72 million square feet of gross leasable area. These 85 regional and community shopping centers are referred to hereinafter as the "Centers," unless the context otherwise requires. The Company is a self-administered and self-managed REIT and conducts all of its operations through the Operating Partnership and the Management Companies.



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The following discussion is based primarily on the consolidated financial statements of the Company for the three and nine months ended September 30, 2011 and 2010. It compares the results of operations for the three months ended September 30, 2011 to the results of operations for the three months ended September 30, 2010, and it compares the results of operations and cash flows for the nine months ended September 30, 2011 to the results of operations and cash flows for the nine months ended September 30, 2010. This information should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

*Acquisitions:*

On February 24, 2011, the Company increased its ownership interest in Kierland Commons, a 434,690 square foot community center in Scottsdale, Arizona, from 24.5% to 50%. The Company's share of the purchase price for this transaction was \$34.2 million in cash and the assumption of \$18.6 million of existing debt.

On February 28, 2011, the Company, in a 50/50 joint venture, acquired The Shops at Atlas Park, a 400,000 square foot community center in Queens, New York, for a total purchase price of \$53.8 million. The Company's share of the purchase price was \$26.9 million and was funded from the Company's cash on hand.

On February 28, 2011, the Company acquired the additional 50% ownership interest in Desert Sky Mall, an 893,561 square foot regional shopping center in Phoenix, Arizona, that it did not own. The total purchase price was \$27.6 million, which included the assumption of the third party's pro rata share of the mortgage note payable on the property of \$25.7 million. Concurrent with the purchase of the partnership interest, the Company paid off the \$51.5 million loan on the property.

On April 29, 2011, the Company purchased a fee interest in a freestanding Kohl's store at Capitola Mall in Capitola, California for \$28.5 million. The purchase price was paid from cash on hand.

On June 3, 2011, the Company acquired an additional 33.3% ownership interest in Arrowhead Towne Center, a 1,196,941 square foot regional shopping center in Glendale, Arizona, an additional 33.3% ownership interest in Superstition Springs Center, a 1,204,803 square foot regional shopping center in Mesa, Arizona and an additional 50% ownership interest in the land under Superstition Springs Center in exchange for the Company's ownership interest in six anchor stores, including five former Mervyn's stores and a cash payment of \$75.0 million. The cash purchase price was funded from borrowings under the Company's line of credit. This transaction is referred herein as the "GGP Exchange".

On July 22, 2011, the Company acquired the Fashion Outlets of Niagara Falls, a 526,000 square foot outlet center in Niagara Falls, New York. The initial purchase price of \$200.0 million was funded by a cash payment of \$78.6 million and the assumption of the mortgage note payable of \$121.4 million. The cash purchase price was funded from borrowings under the Company's line of credit. The purchase and sale agreement includes contingent consideration based on the performance of the Fashion Outlets of Niagara Falls from the acquisition date through July 21, 2014 that could increase the purchase price from the initial \$200.0 million up to a maximum of \$218.7 million. The Company has estimated the fair value of the contingent consideration as \$14.2 million which has been included in other accrued liabilities.

Desert Sky Mall, the Kohl's store at Capitola Mall, the land under Superstition Springs Center and the Fashion Outlets of Niagara Falls are referred to herein as the "Acquisition Properties".

*Mervyn's:*

In December 2007, the Company purchased a portfolio of ground leasehold interest and/or fee interests in 39 freestanding Mervyn's stores located in the Southwest United States. In January 2008,

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the Company purchased a ground leasehold interest in a freestanding Mervyn's store located in Hayward, California and in February 2008, the Company purchased a fee simple interest in a freestanding Mervyn's store located in Monrovia, California. These former Mervyn's stores are referred to herein as the "Mervyn's Properties." Mervyn's filed for bankruptcy protection in July 2008 and rejected all of its leases during the remainder of the year.

On March 4, 2011, the Company sold a fee interest in a former Mervyn's store for \$3.7 million, resulting in a loss on sale of \$1.9 million. The Company used the proceeds from the sale for general corporate purposes.

On June 3, 2011, the Company disposed of five former Mervyn's stores in connection with the GGP Exchange (See "Acquisitions").

As of September 30, 2011, six former Mervyn's stores in the Company's portfolio remain vacant. The Company is currently seeking replacement tenants for these spaces.

*Other Transactions and Events:*

On July 15, 2010, a court appointed receiver ("Receiver") assumed operational control of Valley View Center and responsibility for managing all aspects of the property. The Company anticipates the disposition of the asset, which is under the control of the Receiver, will be executed through foreclosure, deed-in-lieu of foreclosure, or by some other means, and will be completed within the next twelve months. Although the Company is no longer funding any cash shortfall, it continues to record the operations of the Valley View Center until the title for the Center is transferred and its obligation for the loan is discharged. Once title to the Center is transferred, the Company will remove the net assets and liabilities from the Company's consolidated balance sheets. The mortgage note payable on Valley View Center is non-recourse to the Company.

On April 1, 2011, the Company's joint venture in SDG Macerich Properties, L.P. conveyed Granite Run Mall to the mortgage note lender with a deed-in-lieu of foreclosure. The mortgage note was non-recourse. The Company's pro rata share of gain on early extinguishment of debt was \$7.8 million.

As of May 11, 2011, the non-recourse mortgage note payable on Shoppingtown Mall was in maturity default. Shoppingtown Mall is under the control of the loan servicer and likely will be transferred to a receiver in the near future. As a result of the maturity default, the Company reduced the holding period and recognized an impairment charge of \$35.7 million to write-down the long-lived assets to its estimated fair value.

On September 14, 2011, the Company exercised its right and redeemed the outside ownership interests in Shoppingtown Mall for a cash payment of \$11.4 million.

