# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

## QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**FOR QUARTER ENDED SEPTEMBER 30, 2004**

**COMMISSION FILE NO. 1-12504**

THE MACERICH COMPANY
(Exact Name of registrant as specified in its charter)

| **MARYLAND** | **95-4448705** |
|---|---|
| (State or Other Jurisdiction of Incorporation) | (I.R.S. Employer Identification No.) |

**401 Wilshire Boulevard, Suite 700, Santa Monica, California 90401**

(Address of principal executive office, including zip code)

Registrant’s telephone number, including area code **(310) 394-6000**

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or such shorter period that the Registrant was required to file such report) and (2) has been subject to such filing requirements for the past ninety (90) days.

YES |X| NO |_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

YES |X| NO |_|

Number of shares outstanding of the registrant’s common stock, as of November 1, 2004
Common Stock, par value $.01 per share: 59,274,235 shares

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**Form 10-Q**

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**Part I: Financial Information**

**Part II: Other Information**



**THE MACERICH COMPANY (The Company)**

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

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| | **Unaudited** | |
| **ASSETS** | | |
| Property, net | $ 3,382,285 | $ 3,186,725 |
| Cash and cash equivalents | 52,706 | 47,160 |
| Tenant receivables, net | 61,514 | 67,765 |
| Deferred charges and other assets, net | 263,354 | 231,392 |
| Loans to unconsolidated joint ventures | 23,424 | 29,237 |
| Due from affiliates | 2,362 | 5,406 |
| Investments in unconsolidated joint ventures | 614,728 | 577,908 |
| Total assets | $ 4,400,373 | $ 4,145,593 |
| **LIABILITIES, PREFERRED STOCK AND COMMON STOCKHOLDERS' EQUITY:** | | |
| Mortgage notes payable: | | |
| Related parties | $ 135,943 | $ 129,084 |
| Others | 2,060,487 | 1,787,714 |
| Total | 2,196,430 | 1,916,798 |
| Bank notes payable | 797,000 | 765,800 |
| Accounts payable and accrued expenses | 50,509 | 54,682 |
| Other accrued liabilities | 115,122 | 116,067 |
| Preferred stock dividend payable | 2,358 | 2,212 |
| Total liabilities | 3,161,419 | 2,855,559 |
| Minority interest | 222,651 | 237,615 |
| Commitments and contingencies (Note 9) | | |
| Series A cumulative convertible redeemable preferred stock, $.01 par value, 3,627,131 shares authorized, issued and outstanding at September 30, 2004 and December 31, 2003 | 98,934 | 98,934 |
| Common stockholders' equity: | | |
| Common stock, $.01 par value, 145,000,000 shares authorized, 58,762,625 and 57,902,524 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively | 585 | 578 |
| Additional paid-in capital | 1,028,533 | 1,008,488 |

| | | |
|---|---|---|
| Accumulated deficit | (94,983) | (38,541) |
| Accumulated other comprehensive income (loss) | 18 | (2,335) |
| Unamortized restricted stock | (16,784) | (14,705) |
| Total common stockholders' equity | 917,369 | 953,485 |
| Total liabilities, preferred stock and common stockholders' equity | $ 4,400,373 | $ 4,145,593 |

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



**THE MACERICH COMPANY (The Company)**
**(Unaudited)**

**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Dollars in thousands, except share and per share amounts)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2004** | **2003** |
| REVENUES: | | |
| Minimum rents | $ 239,889 | $ 215,237 |
| Percentage rents | 8,165 | 5,041 |
| Tenant recoveries | 120,031 | 114,993 |
| Other | 12,599 | 12,175 |
| Total revenues | 380,684 | 347,446 |
| EXPENSES: | | |
| Shopping center and operating expenses | 129,758 | 124,294 |
| REIT general and administrative expenses | 8,084 | 6,742 |
| | 137,842 | 131,036 |
| Interest expense: | | |
| Related parties | 3,952 | 4,261 |
| Others | 101,643 | 94,586 |
| Total interest expense | 105,595 | 98,847 |
| Depreciation and amortization | 105,208 | 73,393 |
| Equity in income of unconsolidated joint ventures and the management company | 40,250 | 42,859 |
| Loss on early extinguishment of debt | (1,642) | (126) |
| Gain on sale of assets | 699 | 12,448 |
| Income from continuing operations | 71,346 | 99,351 |
| Discontinued operations: | | |
| Gain on sale of assets | 295 | 22,119 |
| Income from discontinued operations | 320 | 1,629 |
| Total from discontinued operations | 615 | 23,748 |
| Income before minority interest | 71,961 | 123,099 |
| Less: Minority interest | 12,650 | 22,913 |
| Net income | 59,311 | 100,186 |
| Less: Preferred dividends | 6,783 | 12,458 |
| Net income available to common stockholders | $ 52,528 | $ 87,728 |
| Earnings per common share - basic: | | |
| Income from continuing operations | $ 0.89 | $ 1.32 |
| Discontinued operations | 0.01 | 0.36 |
| Net income per share available to common stockholders | $ 0.90 | $ 1.68 |
| Weighted average number of common shares outstanding - basic | 58,479,000 | 52,305,000 |

| | | |
|---|---|---|
| Earnings per common share - diluted: | | |
| Income from continuing operations | $ 0.88 | $ 1.32 |
| Discontinued operations | 0.01 | 0.32 |
| Net income per share available to common stockholders | $ 0.89 | $ 1.64 |
| Weighted average number of common shares outstanding - diluted | 73,053,000 | 75,124,000 |

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



**THE MACERICH COMPANY (The Company)**
**(Unaudited)**

**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Dollars in thousands, except share and per share amounts)**

| | Three Months Ended September 30, | |
|---|---|---|
| | **2004** | **2003** |
| REVENUES: | | |
| Minimum rents | $ 83,984 | $ 71,285 |
| Percentage rents | 3,338 | 2,071 |
| Tenant recoveries | 37,192 | 39,540 |
| Other | 3,849 | 4,323 |
| Total revenues | 128,363 | 117,219 |
| EXPENSES: | | |
| Shopping center and operating expenses | 39,391 | 42,732 |
| REIT general and administrative expenses | 2,788 | 1,687 |
| | 42,179 | 44,419 |
| Interest expense: | | |
| Related parties | 1,683 | 1,430 |
| Others | 35,824 | 30,428 |
| Total interest expense | 37,507 | 31,858 |
| Depreciation and amortization | 35,641 | 25,277 |
| Equity in income of unconsolidated joint ventures and the management company | 12,090 | 13,252 |
| Loss on early extinguishment of debt | (1,237) | (126) |
| (Loss) gain on sale of assets | (80) | 726 |
| Income from continuing operations | 23,809 | 29,517 |
| Discontinued operations: | | |
| (Loss) gain on sale of assets | (21) | 22,289 |
| Income from discontinued operations | 48 | 207 |
| Total from discontinued operations | 27 | 22,496 |
| Income before minority interest | 23,836 | 52,013 |
| Less: Minority interest | 4,180 | 10,214 |
| Net income | 19,656 | 41,799 |
| Less: Preferred dividends | 2,358 | 2,067 |
| Net income available to common stockholders | $ 17,298 | $ 39,732 |
| Earnings per common share - basic: | | |
| Income from continuing operations | $ 0.29 | $ 0.40 |
| Discontinued operations | 0.00 | 0.34 |
| Net income per share available to common stockholders | $ 0.29 | $ 0.74 |
| Weighted average number of common shares outstanding - basic | 58,673,000 | 53,396,000 |

| | | |
|---|---|---|
| Earnings per common share - diluted: | | |
| Income from continuing operations | $ 0.29 | $ 0.39 |
| Discontinued operations | 0.00 | 0.30 |
| Net income per share available to common stockholders | $ 0.29 | $ 0.69 |
| Weighted average number of common shares outstanding - diluted | 73,209,000 | 75,307,000 |

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



**THE MACERICH COMPANY (The Company)**

**CONSOLIDATED STATEMENT OF COMMON STOCKHOLDERS' EQUITY**
**(Dollars in thousands, except share data)**
**(Unaudited)**

| | Common Stock (# of shares) | Common Stock Par Value | Additional Paid In Capital | Accumulated Earnings (deficit) | Accumulated Other Comprehensive Income (Loss) | Unamortized Restricted Stock | Total Common Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2003 | 57,902,524 | $578 | $1,008,488 | ($ 38,541) | ($ 2,335) | ($14,705) | $953,485 |
| Comprehensive income: | | | | | | | |
| Net income | | | | 59,311 | | | 59,311 |
| Reclassification of deferred losses | | | | | 994 | | 994 |
| Interest rate swap agreement | | | | | 1,359 | | 1,359 |
| Total comprehensive income | | | | 59,311 | 2,353 | | 61,664 |
| Issuance of restricted stock | 151,192 | 2 | 8,147 | | | | 8,149 |
| Unvested restricted stock | (151,192) | (2) | | | | (8,147) | (8,149) |
| Restricted stock vested in 2004 | 320,114 | 3 | | | | 6,068 | 6,071 |
| Conversion of OP Units to common stock | 40,000 | -- | 760 | -- | -- | -- | 760 |
| Exercise of stock options | 499,987 | 4 | 9,094 | | | | 9,098 |
| Distributions paid ($1.83 per share) | | | | (108,970) | | | (108,970) |
| Preferred dividends | | | | (6,783) | | | (6,783) |
| Adjustment to reflect minority interest on a pro rata basis according to period end ownership percentage of Operating Partnership | | | 2,044 | | | | 2,044 |
| Balance, September 30, 2004 | 58,762,625 | $585 | $1,028,533 | ($ 94,983) | $18 | ($16,784) | $917,369 |

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



**THE MACERICH COMPANY (The Company)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Dollars in thousands)**
**(Unaudited)**

| | For the nine months ended September 30, 2004 | 2003 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income available to common stockholders | $ 52,528 | $ 87,728 |
| Preferred dividends | 6,783 | 12,458 |
| Net income | 59,311 | 100,186 |
| Adjustments to reconcile net income to net cash | | |

| | | |
|---|---|---|
| provided by operating activities: | | |
| Loss on early extinguishment of debt | 1,642 | 126 |
| Gain on sale of assets | (699) | (12,448) |
| Discontinued operations gain on sale of assets | (295) | (22,119) |
| Depreciation and amortization | 105,258 | 73,853 |
| Amortization of net premium on trust deed note payable | (438) | (1,677) |
| Minority interest | 12,650 | 22,913 |
| Equity in income of unconsolidated joint ventures and the management company | (40,250) | (42,859) |
| Changes in assets and liabilities, net of acquisitions / dispositions: | | |
| Tenant receivables, net | 6,251 | (5,228) |
| Other assets | (11,046) | (5,637) |
| Accounts payable and accrued expenses | 11,520 | 17,499 |
| Due from affiliates | 3,043 | (1,982) |
| Other liabilities | 4,188 | 25,283 |
| Preferred stock dividend payable | 145 | (3,128) |
| Total adjustments | 91,969 | 44,596 |
| Net cash provided by operating activities | 151,280 | 144,782 |
| Cash flows from investing activities: | | |
| Acquisitions of property and property improvements | (140,137) | (160,775) |
| Development, redevelopment and expansion of centers | (108,210) | (108,939) |
| Renovations of centers | (16,352) | (10,644) |
| Tenant allowances | (6,335) | (2,859) |
| Deferred leasing charges | (11,307) | (11,575) |
| Distributions from joint ventures | 60,436 | 55,389 |
| Contributions to joint ventures | (10,800) | (34,102) |
| Acquisitions of joint ventures | (45,950) | (68,320) |
| Payments received from (loans to) unconsolidated joint ventures | 5,813 | (4,055) |
| Proceeds from sale of assets | 457 | 112,803 |
| Net cash used in investing activities | (272,385) | (233,077) |
| Cash flows from financing activities: | | |
| Proceeds from mortgages and notes payable | 452,650 | 407,414 |
| Payments on mortgages and notes payable | (195,403) | (178,281) |
| Deferred financing costs | (7,555) | (2,620) |
| Exercise of common stock options | 9,098 | 7,203 |
| Dividends and distributions | (125,356) | (108,870) |
| Dividends to preferred stockholders | (6,783) | (12,458) |
| Net cash provided by financing activities | 126,651 | 112,388 |
| Net increase in cash | 5,546 | 24,093 |
| Cash and cash equivalents, beginning of period | 47,160 | 53,559 |
| Cash and cash equivalents, end of period | $ 52,706 | $ 77,652 |
| Supplemental cash flow information: | | |
| Cash payment for interest, net of amounts capitalized | $ 101,680 | $ 101,467 |
| Non-cash transactions: | | |
| Acquisition of property by assumption of debt | $ 54,023 | -- |
| Acquisition of property by assumption of joint venture debt | -- | $ 180,000 |
| Reclassification from investments in joint ventures to property | -- | $ 65,115 |
| Reclassification from property to investments in joint ventures | -- | $ 113,603 |
| Reclassification from debt to investments in joint ventures | -- | $ 69,557 |

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



**THE MACERICH COMPANY (The Company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Dollars in thousands)**
**(Unaudited)**

(Dollars in thousands)

**1. Interim Financial Statements and Basis of Presentation:**

The accompanying consolidated financial statements of The Macerich Company (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 Macerich Partnership, L.P., a Delaware limited partnership (the “Operating Partnership”). The interests in the Operating Partnership are known as OP units. OP units not held by the Company are redeemable, subject to certain restrictions, on a one-for-one basis for the Company’s common stock or cash at the Company’s option. Investments in entities in which the Operating Partnership owns in excess of 50% and has a controlling interest of the respective entity are consolidated; all other investments have been accounted for under the equity method and are reflected as “Investments in Unconsolidated Joint Ventures and the Management Company”. Effective July 1, 2003, the Company began consolidating the accounts of Macerich Management Company, in accordance with FIN 46 (See “Accounting Pronouncements”). Prior to July 1, 2003, the Company accounted for Macerich Management Company, under the equity method of accounting. The use of the term “management company” refers to Macerich Management Company prior to July 1, 2003.

The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2003. In the opinion of management, all adjustments, (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements for the interim periods have been made. The preparation of financial statements in conformity with accounting principles generally accepted 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. In the nine months ended September 30, 2004, the Company changed its estimate for common area expense recoveries applicable to prior periods. This change in estimate resulted in a $3,568 charge for the three months ended September 30, 2004. The results for interim periods are not necessarily indicative of the results to be expected for a full year. The accompanying consolidated balance sheet as of December 31, 2003 has been derived from the audited financial statements, but does not include all disclosures required by GAAP.