*Development Activity:*

During the three months ended September 30, 2011, the Company entered into a joint venture agreement with a subsidiary of AWE/Talisman for the development of the Fashion Outlets of Chicago in the Village of Rosemont, Illinois. The Company will own 60% of the joint venture and AWE/Talisman will own 40%. The Center will be a fully enclosed two level, 528,000 square foot outlet center. The site is located within a mile of O'Hare International Airport which hosts 76 million travelers annually. The project is expected to break ground in November, 2011 and to be completed in Spring 2013. The total estimated project cost is approximately \$200.0 million.

*Inflation:*

In the last three years, inflation has not had a significant impact on the Company because of a relatively low inflation rate. Most of the leases at the Centers have rent adjustments periodically

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through the lease term. These rent increases are either in fixed increments or based on an annual multiple of increases in the Consumer Price Index ("CPI"). In addition, about 6% to 13% of the leases expire each year, which enables the Company to replace existing leases with new leases at higher base rents if the rents of the existing leases are below the then existing market rate. Historically the majority of the leases also required the tenants to pay their pro rata share of operating expenses. In January 2005, the Company began entering into leases that require tenants to pay a stated amount for operating expenses, generally excluding property taxes, regardless of the expenses actually incurred at any Center. This change shifts the burden of cost control to the Company.

*Seasonality:*

The shopping center industry is seasonal in nature, particularly in the fourth quarter during the holiday season when retailer occupancy and retail sales are typically at their highest levels. In addition, shopping malls achieve a substantial portion of their specialty (temporary retailer) rents during the holiday season and the majority of percentage rent is recognized in the fourth quarter. As a result of the above, earnings are generally higher in the fourth quarter.

**Critical Accounting Policies**

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States of America 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.

Some of these estimates and assumptions include judgments on revenue recognition, estimates for common area maintenance and real estate tax accruals, provisions for uncollectible accounts, impairment of long-lived assets, the allocation of purchase price between tangible and intangible assets, and estimates for environmental matters. The Company's significant accounting policies are described in more detail in Note 2 Summary of Significant Accounting Policies in the Company's Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K. However, the following policies are deemed to be critical.

*Revenue Recognition:*

Minimum rental revenues are recognized on a straight-line basis over the term of the related lease. The difference between the amount of rent due in a year and the amount recorded as rental income is referred to as the "straight line rent adjustment." Currently, 59% of the mall store and freestanding store leases contain provisions for CPI rent increases periodically throughout the term of the lease. The Company believes that using an annual multiple of CPI increases rather than fixed contractual rent increases results in revenue recognition that more closely matches the cash revenue from each lease and will provide more consistent rent growth throughout the term of the leases. Percentage rents are recognized when the tenants' specified sales targets have been met. Estimated recoveries from certain tenants for their pro rata share of real estate taxes, insurance and other shopping center operating expenses are recognized as revenues in the period the applicable expenses are incurred. Other tenants pay a fixed rate and these tenant recoveries' revenues are recognized on a straight-line basis over the term of the related leases.

*Property:*

The Company capitalizes costs incurred in redevelopment and development of properties. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs,

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construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. Capitalized costs are allocated to the specific components of a project that are benefited. The Company considers a construction project as completed and held available for occupancy and ceases capitalization of costs when the areas under development have been substantially completed.

Maintenance and repair expenses are charged to operations as incurred. Costs for major replacements and betterments, which includes HVAC equipment, roofs, parking lots, etc., are capitalized and depreciated over their estimated useful lives. Gains and losses are recognized upon disposal or retirement of the related assets and are reflected in earnings.

Property is recorded at cost and is depreciated using a straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	5 - 40 years
Tenant improvements	5 - 7 years
Equipment and furnishings	5 - 7 years

*Accounting for Acquisitions:*

The Company first determines the value of land and buildings utilizing an "as if vacant" methodology. The Company then assigns a fair value to any debt assumed at acquisition. The purchase price is allocated to tenant improvements and identifiable intangible assets or liabilities. Tenant improvements represent the tangible assets associated with the existing leases valued on a fair value basis at the acquisition date prorated over the remaining lease terms. The tenant improvements are classified as an asset under property and are depreciated over the remaining lease terms. Identifiable intangible assets and liabilities relate to the value of in-place operating leases which come in three forms: (i) leasing commissions and legal costs, which represent the value associated with "cost avoidance" of acquiring in-place leases, such as lease commissions paid under terms generally experienced in the Company's markets; (ii) value of in-place leases, which represents the estimated loss of revenue and of costs incurred for the period required to lease the "assumed vacant" property to the occupancy level when purchased; and (iii) above or below-market value of in-place leases, which represents the difference between the contractual rents and market rents at the time of the acquisition, discounted for tenant credit risks. Leasing commissions and legal costs are recorded in deferred charges and other assets and are amortized over the remaining lease terms. The value of in-place leases are recorded in deferred charges and other assets and amortized over the remaining lease terms plus an estimate of renewal of the acquired leases. Above or below-market leases are classified in deferred charges and other assets or in other accrued liabilities, depending on whether the contractual terms are above or below-market. The allocated values of above and below-market leases are amortized into minimum rents on a straight-line basis over the individual remaining lease terms. The remaining lease terms of below-market leases may include certain below-market fixed-rate renewal periods. In considering whether or not a lessee will execute a below-market fixed-rate lease renewal option, the Company evaluates economic factors and certain qualitative factors at the time of acquisition such as tenant mix in the center, the Company's relationship with the tenant and the availability of competing tenant space.

*Asset Impairment:*

The Company assesses whether an indicator of impairment in the value of its long-lived assets exists by considering factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other economic factors. Such factors include the tenant's ability to perform their duties and pay rent under the terms of the leases. In addition, a decrease in the estimated holding period of long-lived assets can increase the likelihood of impairment. Many factors

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may influence management's estimate of holding periods, including market conditions, accessibility of capital and credit markets and recent sales activity of properties in the same market. The Company may recognize impairment losses if the cash flows are not sufficient to recover its investment. Such a loss would be determined as the difference between the carrying value and the fair value of a Center.