Certain reclassifications have been made in the 2003 consolidated financial statements to conform to the 2004 financial statement presentation.

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

In January 2003, the FASB issued FIN 46, “Consolidation of Variable Interest Entities – an interpretation of ARB No. 51.” FIN 46 addresses consolidation by business enterprises of variable interest entities, which have one or both of the following characteristics: 1) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, which is provided through other interests that will absorb some or all of the expected losses of the entity, and 2) the equity investors lack an essential characteristic of a controlling financial interest. FIN 46 was effective immediately for all variable interest entities acquired after January 31, 2003 and for the first fiscal year or interim period beginning after June 15, 2003 for variable interest entities in which an enterprise holds a variable interest that was acquired before February 1, 2003. In December 2003, the FASB deferred the effective date of FIN 46 for variable interests acquired before February 1, 2003 to the first reporting period ending after March 15, 2004. The Company has adopted the provisions of FIN 46 for all non-special purpose entities created after February 1, 2003, and the Company has determined that FIN 46 does not apply to its investments in such entities or that such entities are not variable interest entities. In considering investments in joint ventures made prior to February 1, 2003, the Company has concluded that the joint ventures are either not subject to the provisions of FIN 46 or, if subject to FIN 46, are not variable interest entities. As a result, the adoption of FIN 46 did not have a material effect on the Company’s consolidated financial statements. Effective July 1, 2003, the Company has consolidated Macerich Management Company (“MMC”), in accordance with FIN 46. Consolidating MMC did not have a material impact on the consolidated financial statements. Prior to July 1, 2003, MMC was accounted for under the equity method in the Company’s consolidated financial statements.



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*Disposal of Long-Lived Assets:*

The Company sold its 67% interest in Paradise Village Gateway, which was acquired on July 26, 2002, on January 2, 2003 and recorded a loss on sale of $0.2 million for the three months ending March 31, 2003. Additionally, the Company sold Bristol Center on August 4, 2003, and the results for the nine months ended September 30, 2004 and 2003 have been reclassified to discontinued operations. The sale of Bristol Center resulted in a gain on sale of asset of $22.3 million in August 2003. Total revenues associated with Bristol Center were $159 and $2,513 for the nine months ended September 30, 2004 and 2003, respectively.

*Earnings Per Share (“EPS”)*

The computation of basic earnings per share is based on net income and the weighted average number of common shares outstanding for the nine and three months ending September 30, 2004 and 2003. The computation of diluted earnings per share does not include the effect of outstanding restricted stock issued under the employee and director stock incentive plans as they are antidilutive using the treasury method. The Operating Partnership units (“OP units”) not held by the Company have been included in the diluted EPS calculation since they are redeemable on a one-for-one basis for shares of common stock. The following table reconciles the basic and diluted earnings per share calculation:

| | For the nine months ended September 30, | |
|---|---|---|
| | **2004** | **2003** |

| | Net Income | Shares | Per Share | Net Income | Shares | Per Share |
|---|---|---|---|---|---|---|
| | (In thousands, except per share data) | | | (In thousands, except per share data) | | |
| Net income | $59,311 | | | $100,186 | | |
| Less: Preferred stock dividends | 6,783 | | | 12,458 | | |
| Basic EPS: | | | | | | |
| Net income available to common stockholders | $52,528 | 58,479 | $0.90 | $ 87,728 | 52,305 | $1.68 |
| Diluted EPS: | | | | | | |
| Conversion of OP units | 12,650 | 14,190 | | 22,913 | 13,690 | |
| Employee stock options | -- | 384 | | -- | 476 | |
| Convertible preferred stock | n/a - antidilutive | for EPS | | 12,458 | 8,653 | |
| Net income available to common stockholders | $65,178 | 73,053 | $0.89 | $123,099 | 75,124 | $1.64 |

| | For the three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2004 | | | 2003 | | |
| | Net Income | Shares | Per Share | Net Income | Shares | Per Share |
| | (In thousands, except per share data) | | | (In thousands, except per share data) | | |
| Net income | $19,656 | | | $41,799 | | |
| Less: Preferred stock dividends | 2,358 | | | 2,067 | | |
| Basic EPS: | | | | | | |
| Net income available to common stockholders | $17,298 | 58,673 | $0.29 | $ 39,732 | 53,396 | $0.74 |
| Diluted EPS: | | | | | | |
| Conversion of OP units | 4,180 | 14,178 | | 10,214 | 13,646 | |
| Employee stock options | -- | 358 | | -- | 522 | |
| Convertible preferred stock | n/a - antidilutive | for EPS | | 2,067 | 7,743 | |
| Net income available to common stockholders | $21,478 | 73,209 | $0.29 | $52,013 | 75,307 | $0.69 |





The minority interest as reflected in the Company's consolidated statements of operations has been allocated for EPS calculations as follows:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Income from continuing operations | $ 4,175 | $ 5,614 | $12,530 | $17,988 |
| Discontinued operations: | | | | |
| (Loss) gain on sale of assets | (4) | 4,558 | 58 | 4,587 |
| Income from discontinued operations | 9 | 42 | 62 | 338 |
| Total | $ 4,180 | $10,214 | $12,650 | $22,913 |

**2. Organization:**

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 or has a majority of the ownership interests in the Operating Partnership. As of September 30, 2004, the Operating Partnership owned or had an ownership interest in 62 regional shopping centers, 18 community shopping centers and two development projects aggregating approximately 61 million square feet of gross leasable area ("GLA"). These 82 regional and community shopping centers and development projects are referred to hereinafter as the "Centers", unless the context otherwise requires. The Company is a self-administered and self-managed real estate investment trust ("REIT") and conducts all of its operations through the Operating Partnership and the Company's management companies, Macerich Property Management Company, LLC ("MPMC, LLC"), a single-member Delaware limited liability company, MMC, a California corporation, Westcor Partners, LLC, a single member Arizona limited liability company, Macerich Westcor Management, LLC, a single member Delaware limited liability company and Westcor Partners of Colorado, LLC, a Colorado limited liability company. The three Westcor management companies are collectively referred to as the "Westcor Management Companies."

(Dollars in thousands)

The Company was organized to qualify as a REIT under the Internal Revenue Code of 1986, as amended. As of September 30, 2004, the 19% limited partnership interest of the Operating Partnership not owned by the Company is reflected in these financial statements as minority interest.



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**3. Investments in Unconsolidated Joint Ventures and the Macerich Management Company:**

The following are the Company's investments in various joint ventures. The Operating Partnership's interest in each joint venture as of September 30, 2004 is as follows:

| Joint Venture | The Operating Partnership's Ownership % |
|---|---|
| Biltmore Shopping Center Partners, LLC | 50% |
| Corte Madera Village, LLC | 50.1% |
| Macerich Northwestern Associates | 50% |
| Northpark Partners, L.P. | 50% |
| Northpark Land Partners, L.P. | 50% |
| Pacific Premier Retail Trust | 51% |
| SDG Macerich Properties, L.P. | 50% |
| WM Inland, LLC | 50% |
| West Acres Development | 19% |
| Westcor Joint Ventures: | |
| Regional Malls: | |
| East Mesa Mall, LLC - Superstition Springs Center | 33.3% |
| New River Associates - Arrowhead Towne Center | 33.3% |
| Scottsdale Fashion Square Partnership | 50% |
| Westpen Associates - Desert Sky Mall | 50% |
| Other Properties / Affiliated Companies: | |
| Arrowhead Festival, LLC | 5% |
| Camelback Colonnade Associates Limited Partnership | 75% |
| Chandler Gateway Partners, LLC | 50% |
| Chandler Village Center, LLC | 50% |
| East Mesa Land, LLC | 50% |
| Jaren Associates #4 | 12.5% |
| Lee West, LLC | 50% |
| Lee West II, LLC | 50% |
| Promenade Associates, LLC | 50% |
| Propcor Associates | 25% |
| Propcor II Associates, LLC - Boulevard Shops | 50% |
| Russ Lyon Realty/Westcor Venture I | 50% |
| SanTan Festival, LLC | 50% |
| SanTan Village Phase 2, LLC | 37.5% |
| Scottsdale / 101 Associates, LLC | 46% |
| Westcor / Gilbert, LLC | 50% |
| Westcor / Goodyear, LLC | 50% |
| Westlinc Associates - Hilton Village | 50% |

The Company accounts for the joint ventures using the equity method of accounting. In accordance with FIN 46, effective July 1, 2003, the Company began consolidating the accounts for MMC. Prior to July 1, 2003, the Company accounted for MMC under the equity method of accounting.



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(Dollars in thousands)

**3. Investments in Unconsolidated Joint Ventures and the Macerich Management Company, Continued:**

Although the Company has a greater than 50% interest in Pacific Premier Retail Trust, Camelback Colonnade and Corte Madera Village, LLC, the Company shares management control with these joint venture partners and accounts for these joint ventures using the equity method of accounting.

On January 31, 2003, the Company purchased its joint venture partner's 50% interest in FlatIron Crossing. Accordingly, the Company now owns 100% of FlatIron Crossing. The purchase price consisted of approximately $68,320 in cash plus the assumption of the joint venture partners share of debt of $90,000. The results of FlatIron Crossing prior to January 31, 2003 were accounted for using the equity method of accounting.

On May 15, 2003, the Company sold 49.9% of its partnership interest in the Village at Corte Madera for $65,868, which included the assumption of a proportionate amount of the partnership debt in the amount of $34,709. The Company is retaining a 50.1% partnership interest and will continue leasing and managing the asset. Effective May 16, 2003, the Company began accounting for this property under the equity method of accounting.

On June 6, 2003, the Shops at Gainey Village, a 138,000 square foot Phoenix area specialty center, was sold for $55,724. The Company, which owned 50% of this property, received total proceeds of $15,816 and recorded a gain on sale of $2,788.

On December 18, 2003, the Company acquired Biltmore Fashion Park, a 610,477 square foot regional mall in Phoenix, Arizona. The total purchase price was $158,543, which included the assumption of $77,381 of debt. The Company also issued 705,636 partnership units of the Operating Partnership at a price of $42.80 per unit. The balance of the Company's 50% share of the purchase price of $10,500 was funded by cash and borrowings under the Company's line of credit. Biltmore Fashion Park is owned in a 50/50 partnership with an institutional partner. The results below of Biltmore Fashion Park are included for the period subsequent to its date of acquisition.

On January 30, 2004, the Company, in a 50/50 joint venture with a private investment company, acquired Inland Center, a 1 million square foot super-regional mall in San Bernardino, California. The total purchase price was $63,300 and concurrently with the acquisition, the joint venture placed a $54,000 fixed rate loan on the property. The balance of the Company's pro rata share of the purchase price was funded by cash and borrowings under the Company's line of credit. The results below of Inland Center are included for the period subsequent to its date of acquisition.

On May 11, 2004, the Company, in a 50/50 joint venture with a private mall owner, acquired NorthPark Center, a 1.4 million square foot regional mall in Dallas, Texas. The Company's initial investment in the property was $30,005 which was funded by borrowings under the Company's line of credit. In addition, the Company assumed a pro rata share of debt of $86,499 and has committed to fund an additional $45,000. As of September 30, 2004, the Company's total investment in the property is $39,426. The results below of NorthPark Center are included for the period subsequent to its date of acquisition.

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





**3. Investments in Unconsolidated Joint Ventures and the Macerich Management Company, Continued:**

**COMBINED AND CONDENSED BALANCE SHEETS OF UNCONSOLIDATED JOINT VENTURES**

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| Assets: | | |
| Properties, net | $3,144,295 | $2,961,855 |
| Other assets | 211,757 | 148,246 |
| Total assets | $3,356,052 | $3,110,101 |
| Liabilities and partners' capital: | | |
| Mortgage notes payable(1) | $2,372,162 | $2,141,853 |
| Other liabilities | 105,406 | 102,516 |
| Company's capital (2) | 452,575 | 412,988 |
| Outside partners' capital | 425,909 | 452,744 |
| Total liabilitites and partners' capital | $3,356,052 | $3,110,101 |

*(1) Certain joint ventures have debt that could become recourse debt to the Company, in excess of its pro rata share, should the joint venture be unable to discharge the obligations of the related debt. As of September 30, 2004 and December 31, 2003, a total of $58,255 and $37,410 could become recourse debt to the Company, respectively.*

*(2) The Company's investment in joint ventures is $162,153 and $164,920 more than the underlying equity as reflected in the joint ventures' financial statements as of September 30, 2004 and December 31, 2003, respectively. This represents the difference*

(Dollars in thousands)

*between the cost of an investment and the book value of the underlying equity of the joint venture. The Company is amortizing this difference into income on a straight-line basis, consistent with the depreciable lives on property and intangible assets.*

**COMBINED STATEMENTS OF OPERATIONS OF JOINT VENTURES**

| | Nine Months Ended September 30, 2004 | | | | |
|---|---|---|---|---|---|
| | SDG Macerich Properties, L.P. | Pacific Premier Retail Trust | Westcor Joint Ventures | Other Joint Ventures | Total |
| Revenues: | | | | | |
| Minimum rents | $ 67,731 | $ 82,275 | $ 69,780 | $44,513 | $ 264,299 |
| Percentage rents | 2,711 | 3,141 | 1,207 | 2,149 | 9,208 |
| Tenant recoveries | 35,343 | 31,128 | 28,154 | 20,412 | 115,037 |
| Other | 2,068 | 2,118 | 5,708 | 1,379 | 11,273 |
| Total revenues | 107,853 | 118,662 | 104,849 | 68,453 | 399,817 |
| Expenses: | | | | | |
| Shopping center and operating expenses | 42,722 | 35,278 | 33,875 | 26,098 | 137,973 |
| Interest expense | 21,199 | 34,837 | 22,095 | 20,054 | 98,185 |
| Depreciation and amortization | 21,656 | 19,685 | 29,489 | 14,357 | 85,187 |
| Total operating expenses | 85,577 | 89,800 | 85,459 | 60,509 | 321,345 |
| Loss on early extinguishment of debt | -- | (315) | -- | -- | (315) |
| Gain (loss) on sale of assets | 125 | (11) | 7,351 | -- | 7,465 |
| Net income | $ 22,401 | $ 28,536 | $ 26,741 | $ 7,944 | $ 85,622 |
| Company's equity in income of unconsolidated joint ventures | $ 11,200 | $ 14,520 | $ 11,485 | $ 3,045 | $ 40,250 |