The Company reviews its investments in unconsolidated joint ventures for a series of operating losses and other factors that may indicate that a decrease in the value of its investments has occurred which is other-than-temporary. The investment in each unconsolidated joint venture is evaluated periodically, and as deemed necessary, for recoverability and valuation declines that are other than temporary.

*Fair Value of Financial Instruments:*

The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participant assumptions.

Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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.

*Deferred Charges:*

Costs relating to obtaining tenant leases are deferred and amortized over the initial term of the agreement using the straight-line method. As these deferred leasing costs represent productive assets incurred in connection with the Company's provision of leasing arrangements at the Centers, the related cash flows are classified as investing activities within the Company's Consolidated Statements of Cash Flows. Costs relating to financing of shopping center properties are deferred and amortized over the life of the related loan using the straight-line method, which approximates the effective interest method. In-place lease values are amortized over the remaining lease term plus an estimate of the renewal term. Leasing commissions and legal costs are amortized on a straight-line basis over the individual remaining lease years. The ranges of the terms of the agreements are as follows:

Deferred lease costs	1 - 15 years
Deferred financing costs	1 - 15 years
In-place lease values	Remaining lease term plus an estimate for renewal
Leasing commissions and legal costs	5 - 10 years

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**Results of Operations**

Many of the variations in the results of operations, discussed below, occurred because of transactions described above, including the Acquisition Properties, the Mervyn's Properties and Santa Monica Place (the "Redevelopment Center"). The "Same Centers" include all consolidated Centers, excluding the Mervyn's Properties, the Acquisition Properties and the Redevelopment Center.

The increase in revenue and expenses of the Redevelopment Center during the three and nine months ended September 30, 2011 in comparison to the three and nine months ended September 30, 2010 is primarily due to the opening of Santa Monica Place in August 2010.

Unconsolidated joint ventures are reflected using the equity method of accounting. The Company's pro rata share of the results from these Centers is reflected in the Consolidated Statements of Operations as equity in income of unconsolidated joint ventures.

Although certain aspects of the U.S. economy, the retail industry as well as the Company's operating results continued to improve during the first nine months of 2011, the third quarter was marked by worldwide volatility and disruption in the capital and stock markets as well as a European financial crisis. While conditions have improved recently, continued economic and political uncertainty remains.

The Company's recent trend of retail sales growth continued this quarter with tenant sales per square foot increasing compared to the twelve months ended September 30, 2010 and December 31, 2010. The releasing spreads also increased for the twelve months ended September 30, 2011. The Company's occupancy rate as of September 30, 2011 decreased compared to September 30, 2010 primarily because of the liquidation of one tenant. While economic data for the nine months ended September 30, 2011 showed certain signs of a positive trend in the retail industry, the U.S. economy is still experiencing weakness, high levels of unemployment have persisted, consumer confidence has declined and rental rates and valuations for retail space have not fully recovered to pre-recession levels. Any further continuation of these adverse conditions could harm the Company's business, results of operations and financial condition.

The Company considers tenant annual sales per square foot (for tenants in place for 12 months or longer and under 10,000 square feet), occupancy rates (excluding anchor tenants) for the Centers and releasing spreads (i.e. a comparison of average base rent per square foot on leases executed during the trailing twelve months to average base rent per square foot on leases expiring during the year) to be key performance indicators of the Company's internal growth. These calculations exclude Valley View Center, Granite Run Mall and Shoppingtown Mall.

Tenant sales per square foot increased from \$426 for the twelve months ended September 30, 2010 compared to \$467 for the twelve months ended September 30, 2011. Occupancy rate decreased from 92.6% at September 30, 2010 compared to 91.9% at September 30, 2011. Releasing spreads increased 10.8% for the twelve months ended September 30, 2011 compared to the twelve months ended September 30, 2010.

**Comparison of Three Months Ended September 30, 2011 and 2010**

*Revenues:*

Minimum and percentage rents (collectively referred to as "rental revenue") increased by \$8.6 million, or 7.9%, from 2010 to 2011. The increase in rental revenue is attributed to an increase of \$6.4 million from the Acquisition Properties, \$2.2 million from the Redevelopment Center and \$1.1 million from the Mervyn's Properties offset in part by a decrease of \$1.1 million from the Same Centers. Rental revenue includes the amortization of above and below-market leases, the amortization of straight-line rents and lease termination income. The amortization of above and below-market leases



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increased from \$1.8 million in 2010 to \$2.7 million in 2011. The amortization of straight-lined rents decreased from \$2.5 million in 2010 to \$2.4 million in 2011. Lease termination income decreased from \$1.6 million in 2010 to \$1.4 million in 2011.

Tenant recoveries increased \$5.0 million, or 8.1%, from 2010 to 2011. The increase in tenant recoveries is attributed to an increase of \$2.2 million from the Acquisition Properties, \$2.2 million from the Redevelopment Center, \$0.5 million from the Same Centers and \$0.1 million from the Mervyn's Properties.

Management Companies revenue decreased from \$10.5 million in 2010 to \$9.8 million in 2011. The decrease in Management Companies revenue is primarily attributed to a decrease in development fees.

*Shopping Center and Operating Expenses:*

Shopping center and operating expenses increased \$4.3 million, or 6.7%, from 2010 to 2011. The increase in shopping center and operating expenses is attributed to an increase of \$3.7 million from the Acquisition Properties, \$2.5 million from the Redevelopment Center and \$0.3 million from the Mervyn's Properties offset in part by a decrease of \$2.2 million from the Same Centers. The decrease in shopping center and operating expenses at the Same Centers is primarily due to a decrease in utility, marketing and bad debt expenses.