**3. Investments in Unconsolidated Joint Ventures and the Macerich Management Company, Continued:**

**COMBINED STATEMENTS OF OPERATIONS OF JOINT VENTURES AND THE MACERICH MANAGEMENT COMPANY**

| | Nine Months Ended September 30, 2003 | | | | | |
|---|---|---|---|---|---|---|
| | SDG Macerich Properties, L.P. | Pacific Premier Retail Trust | Westcor Joint Ventures | Other Joint Ventures | Macerich Management Company | Total |
| Revenues: | | | | | | |
| Minimum rents | $ 67,988 | $ 79,399 | $ 75,476 | $18,385 | -- | $241,248 |
| Percentage rents | 2,711 | 2,931 | 617 | 1,101 | -- | 7,360 |
| Tenant recoveries | 34,088 | 31,159 | 30,765 | 6,986 | -- | 102,998 |
| Management fee | -- | -- | -- | -- | $5,526 | 5,526 |
| Other | 2,220 | 1,844 | 2,008 | 713 | 370 | 7,155 |
| Total revenues | 107,007 | 115,333 | 108,866 | 27,185 | 5,896 | 364,287 |
| Expenses: | | | | | | |
| Management Company expense | -- | -- | -- | -- | 2,966 | 2,966 |
| Shopping center and operating expenses | 41,591 | 33,932 | 35,572 | 7,579 | -- | 118,674 |
| Interest expense | 21,099 | 35,666 | 22,494 | 7,952 | -- | 87,211 |
| Depreciation and amortization | 20,396 | 18,416 | 25,272 | 3,575 | 1,300 | 68,959 |
| Total operating expenses | 83,086 | 88,014 | 83,338 | 19,106 | 4,266 | 277,810 |
| (Loss) gain on sale of assets | (463) | 73 | 4,056 | -- | -- | 3,666 |

(Dollars in thousands)

| | | | | | | |
|---|---|---|---|---|---|---|
| Net income | $ 23,458 | $ 27,392 | $ 29,584 | $ 8,079 | $1,630 | $ 90,143 |
| Companies equity in income of unconsolidated joint ventures and the Macerich Management Company | $ 11,729 | $ 13,970 | $ 12,732 | $ 2,879 | $1,549 | $ 42,859 |

**COMBINED STATEMENTS OF OPERATIONS OF JOINT VENTURES**

| | Three Months Ended September 30, 2004 | | | | |
|---|---|---|---|---|---|
| | SDG Macerich Properties, L.P. | Pacific Premier Retail Trust | Westcor Joint Ventures | Other Joint Ventures | Total |
| Revenues: | | | | | |
| Minimum rents | $22,800 | $ 28,064 | $25,689 | $19,066 | $ 95,619 |
| Percentage rents | 820 | 1,123 | 641 | 1,021 | 3,605 |
| Tenant recoveries | 12,266 | 9,710 | 9,007 | 9,137 | 40,120 |
| Other | 763 | 788 | 1,169 | 505 | 3,225 |
| Total revenues | 36,649 | 39,685 | 36,506 | 29,729 | 142,569 |
| Expenses: | | | | | |
| Shopping center and operating expenses | 14,323 | 12,101 | 10,923 | 9,589 | 46,936 |
| Interest expense | 7,284 | 11,464 | 7,379 | 10,458 | 36,585 |
| Depreciation and amortization | 7,236 | 6,592 | 12,656 | 7,049 | 33,533 |
| Total operating expenses | 28,843 | 30,157 | 30,958 | 27,096 | 117,054 |
| Loss on early extinguishment of debt | -- | (315) | -- | -- | (315) |
| Gain (loss) on sale of assets | 125 | (11) | 887 | -- | 1,001 |
| Net income | $ 7,931 | $ 9,202 | $ 6,435 | $ 2,633 | $ 26,201 |
| Company's equity in income of unconsolidated joint ventures | $ 3,965 | $ 4,687 | $ 3,121 | $ 317 | $ 12,090 |





**3. Investments in Unconsolidated Joint Ventures and the Macerich Management Company, Continued:**

**COMBINED STATEMENTS OF OPERATIONS OF JOINT VENTURES**

| | Three Months Ended September 30, 2003 | | | | |
|---|---|---|---|---|---|
| | SDG Macerich Properties, L.P. | Pacific Premier Retail Trust | Westcor Joint Ventures | Other Joint Ventures | Total |
| Revenues: | | | | | |
| Minimum rents | $22,344 | $26,635 | $23,633 | $ 7,321 | $ 79,933 |
| Percentage rents | 762 | 1,125 | 222 | 533 | 2,642 |
| Tenant recoveries | 11,226 | 10,535 | 10,517 | 2,847 | 35,125 |
| Other | 785 | 812 | 456 | 327 | 2,380 |
| Total revenues | 35,117 | 39,107 | 34,828 | 11,028 | 120,080 |
| Expenses: | | | | | |
| Shopping center and operating expenses | 13,773 | 11,715 | 11,500 | 3,036 | 40,024 |
| Interest expense | 7,037 | 11,942 | 7,171 | 3,314 | 29,464 |
| Depreciation and amortization | 7,087 | 6,167 | 8,234 | 1,636 | 23,124 |
| Total operating expenses | 27,897 | 29,824 | 26,905 | 7,986 | 92,612 |
| Gain on sale of assets | -- | -- | 586 | -- | 586 |

(Dollars in thousands)

| | | | | | |
|---|---|---|---|---|---|
| Net income | $ 7,220 | $ 9,283 | $ 8,509 | $ 3,042 | $ 28,054 |
| Company's equity in income of unconsolidated joint ventures and the Macerich Management Company | $ 3,610 | $ 4,734 | $ 3,840 | $ 1,068 | $ 13,252 |

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

Included in mortgage notes payable are amounts due to affiliates of Northwestern Mutual Life ("NML") of $144,674 and $148,419 as of September 30, 2004 and December 31, 2003, respectively. NML is considered a related party because it is a joint venture partner with the Company in Macerich Northwestern Associates. Interest expense incurred on these borrowings amounted to $7,379 and $7,621 for the nine months ended September 30, 2004 and 2003, respectively; and $2,456 and $2,562 for the three months ended September 30, 2004 and 2003, respectively.

**4. Property:**

Property is summarized as follows:

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| Land | $ 614,836 | $ 561,352 |
| Building improvements | 2,978,277 | 2,687,274 |
| Tenant improvements | 118,948 | 101,089 |
| Equipment and furnishings | 59,592 | 43,833 |
| Construction in progress | 160,872 | 268,811 |
| | 3,932,525 | 3,662,359 |
| Less, accumulated depreciation | (550,240) | (475,634) |
| | $ 3,382,285 | $ 3,186,725 |





**4. Property, Continued:**

On January 2, 2003, the Company sold its 67% interest in Paradise Village Gateway for approximately $29,400 and recorded a loss on sale of $0.2 million. On May 15, 2003, the Company sold 49.9% of its partnership interest in the Village at Corte Madera for $65,868 which included the assumption of a proportionate share of debt in the amount of $34,709. This sale resulted in the Company recording a gain on sale of $8,537. On August 4, 2003, the Company sold Bristol Center for approximately $30,000 and recorded a gain on sale of $22,291. On September 15, 2003, the Company acquired Northridge Mall in Salinas, California. The total purchase price was $128,500 and was funded by the sale proceeds from Bristol Center and borrowings under the Company's line of credit. Total revenues for the period ending September 30, 2003 were $8,787.

On July 1, 2004, the Company acquired the Mall of Victor Valley in Victorville, California and on July 20, 2004, the Company acquired La Cumbre Plaza in Santa Barbara, California. The Mall of Victor Valley is a 507,000 square foot regional mall and La Cumbre Plaza is a 494,000 square foot regional mall. The combined total purchase price was $151,300. The purchase price for the Mall of Victor Valley included the assumption of an existing fixed rate loan of $54,000 at 5.25% maturing in March, 2008. Concurrent with the closing of La Cumbre Plaza, a $30,000 floating rate loan was placed on the property with an initial interest rate of 2.29%. The balance of the purchase price was paid in cash and borrowings from the Company's revolving line of credit.

Additionally, the Company has recorded a gain of $0.3 million on the sale of peripheral land for the nine months ending September 30, 2004 and recorded a gain of $0.9 million for the nine months ended September 30, 2003.

On January 31, 2003, the Company purchased its joint venture partner's 50% interest in FlatIron Crossing. Accordingly, the Company now owns 100% of FlatIron Crossing. The purchase price consisted of approximately $68,320 in cash plus the assumption of the joint venture partner's share of debt of $90,000.

At January 31, 2003, prior to the acquisition of the remaining 50% interest, the Company's investment in FlatIron Crossing was $64,938.

Total revenues for FlatIron Crossing for the period ending January 31, 2003 were $2,779.

**5. Deferred Charges And Other Assets:**

Deferred charges and other assets are summarized as follows:

| | September 30, 2004 | December, 31 2003 |
|---|---|---|

| | 2004 | 2003 |
|---|---|---|
| Leasing | $ 84,027 | $ 70,685 |
| Financing | 28,280 | 23,167 |
| Intangibles resulting from SFAS 141 allocations | | |
| In-place lease values | 134,800 | 106,139 |
| Leasing commissions and legal costs | 13,689 | 12,203 |
| | 260,796 | 212,194 |
| Less, accumulated amortization | (80,965) | (53,281) |
| | 179,831 | 158,913 |
| Other assets | 83,523 | 72,479 |
| | $ 263,354 | $ 231,392 |





**6. Mortgage Notes Payable:**

Mortgage notes payable at September 30, 2004 and December 31, 2003 consist of the following:

| | Carrying Amount of Notes (1) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2004 | | 2003 | | | | |
| **Property Pledged as Collateral** | **Other** | **Related Party** | **Other** | **Related Party** | **Interest Rate** | **Payment Terms** | **Maturity Date** |
| Consolidated Centers: | | | | | | | |
| Arizona Lifestyle Galleries (50%)(b) | -- | -- | $ 446 | -- | 3.81% | $ 10(a) | (c) |
| Borgata | $ 16,068 | -- | 16,439 | -- | 5.39% | 115(a) | 2007 |
| Capitola Mall | -- | $ 44,393 | -- | $ 45,402 | 7.13% | 380(a) | 2011 |
| Carmel Plaza | 27,514 | -- | 27,762 | -- | 8.18% | 202(a) | 2009 |
| Chandler Fashion Center | 179,321 | -- | 181,077 | -- | 5.48% | 1,043(a) | 2012 |
| Chesterfield Towne Center | 59,983 | -- | 60,804 | -- | 9.07% | 548(d) | 2024 |
| Citadel | 66,352 | -- | 67,626 | -- | 7.20% | 554(a) | 2008 |
| Crossroads Mall - Boulder | -- | -- | -- | 33,016 | 7.08% | 244(a) | (e) |
| Flagstaff Mall | 13,843 | -- | 14,319 | -- | 5.39% | 121(a) | 2006 |
| FlatIron Crossing | 197,871 | -- | 199,770 | -- | 5.23% | 1,102(a) | 2013 |
| Fresno Fashion Fair | 66,630 | -- | 67,228 | -- | 6.52% | 437(a) | 2008 |
| Greeley Mall (f) | 29,512 | -- | 29,878 | -- | 6.18% | 197(a) | 2013 |
| La Cumbre Plaza (g) | 30,000 | -- | -- | -- | 2.64% | interest only | 2007 |
| La Encantada (h) | 41,065 | -- | 28,460 | -- | 3.99% | interest only | 2005 |
| Mall of Victor Valley (i) | 54,961 | -- | -- | -- | 5.25% | 304(a) | 2008 |
| Northridge Mall (j) | 85,000 | -- | -- | -- | 3.49% | interest only | 2009 |
| Northwest Arkansas Mall | 56,296 | -- | 57,336 | -- | 7.33% | 434(a) | 2009 |
| Pacific View | 92,987 | -- | 93,723 | -- | 7.16% | 648(a) | 2011 |
| Panorama Mall | 32,250 | -- | 32,250 | -- | 3.15% | 87(a) | 2005 |
| Paradise Valley Mall | 79,253 | -- | 80,515 | -- | 5.39% | 506(a) | 2007 |
| Paradise Valley Mall | 24,073 | -- | 24,628 | -- | 5.89% | 183(a) | 2009 |
| Prescott Gateway | 35,280 | -- | 40,753 | -- | 3.63% | interest only | (k) |
| PVOP II (50%) (b) | 529 | -- | 1,536 | -- | 5.85% | 11(a) | 2009 |
| Paradise Village Ground Leases (50%) (b) | 3,765 | -- | 3,864 | -- | 5.39% | 28(a) | 2006 |
| Queens Center | 95,114 | -- | 96,020 | -- | 6.88% | 633(a) | 2009 |
| Queens Center (l) | 91,550 | 91,550 | 50,667 | 50,666 | 4.15% | interest only | 2013 |
| Rimrock Mall | 44,699 | -- | 45,071 | -- | 7.45% | 320(a) | 2011 |
| Salisbury, Center at (m) | 79,875 | -- | -- | -- | 2.75% | interest only | 2006 |
| Santa Monica Place | 82,178 | -- | 82,779 | -- | 7.70% | 606(a) | 2010 |
| South Plains Mall | 61,574 | -- | 62,120 | -- | 8.22% | 454(a) | 2009 |
| South Towne Center | 64,000 | -- | 64,000 | -- | 6.61% | interest only | 2008 |
| The Oaks (n) | 108,000 | -- | 108,000 | -- | 2.43% | interest only | 2005 |
| Valley View Center | 51,000 | -- | 51,000 | -- | 7.89% | interest only | 2006 |
| Village Center (50%) (b) | 3,669 | -- | 3,801 | -- | 5.39% | 31(a) | 2006 |
| Village Crossroads (50%) (b) | 2,376 | -- | 2,453 | -- | 4.81% | 19(a) | 2005 |
| Village Fair North (50%) (b) | 5,948 | -- | 6,055 | -- | 5.89% | 41(a) | 2008 |
| Village Plaza | 5,387 | -- | 5,586 | -- | 5.39% | 47(a) | 2006 |
| Village Square I & II | 4,718 | -- | 4,892 | -- | 5.39% | 41(a) | 2006 |

(Dollars in thousands)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Vintage Faire Mall | 67,300 | -- | 67,873 | -- | 7.89% | 508(a) | 2010 |
| Westbar | 4,040 | -- | 4,216 | -- | 4.22% | 35(a) | (o) |
| Westbar | -- | -- | 7,380 | -- | 4.22% | 66(a) | (p) |
| Westside Pavilion | 96,506 | -- | 97,387 | -- | 6.67% | 628(a) | 2008 |
| Total - Consolidated Centers | $2,060,487 | $135,943 | $1,787,714 | $129,084 | | | |

(1) The mortgage notes payable balances include the unamortized debt premiums. These debt premiums represent the excess of the fair value of debt over the principal value of debt assumed in various acquisitions subsequent to March, 1994 (with interest rates ranging from 3.81% to 7.68%). The debt premiums are being amortized into interest expense over the term of the related debt, in a manner which approximates the effective interest method.