*Management Companies' Operating Expenses:*

Management Companies' operating expenses decreased \$1.8 million from 2010 to 2011 due to a decrease in compensation costs in 2011.

*REIT General and Administrative Expenses:*

REIT general and administrative expenses decreased by \$0.1 million from 2010 to 2011.

*Depreciation and Amortization:*

Depreciation and amortization increased \$5.8 million from 2010 to 2011. The increase in depreciation and amortization is primarily attributed to an increase of \$3.4 million from the Acquisition Properties, \$2.1 million from the Redevelopment Center and \$0.7 million from the Same Centers offset in part by a decrease of \$0.4 million from the Mervyn's Properties.

*Interest Expense:*

Interest expense decreased \$2.5 million from 2010 to 2011. The decrease in interest expense was primarily attributed to a decrease of \$5.7 million from the Same Centers offset in part by an increase of \$1.5 million from the Acquisition Properties, \$1.1 million from the Redevelopment Center and \$0.6 million from borrowings under the Company's line of credit. The decrease in interest expense at the Same Centers is primarily attributed to the maturity of a \$400.0 million interest rate swap agreement in April 2011.

The above interest expense items are net of capitalized interest, which decreased from \$6.6 million in 2010 to \$3.0 million in 2011, primarily due to a decrease in redevelopment activity.

*Equity in Income of Unconsolidated Joint Ventures:*

Equity in income of unconsolidated joint ventures increased \$0.4 million from 2010 to 2011.

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*Gain (Loss) on Remeasurement, Sale or Writedown of Assets:*

Gain on remeasurement, sale or write down of assets increased \$1.0 million from 2010 to 2011. The increase in income is primarily attributed to the receipt of additional proceeds in 2011 from the sale of a 75% ownership interest in FlatIron Crossing as part of a joint venture transaction in 2009.

*Net Income:*

Net income increased \$4.8 million from 2010 to 2011. The increase in net income is primarily attributed to the increase in revenues of \$13.2 million offset in part by the increase in expenses of \$7.9 million.

*Funds From Operations ("FFO"):*

Primarily as a result of the factors mentioned above, FFO diluted increased 11.6% from \$93.3 million in 2010 to \$104.2 million in 2011. For a reconciliation of FFO and FFO diluted to net income attributable to the Company, the most directly comparable GAAP financial measure, see "Funds from Operations and Adjusted Funds from Operations."

**Comparison of Nine Months Ended September 30, 2011 and 2010**

*Revenues:*

Rental revenue increased by \$24.4 million, or 7.7%, from 2010 to 2011. The increase in rental revenue is attributed to an increase of \$11.5 million from the Redevelopment Center, \$10.2 million from the Acquisition Properties and \$2.8 million from the Mervyn's Properties offset in part by a decrease of \$0.1 million from the Same Centers. The amortization of above and below-market leases increased from \$5.7 million in 2010 to \$6.8 million in 2011. The amortization of straight-lined rents increased from \$3.8 million in 2010 to \$4.0 million in 2011. Lease termination income increased from \$3.3 million in 2010 to \$4.6 million in 2011.

Tenant recoveries increased \$9.4 million, or 5.2%, from 2010 to 2011. The increase in tenant recoveries is attributed to an increase of \$7.2 million from the Redevelopment Center, \$3.6 million from the Acquisition Properties and \$0.5 million from the Mervyn's Properties offset in part by a decrease of \$1.9 million from the Same Centers. The decrease in tenant recoveries from the Same Centers is primarily due to a decrease in recoverable expenses.

Management Companies revenue decreased from \$32.9 million in 2010 to \$28.5 million in 2011 due to a decrease in development fees.

*Shopping Center and Operating Expenses:*

Shopping center and operating expenses increased \$13.9 million, or 7.7%, from 2010 to 2011. The increase in shopping center and operating expenses is attributed to an increase of \$8.4 million from the Redevelopment Center, \$7.1 million from the Acquisition Properties and \$1.8 million from the Mervyn's Properties offset in part by a decrease of \$3.4 million from the Same Centers. The decrease in shopping center and operating expenses at the Same Centers is primarily due to a decrease in utility expenses, property taxes and bad debt expense.

*Management Companies' Operating Expenses:*

Management Companies' operating expenses decreased \$1.7 million from 2010 to 2011.

*REIT General and Administrative Expenses:*

REIT general and administrative expenses increased by \$0.2 million from 2010 to 2011.

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*Depreciation and Amortization:*

Depreciation and amortization increased \$17.3 million from 2010 to 2011. The increase in depreciation and amortization is primarily attributed to an increase of \$9.4 million from the Redevelopment Center, \$4.8 million from the Acquisition Properties and \$3.6 million from the Same Centers offset in part by a decrease of \$0.5 million from the Mervyn's Properties.

*Interest Expense:*

Interest expense decreased \$9.1 million from 2010 to 2011. The decrease in interest expense was primarily attributed to a decrease of \$13.6 million from borrowings under the Company's line of credit, \$3.6 million from the Same Centers and \$0.3 million from the Senior Notes offset in part by an increase of \$6.9 million from the Redevelopment Center and \$1.5 million from the Acquisition Properties. The decrease in interest expense on the Company's line of credit is primarily due to a decrease in the borrowings, the maturity of a \$450.0 million interest rate swap agreement in April 2010 and the maturity of a \$400.0 million interest rate swap agreement in April 2011.

The above interest expense items are net of capitalized interest, which decreased from \$23.1 million in 2010 to \$9.6 million in 2011, primarily due to a decrease in redevelopment activity.

*Loss (Gain) on Early Extinguishment of Debt:*

Loss on early extinguishment of debt increased \$10.7 million from 2010 to 2011. The increase in loss on early extinguishment of debt of \$10.7 million is primarily attributed to the prepayment of the mortgage note payable on Chesterfield Towne Center of \$9.1 million.

*Equity in Income of Unconsolidated Joint Ventures:*

Equity in income of unconsolidated joint ventures increased \$23.6 million from 2010 to 2011. The increase in equity in income of unconsolidated joint ventures is primarily attributed to the Company's \$12.5 million pro rata share of the remeasurement gain on the acquisition of an underlying ownership interest in Kierland Commons in 2011 (See "Acquisitions"), and the Company's \$7.8 million pro rata share of the gain on early extinguishment of debt of its joint venture in SDG Macerich Properties, L.P. (See "Other Transactions and Events").

*(Loss) Gain on Remeasurement, Sale or Write down of Assets:*

Loss on remeasurement, sale or write down of assets increased \$32.2 million from 2010 to 2011. The increase in loss is primarily attributed to the write down of the long-lived assets on Shoppingtown Mall of \$35.7 million (See "Other Transactions and Events").

*Net (Loss) Income:*

Net loss increased \$9.2 million from 2010 to 2011. The increase in net loss is primarily attributed to the \$35.7 million write down of long-lived assets of Shoppingtown Mall offset in part by the \$23.6 million increase in equity in income of unconsolidated joint ventures.

*Funds From Operations:*

Primarily as a result of the factors mentioned above, FFO diluted increased 0.9% from \$242.4 million in 2010 to \$244.6 million in 2011. For a reconciliation of FFO and FFO diluted to net (loss) income available to common stockholders, the most directly comparable GAAP financial measure, see "Funds from Operations and Adjusted Funds from Operations."

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*Operating Activities:*

Cash provided by operating activities increased from \$126.8 million in 2010 to \$180.5 million in 2011. The increase was primarily due to changes in assets and liabilities and the results at the Centers as discussed above.

*Investing Activities:*

Cash used in investing activities increased from \$112.5 million in 2010 to \$184.5 million in 2011. The increase was primarily due to an increase of \$135.8 million in contributions to unconsolidated joint ventures, \$77.5 million in acquisitions of property, development, redevelopment and property improvements and a decrease of \$11.8 million in proceeds from notes receivable offset in part by an increase in distributions from unconsolidated joint ventures of \$109.1 million. The increase in contributions to unconsolidated joint ventures is primarily attributed to the Kierland Commons, The Shops at Atlas Park, Arrowhead Towne Center and Superstition Springs transactions (See "Acquisitions"). The increase in acquisitions of property, development, redevelopment and property improvements is primarily attributed to the purchase of the Fashion Outlets of Niagara Falls (See "Acquisitions"). The increase in distributions from the unconsolidated joint ventures is primarily due to the distribution of the Company's pro rata share of the excess refinancing proceeds of the loan on Arrowhead Towne Center in 2011.

*Financing Activities:*

Cash used in financing activities increased from a surplus of \$378.8 million in 2010 to a deficit of \$302.2 million in 2011. The increase in cash used was primarily due to the \$1.2 billion stock offering in 2010, a decrease in proceeds from mortgages, bank and other notes payable of \$180.2 million and an increase in dividends and distributions of \$63.7 million offset in part by a decrease in payments on mortgages, bank and other notes payable of \$786.5 million.

**Liquidity and Capital Resources**

The Company anticipates meeting its liquidity needs for its operating expenses and debt service and dividend requirements for the next twelve months through cash generated from operations, working capital reserves and/or borrowings under its unsecured line of credit. On May 2, 2011, the Company obtained a new \$1.5 billion revolving line of credit, which provides the Company with additional liquidity.

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The following tables summarize capital expenditures incurred at the Centers:

(Dollars in thousands)	For the Nine Months Ended	
	September 30,	
	2011	2010
<b>Consolidated Centers:</b>		
Acquisitions of property and equipment	\$ 294,980	\$ 11,231
Development, redevelopment and expansion of Centers	73,544	159,398
Tenant allowances	15,200	16,064
Deferred leasing charges	22,884	20,496
	\$ 406,608	\$ 207,189
<b>Joint Venture Centers (at Company's pro rata share):</b>		
Acquisitions of property and equipment	\$ 139,116	\$ 2,832
Development, redevelopment and expansion of Centers	27,379	26,453
Tenant allowances	5,475	3,020
Deferred leasing charges	4,104	3,517
	\$ 176,074	\$ 35,822

The Company expects amounts to be incurred in future years for tenant allowances and deferred leasing charges to be comparable or less than 2010 and that capital for those expenditures will be available from working capital, cash flow from operations, borrowings on property specific debt or unsecured corporate borrowings. The Company expects to incur between \$200 million and \$300 million during the next twelve months for development, redevelopment, expansion and renovations. Capital for these major expenditures, developments and/or redevelopments has been, and is expected to continue to be, obtained from a combination of equity or debt financings, which include borrowings under the Company's line of credit and construction loans. In addition to the Company's April 2010 equity offering and property refinancings, the Company has also generated additional liquidity in the past through joint venture transactions and the sale of non-core assets, and may continue to do so in the future. Furthermore, on September 9, 2011, the Company filed a shelf registration statement which registered an unspecified amount of common stock, preferred stock, depository shares, debt securities, warrants, rights and units.

The capital and credit markets can fluctuate, and at times, limit access to debt and equity financing for companies. As demonstrated by the Company's recent activity, including its new \$1.5 billion line of credit and April 2010 equity offering, the Company was able to access capital; however, there is no assurance the Company will be able to do so in future periods or on similar terms and conditions. Many factors impact the Company's ability to access capital, such as its overall debt level, interest rates, interest coverage ratios and prevailing market conditions. In the event that the Company has significant tenant defaults as a result of the overall economy and general market conditions, the Company could have a decrease in cash flow from operations, which could create borrowings under its line of credit. These events could result in an increase in the Company's proportion of floating rate debt, which would cause it to be subject to interest rate fluctuations in the future.