**6. Mortgage Notes Payable, Continued:**

The debt premiums as of September 30, 2004 and December 31, 2003 consist of the following:

| | **2004** | **2003** |
|---|---|---|
| Borgata | $ 904 | $1,124 |
| Flagstaff Mall | 380 | 593 |
| Mall at Victor Valley | 1,103 | -- |
| Paradise Valley Mall | 1,773 | 2,363 |
| Paradise Valley Mall | 1,344 | 1,564 |
| Paradise Village Ground Leases(50%)(b) | 92 | 138 |
| PVOP II(50%)(b) | 85 | 99 |
| Village Plaza | 323 | 438 |
| Village Square I and II | 124 | 194 |
| Village Center(50%)(b) | 105 | 157 |
| Village Crossroads(50%)(b) | 61 | 110 |
| Village Fair North(50%)(b) | 182 | 219 |
| Westbar | -- | 33 |
| Westbar | 38 | 151 |
| **Total Consolidated Centers** | $6,514 | $7,183 |

(a) This represents the monthly payment of principal and interest.

(b) As of September 30, 2004 and December 31, 2003, these properties are being held by the owners as tenants in common and the Company has a direct undivided 50% interest in these properties.

(c) This loan was paid off in full on March 24, 2004.

(d) This amount represents the monthly payment of principal and interest. In addition, contingent interest, as defined in the loan agreement, may be due to the extent that 35% of the amount by which the property's gross receipts (as defined in the loan agreement) exceeds a base amount specified therein. Contingent interest expense recognized by the Company was $400 and $507 for the nine months ended September 30, 2004 and 2003, respectively. Contingent interest expense recognized by the Company was $143 and $302 for the three months ended September 30, 2004 and 2003, respectively.

(e) This note was issued at a discount. The discount was being amortized over the life of the loan using the effective interest method. At December 31, 2003, the unamortized discount was $231. This loan was paid off in full on February 3, 2004. The Company recognized a $405 loss on early extinguishment of debt.

(f) On August 7, 2003, the Company paid off the old loan and placed a new $30,000 ten-year fixed rate loan at an interest rate of 6.18%. The Company recognized a $126 loss on early extinguishment of the old debt in 2003.

(g) Concurrent with the acquisition of this property, the Company placed a $30,000 floating rate loan with an initial interest rate of 2.29%. The loan matures August 1, 2007 with two one-year extensions through August 1, 2009. At September 30, 2004, the total interest rate was 2.64%.

(h) This represents a construction loan which shall not exceed $51,000 bearing interest at LIBOR plus

2.0%. At September 30, 2004 and December 31, 2003, the total interest rate was 3.99% and 3.18%, respectively.

(i) The Company assumed this debt at acquisition. The loan is fixed at 5.25% and matures on March 1, 2008.





**6. Mortgage Notes Payable, Continued:**

(j) On June 30, 2004, the Company placed a new $85,000 loan maturing in 2009. The loan floats at LIBOR plus 2.0% for six months and then converts to a fixed rate loan at 4.94%. At September 30, 2004, the interest rate was 3.49%.

(k) This represented a construction loan which was not to exceed $46,300 and bore interest at LIBOR plus 2.25%. At December 31, 2003, the total interest rate was 3.52%. Effective February 18, 2004, the loan commitment was reduced to $44,320. On July 31, 2004, this construction loan matured and was replaced with a three-year loan, plus two one-year extension options at LIBOR plus 1.65%.. At September 30, 2004, the total interest rate was 3.63%.

(l) This represents a $225,000 construction loan bearing interest at LIBOR plus 2.50%. The loan converts to a permanent fixed rate loan at 7%, subject to certain conditions including completion and stabilization of the expansion and redevelopment project. As of September 30, 2004 and December 31, 2003, the total interest rate was 4.15% and 3.62%, respectively. NML is the lender for 50% of the construction loan. The funds advanced by NML is considered related party debt as they are a joint venture partner with the Company in Macerich Northwestern Associates.

(m) This floating rate loan was issued on February 18, 2004. The loan bears interest at LIBOR plus 1.375% and matures February 20, 2006 with a one-year extension option. At June 30, 2004, the total interest rate was 2.75%.

(n) Concurrent with the acquisition of the mall, the Company placed a $108,000 loan bearing interest at LIBOR plus 1.15% and maturing July 1, 2004 with three consecutive one year options. $92,000 of the loan is at LIBOR plus 0.7% and $16,000 is at LIBOR plus 3.75%. In July 2004, the Company extended the loan maturity to July 2005. This variable rate debt is covered by an interest rate cap agreement over the loan term which effectively prevents the LIBOR interest rate from exceeding 7.10%. At September 30, 2004 and December 31, 2003, the total weighted average interest rate was 2.43% and 2.32%, respectively.

(o) This entire loan was paid off in full on October 1, 2004.

(p) This entire loan was paid off in full on February 10, 2004.

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

Total interest expense capitalized during the nine and three months ended September 30, 2004 was $7,358 and $1,676, respectively. Total interest expense capitalized during the nine and three months ended September 30, 2003, was $8,698 and $3,786, respectively.

The fair value of mortgage notes payable is estimated to be approximately $2,347,684 and $2,020,687, at September 30, 2004 and December 31, 2003, respectively, based on current interest rates for comparable loans.

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

The Company had a $425,000 revolving line of credit. This revolving line of credit had a three-year term through July 26, 2005 with a one-year extension option. The interest rate fluctuated from LIBOR plus 1.75% to LIBOR plus 3.00% depending on the Company's overall leverage level. As of December 31, 2003, $319,000 of borrowings were outstanding under this credit facility at an average interest rate of 3.69%. On July 30, 2004, the Company amended and expanded the revolving line of credit to $1,000,000 and extended the maturity to July 30, 2007 plus a one-year extension. The interest rate has been reduced to 1.50% over LIBOR based on the Company's current leverage level. As of September 30, 2004, $547,000 of borrowings were outstanding at an average interest rate of 3.27%.

**7. Bank and Other Notes Payable, Continued:**

On July 26, 2002, the Company placed a $250,000 term loan with a maturity of up to three years with two one-year extension options and an interest rate ranging from LIBOR plus 2.75% to LIBOR plus 3.00% depending on the Company’s overall leverage level. At December 31, 2003, $196,800 of the term loan was outstanding at an interest rate of 3.95%. On July 30, 2004, the entire term loan was paid off in full from the Company’s amended and expanded line of credit.