The Company's total outstanding loan indebtedness at September 30, 2011 was \$6.4 billion (including \$864.8 million of unsecured debt and \$2.3 billion of its pro rata share of joint venture debt). The majority of the Company's debt consists of fixed-rate conventional mortgages payable collateralized by individual properties. The Company expects that all of the maturities during the next twelve months, except the mortgage note payable on Valley View Center and Shoppingtown Mall, will be refinanced, restructured, extended and/or paid off from the Company's line of credit or cash on hand.

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The Company's Senior Notes bear interest at 3.25%, payable semiannually, mature on March 15, 2012 and are senior to unsecured debt of the Company and are guaranteed by the Operating Partnership. The carrying value of the Senior Notes at September 30, 2011 was \$614.8 million.

In October 2011, the Company repurchased \$180.3 million of Senior Notes at par value. The repurchases were funded by additional borrowings under the Company's line of credit.

The Company believes it has various sources of liquidity to pay off the Senior Notes upon their maturity, including capacity under its line of credit. See Note 11 Bank and Other Notes Payable in the Company's Notes to the Consolidated Financial Statements.

The Company had, through the Operating Partnership, a \$1.5 billion revolving line of credit that bore interest at LIBOR plus a spread of 0.75% to 1.10% that matured on April 25, 2011. On May 2, 2011, the Company, through the Operating Partnership, obtained a new \$1.5 billion revolving line of credit that bears interest at LIBOR plus a spread of 1.75% to 3.0% depending on the Company's overall leverage and matures on May 2, 2015 with a one-year extension option. Based on the Company's current leverage levels, the borrowing rate on the new facility is LIBOR plus 2.0%. The line of credit can be expanded, depending on certain conditions, up to a total facility of \$2.0 billion. All obligations under the line of credit are unconditionally guaranteed by the Company and certain of its direct and indirect subsidiaries and are secured, subject to certain exceptions, by pledges of direct and indirect ownership interests in certain of the subsidiary guarantors. At September 30, 2011, total borrowings under the line of credit were \$250.0 million with an average effective interest rate of 2.81%.

Cash dividends and distributions for the nine months ended September 30, 2011 were \$217.6 million. A total of \$180.5 million was funded by cash flows provided by operations. The remaining \$37.1 million was funded through distributions received from unconsolidated joint ventures which are included in the cash flows from investing activities section of the Company's Consolidated Statement of Cash Flows.

At September 30, 2011, the Company was in compliance with all applicable loan covenants under its agreements.

At September 30, 2011, the Company had cash and cash equivalents available of \$139.4 million.

### *Off-Balance Sheet Arrangements:*

The Company accounts for its investments in joint ventures that it does not have a controlling interest or is not the primary beneficiary using the equity method of accounting and those investments are reflected on the Consolidated Balance Sheets of the Company as "Investments in Unconsolidated Joint Ventures."

In addition, certain joint ventures also have secured debt that could become recourse debt to the Company or its subsidiaries, in excess of the Company's pro rata share, should the joint ventures be unable to discharge the obligations of the related debt. At September 30, 2011, the balance of the debt that could be recourse to the Company was \$368.6 million offset in part by indemnity agreements from joint venture partners for \$176.7 million. The maturities of the recourse debt, net of indemnification, are \$170.7 million in 2013, \$4.4 million in 2014 and \$16.8 million in 2015.

Additionally, as of September 30, 2011, the Company is contingently liable for \$19.6 million in letters of credit guaranteeing performance by the Company of certain obligations relating to the Centers. The Company does not believe that these letters of credit will result in a liability to the Company.

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The following is a schedule of long-term contractual obligations as of September 30, 2011 for the consolidated Centers over the periods in which they are expected to be paid (in thousands):

Contractual Obligations	Total	Payment Due by Period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than five years
Long-term debt obligations (includes expected interest payments)	\$ 4,252,289	\$ 1,899,435	\$ 609,671	\$ 1,016,242	\$ 726,941
Operating lease obligations(1)	847,513	13,688	28,493	25,263	780,069
Purchase obligations(1)	3,645	3,645			
Other long-term liabilities	279,185	219,246	4,143	18,347	37,449
	\$ 5,382,632	\$ 2,136,014	\$ 642,307	\$ 1,059,852	\$ 1,544,459

(1) See Note 17 Commitments and Contingencies of the Company's Consolidated Financial Statements.

**Funds From Operations and Adjusted Funds From Operations**

The Company uses FFO and adjusted FFO ("AFFO") in addition to net income to report its operating and financial results and considers FFO, AFFO and FFO and AFFO-diluted as supplemental measures for the real estate industry and a supplement to Generally Accepted Accounting Principles ("GAAP") measures. The National Association of Real Estate Investment Trusts defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from extraordinary items and sales of depreciated operating properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect FFO on the same basis. Adjusted FFO ("AFFO") excludes the negative FFO impact of Shoppingtown Mall and Valley View Center for the three and nine months ended September 30, 2011. Valley View Center is in receivership and Shoppingtown Mall is under the control of the loan servicer and likely will be transferred to a receiver in the near future.

FFO and FFO on a diluted basis are useful to investors in comparing operating and financial results between periods. This is especially true since FFO excludes real estate depreciation and amortization, as the Company believes real estate values fluctuate based on market conditions rather than depreciating in value ratably on a straight-line basis over time. The Company believes that AFFO and AFFO on a diluted basis provide useful supplemental information regarding the Company's performance as they show a more meaningful and consistent comparison of the Company's operating performance and allow investors to more easily compare the Company's results without taking into account the unrelated impairment losses and other non-cash charges on properties controlled by either a receiver or loan servicer, which are non-routine items. FFO and AFFO on a diluted basis are measures investors find most useful in measuring the dilutive impact of outstanding convertible securities.

AFFO and FFO do not represent cash flow from operations as defined by GAAP, should not be considered as an alternative to net income as defined by GAAP and are not indicative of cash available to fund all cash flow needs. The Company also cautions that AFFO and FFO, as presented, may not be comparable to similarly titled measures reported by other real estate investment trusts. The reconciliation of AFFO and FFO and AFFO and FFO diluted to net income (loss) available to common stockholders is provided below.

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Management compensates for the limitations of AFFO and FFO by providing investors with financial statements prepared according to GAAP, along with this detailed discussion of AFFO and FFO and a reconciliation of AFFO and FFO and AFFO and FFO-diluted to net income (loss) available to common stockholders. Management believes that to further understand the Company's performance, AFFO and FFO should be compared with the Company's reported net income (loss) and considered in addition to cash flows in accordance with GAAP, as presented in the Company's Consolidated Financial Statements.

The following reconciles net income (loss) available to common stockholders to FFO and AFFO (dollars and shares in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income (loss) attributable to the Company	\$ 12,941	\$ 8,429	\$ (6,241)	\$ 1,632
Adjustments to reconcile net income (loss) to FFO basic and diluted:				
Noncontrolling interest in the Operating Partnership	1,163	913	(544)	167
(Gain) loss on remeasurement, sale or write-down of consolidated assets(1)	(1,389)	(40)	33,514	(551)
Add: gain on undepreciated assets consolidated assets(1)			2,277	
Add: noncontrolling interest share of loss (gain) on sale of consolidated joint ventures(1)		33	(4)	2
Less: write-down of consolidated assets(1)	(20)		(36,173)	
Gain on remeasurement, sale or write down of assets from unconsolidated joint ventures(2)	(23)	(333)	(12,583)	(699)
Add: gain on sale of undepreciated assets from unconsolidated joint ventures(2)	20	92	71	489
Less: write down of unconsolidated joint ventures(2)				(32)
Depreciation and amortization on consolidated assets	67,996	62,801	198,454	181,930
Less: depreciation and amortization attributable to noncontrolling interest on consolidated joint ventures	(4,534)	(1,995)	(13,520)	(13,585)
Depreciation and amortization on unconsolidated joint ventures(2)	31,355	27,977	90,061	84,185
Less: depreciation on personal property	(3,329)	(4,556)	(10,711)	(11,151)
FFO basic and diluted	104,180	93,321	244,601	242,387
Add: Shoppingtown Mall negative FFO	290		36,041	
Add: Valley View Center negative FFO	2,886		6,102	
AFFO basic and diluted	\$ 107,356	\$ 93,321	\$ 286,744	\$ 242,387
Weighted average number of FFO and AFFO shares outstanding for AFFO and FFO-basic and diluted FFO and AFFO-diluted(3)	143,151	142,020	142,925	128,998

(1) The net total of these line items equal the loss on sales of depreciated assets. These line items are included in this reconciliation to provide the Company's investors with more detailed information and do not represent a departure from FFO as defined by NAREIT.

(2) Unconsolidated joint ventures are presented at the Company's pro rata share.



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(3) As of September 30, 2011 and 2010, 11.0 million and 11.8 million OP Units were outstanding, respectively.

The computation of FFO diluted shares outstanding includes the effect of share and unit-based compensation plans and the Senior Notes using the treasury stock method. It also assumes the conversion of MACWH, LP common and preferred units to the extent that they are dilutive to the FFO computation. The MACWH, LP preferred units were antidilutive to the calculations for the three and nine months ended September 30, 2011 and 2010 and were not included in the above calculations.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company's primary market risk exposure is interest rate risk. The Company has managed and will continue to manage interest rate risk by (1) maintaining a ratio of fixed rate, long-term debt to total debt such that floating rate exposure is kept at an acceptable level, (2) reducing interest rate exposure on certain long-term floating rate debt through the use of interest rate caps and/or swaps with appropriately matching maturities, (3) using treasury rate locks where appropriate to fix rates on anticipated debt transactions, and (4) taking advantage of favorable market conditions for long-term debt and/or equity.

The following table sets forth information as of September 30, 2011 concerning the Company's long term debt obligations, including principal cash flows by scheduled maturity, weighted average interest rates and estimated fair value ("FV") (dollars in thousands):

	For the years ended September 30,							
	2012	2013	2014	2015	2016	Thereafter	Total	FV
<b>CONSOLIDATED</b>								
<b>CENTERS:</b>								
Long term debt:								
Fixed rate	\$ 937,850	\$ 347,377	\$ 72,928	\$ 349,757	\$ 376,235	\$ 558,203	\$ 2,642,350	\$ 2,821,638
Average interest rate	5.62%	5.44%	5.59%	6.24%	5.79%	4.81%	5.53%	
Floating rate	883,779	78,941	80,137	131,697	107,000	138,087	1,419,641	1,429,952
Average interest rate	2.84%	4.04%	5.16%	3.54%	3.07%	2.75%	3.11%	
Total debt Consolidated Centers								
	\$ 1,821,629	\$ 426,318	\$ 153,065	\$ 481,454	\$ 483,235	\$ 696,290	\$ 4,061,991	\$ 4,251,590
<b>UNCONSOLIDATED</b>								
<b>JOINT VENTURE CENTERS:</b>								
Long term debt (at Company's pro rata share):								
Fixed rate	\$ 230,634	\$ 491,118	\$ 230,373	\$ 236,493	\$ 610,318	\$ 330,804	\$ 2,129,740	\$ 2,328,622
Average interest rate	6.91%	6.20%	5.24%	5.97%	6.08%	4.82%	5.90%	
Floating rate	45,188	58,852	18,925	13,311	25,000		161,276	162,775
Average interest rate	0.86%	5.02%	3.19%	3.20%	3.58%		3.27%	
Total debt Unconsolidated Joint Venture Centers								
	\$ 275,822	\$ 549,970	\$ 249,298	\$ 249,804	\$ 635,318	\$ 330,804	\$ 2,291,016	\$ 2,491,397

The consolidated Centers' total fixed rate debt at September 30, 2011 and December 31, 2010 was \$2.6 billion and \$3.1 billion, respectively. The average interest rate on fixed rate debt at September 30, 2011 and December 31, 2010 was 5.53% and 5.98%, respectively. The consolidated Centers' total floating rate debt at September 30, 2011 and December 31, 2010 was \$1.4 billion and \$766.9 million, respectively. The average interest rate on floating rate debt at September 30, 2011 and December 31, 2010 was 3.11% and 3.85%, respectively.

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The Company's pro rata share of the Unconsolidated Joint Venture Centers' fixed rate debt at September 30, 2011 and December 31, 2010 was \$2.1 billion and \$2.0 billion, respectively. The average interest rate on fixed rate debt at September 30, 2011 and December 31, 2010 was 5.90% and 6.11%, respectively. The Company's pro rata share of the Unconsolidated Joint Venture Centers' floating rate

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debt at September 30, 2011 and December 31, 2010 was \$161.3 million and \$241.7 million, respectively. The average interest rate on the floating rate debt at September 30, 2011 and December 31, 2010 was 3.27% and 2.24%, respectively.

The Company uses derivative financial instruments in the normal course of business to manage or hedge interest rate risk and records all derivatives on its consolidated balance sheets at fair value (See Note 5 Derivative Instruments and Hedging Activities in the Company's Notes to the Consolidated Financial Statements).

The following are outstanding derivatives at September 30, 2011 (amounts in thousands):

Property/Entity(1)	Notional Amount	Product	Rate	Maturity	Company's Ownership	Fair Value(1)
La Cumbre Plaza	\$ 30,000	Cap	3.00%	12/9/2011	100%	\$
Westside Pavilion	175,000	Cap	5.50%	6/5/2012	100%	

(1)

Fair value at the Company's ownership percentage.

In addition, the Company has assessed the market risk for its floating rate debt and believes that a 1% increase in interest rates would decrease future earnings and cash flows by approximately \$15.8 million per year based on \$1.6 billion outstanding of floating rate debt at September 30, 2011.

The fair value of the Company's long-term debt is estimated based on discounted cash flows at interest rates that management believes reflect the risks associated with long-term debt of similar risk and duration.

#### **Item 4. Controls and Procedures**

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, management carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on their evaluation as of September 30, 2011, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is (a) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (b) is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In addition, there has been no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

None of the Company, the Operating Partnership, the Management Companies or their respective affiliates are currently involved in any material legal proceedings.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors relating to the Company set forth under the caption "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On August 24, 2011, the Company, as general partner of the Operating Partnership, issued 20,000 shares of common stock of the Company upon the redemption of 20,000 common partnership units of the Operating Partnership. These shares of common stock were issued in a private placement to a limited partner of the partnership pursuant to Section 4(2) of the Securities Act of 1933, as amended.

**Item 3. Defaults Upon Senior Securities**

Not Applicable

**Item 4. Removed and Reserved**

**Item 5. Other Information**

Not Applicable

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#### **Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Articles of Amendment and Restatement of the Company (incorporated by reference as an exhibit to the Company's Registration Statement on Form S-11, as amended (No. 33-68964)).
3.1.1	Articles Supplementary of the Company (incorporated by reference as an exhibit to the Company's Current Report on Form 8-K, event date May 30, 1995).
3.1.2	Articles Supplementary of the Company (with respect to the first paragraph) (incorporated by reference as an exhibit to the Company's 1998 Form 10-K).
3.1.3	Articles Supplementary of the Company (Series D Preferred Stock) (incorporated by reference as an exhibit to the Company's Current Report on Form 8-K, event date July 26, 2002).
3.1.4	Articles Supplementary of the Company (incorporated by reference as an exhibit to the Company's Registration Statement on Form S-3, as amended (No. 333-88718)).
3.1.5	Articles of Amendment (declassification of Board) (incorporated by reference as an exhibit to the Company's 2008 Form 10-K).
3.1.6	Articles Supplementary (incorporated by reference as an exhibit to the Company's Current Report on Form 8-K, event date February 5, 2009).
3.1.7	Articles of Amendment (increased authorized shares) (incorporated by reference as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference as an exhibit to the Company's Current Report on Form 8-K, event date June 30, 2010).
4.1	Form of Common Stock Certificate (incorporated by reference as an exhibit to the Company's Current Report on Form 8-K, as amended, event date November 10, 1998).
4.2	Form of Preferred Stock Certificate (Series D Preferred Stock) (incorporated by reference as an exhibit to the Company's Registration Statement on Form S-3 (No. 333-107063)).
4.3	Indenture, dated as of March 16, 2007, among the Company, the Operating Partnership and Deutsche Bank Trust Company Americas (includes form of the Notes and Guarantee) (incorporated by reference as an exhibit to the Company's Current Report on Form 8-K, event date March 16, 2007).
4.4	Warrant to Purchase Common Stock, dated as of September 30, 2009, between the Company and Heitman M-rich Investors LLC (incorporated by reference as an exhibit to the Company's 2009 Form 10-K).
31.1	Section 302 Certification of Arthur Coppola, Chief Executive Officer
31.2	Section 302 Certification of Thomas O'Hern, Chief Financial Officer
32.1	Section 906 Certifications of Arthur Coppola and Thomas O'Hern
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document



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<b>Exhibit Number</b>	<b>Description</b>
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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