On May 13, 2003, the Company issued $250,000 in unsecured notes maturing in May 2007 with a one-year extension option bearing interest at LIBOR plus 2.50%. The proceeds were used to pay down and create more availability under the Company’s line of credit. At September 30, 2004 and December 31, 2003, $250,000 was outstanding at an interest rate of 4.45%. In October 2003, the Company entered into an interest rate swap agreement which effectively fixed the interest rate at 4.45% from November 2003 to October 13, 2005.

The Company reclassified $994 for the nine months ending September 30, 2004 and 2003 related to treasury rate lock transactions settled in prior years from accumulated other comprehensive income to earnings for the nine months ended September 30, 2004 and 2003. Additionally, the Company recorded other comprehensive income of $1,359 and $775 related to the mark to market of interest rate swap agreements for the nine months ended September 30, 2004 and 2003, respectively.

Additionally, as of September 30, 2004, the Company has contingent obligations of $6,934 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.

**8. Related-Party Transactions:**

The Company engaged MMC and certain of the Westcor Management Companies to manage the operations of certain properties and unconsolidated joint ventures. For the nine months ending September 30, 2004 and 2003, management fees of $6,906 and $6,039 respectively, were paid to MMC by the joint ventures. For the three months ending September 30, 2004 and 2003, management fees of $2,292 and $2,089 respectively, were paid to MMC by the joint ventures. For the nine months ending September 30, 2004 and 2003, management fees of $3,646 and $3,405, respectively, for the unconsolidated entities, were paid to the Westcor Management Companies by the joint ventures. For the three months ending September 30, 2004 and 2003, management fees of $1,196 and $420, respectively, for the unconsolidated entities, were paid to the Westcor Management Companies by the joint ventures.

Certain mortgage notes are held by one of the Company’s joint venture partners. Interest expense in connection with these notes was $3,952 and $4,261 for the nine months ended September 30, 2004 and 2003, respectively. Interest expense in connection with these notes was $1,417 and $1,430 for the three months ended September 30, 2004 and 2003, respectively. Included in accounts payable and accrued expenses is interest payable to these partners of $131 and $232 at September 30, 2004 and December 31, 2003, respectively.

As of September 30, 2004 and December 31, 2003, the Company has loans to unconsolidated joint ventures of $23,424 and $29,237, respectively. These loans represent initial funds advanced to development stage projects prior to construction loan fundings.

Certain Company officers and affiliates have guaranteed mortgages of $21,750 at one of the Company’s joint venture properties.

**9. Commitments and Contingencies:**

The Company has certain properties subject to noncancellable operating ground leases. The leases expire at various times through 2098, 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. Ground rent expenses, net of amounts capitalized, were $785 and $969 for the nine months ended September 30, 2004 and 2003, respectively. Ground rent expenses, net of amounts capitalized, were $482 and $217 for the three months ended September 30, 2004 and 2003, respectively. No contingent rent was incurred in either period.



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**9. Commitments and Contingencies, Continued:**

The Company is currently redeveloping Queens Center. Total costs are expected to be between $250,000 and $275,000, of which the Company has already incurred $248,538 and $174,915 as of September 30, 2004 and December 31, 2003, respectively.

Perchloroethylene (“PCE”) has been detected in soil and groundwater in the vicinity of a dry cleaning establishment at North Valley Plaza, formerly owned by a joint venture of which the Company was a 50% member. The property was sold on December 18, 1997. The California Department of Toxic Substances Control (“DTSC”) advised the Company in 1995 that very low levels of Dichloroethylene (“1,2 DCE”), a degradation byproduct of PCE, had been detected in a municipal water well located 1/4 mile west of the dry cleaners, and that the dry cleaning facility may have contributed to the introduction of 1,2 DCE into the water well. According to DTSC, the maximum contaminant level (“MCL”) for 1,2 DCE which is permitted in drinking water is 6 parts per billion (“ppb”). The 1,2 DCE was detected in the water well at a concentration of 1.2 ppb, which is below the MCL. The Company has retained an environmental consultant and has initiated extensive testing of the site. The joint venture agreed (between itself and the buyer) that it would be responsible for continuing to pursue the investigation and remediation of impacted soil and groundwater resulting from releases of PCE from the former dry cleaner. Approximately $46 and $71 have already been incurred by the joint venture for remediation, professional and legal fees for the nine months ending September 30, 2004 and 2003, respectively. The joint venture has been sharing costs with former owners of the property. An additional $147 remains reserved at September 30, 2004.

The Company acquired Fresno Fashion Fair in December 1996. Asbestos was detected in structural fireproofing throughout much of the Center. Testing data conducted by professional environmental consulting firms indicates that the fireproofing is largely inaccessible to building occupants and is well adhered to the structural members. Additionally, airborne concentrations of asbestos were well within OSHA's permissible exposure limit ("PEL") of .1 fcc. The accounting at acquisition included a reserve of $3,300 to cover future removal of this asbestos, as necessary. The Center was recently renovated and a substantial amount of the asbestos was removed. An additional $660 remains reserved at September 30, 2004.

**10. Cumulative Convertible Redeemable Preferred Stock:**

On February 25, 1998, the Company issued 3,627,131 shares of Series A cumulative convertible redeemable preferred stock ("Series A Preferred Stock") for proceeds totaling $100,000 in a private placement. The preferred stock can be converted on a one for one basis into common stock and will pay a quarterly dividend equal to the greater of $0.46 per share, or the dividend then payable on a share of common stock.

On June 16, 1998, the Company issued 5,487,471 shares of Series B cumulative convertible redeemable preferred stock ("Series B Preferred Stock") for proceeds totaling $150,000 in a private placement. The preferred stock could have been converted on a one for one basis into common stock and paid a quarterly dividend equal to the greater of $0.46 per share, or the dividend then payable on a share of common stock. On September 9, 2003, all of the shares of Series B Preferred Stock were converted to common stock.

No dividends will be declared or paid on any class of common or other junior stock to the extent that dividends on Series A Preferred Stock have not been declared and/or paid.

The holders of Series A Preferred Stock have redemption rights if a change in control of the Company occurs, as defined under the Articles Supplementary. Under such circumstances, the holders of the Series A Preferred Stock are entitled to require the Company to redeem their shares, to the extent the Company has funds legally available therefor, at a price equal to 105% of its liquidation preference plus accrued and unpaid dividends. The Series A Preferred Stock holder also has the right to require the Company to repurchase its shares if the Company fails to be taxed as a REIT for federal tax purposes at a price equal to 115% of its liquidation preference plus accrued and unpaid dividends, to the extent funds are legally available therefore.



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**11. Subsequent Events:**

On October 29, 2004, a dividend/distribution of $0.65 per share was declared for common stockholders and OP unit holders of record on November 15, 2004. In addition, the Company declared a dividend of $0.65 on the Company's Series A Preferred Stock. All dividends/distributions will be payable on December 9, 2004.

The Company is under contract for the acquisition of Fiesta Mall in Mesa, Arizona, with the closing expected in November 2004. Fiesta Mall is a 1,000,000 square foot super-regional mall. The purchase price is $135.0 million.



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**Item 2**

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

**Forward-Looking Statements**

This quarterly report on Form 10-Q contains or incorporates statements that constitute forward-looking statements. Those statements appear in a number of places in this Form 10-Q and include statements regarding, among other matters, the Company's growth, acquisition, redevelopment and development opportunities, the Company's acquisition and other strategies, regulatory matters pertaining to compliance with governmental regulations and other factors affecting the Company's financial condition or results of operations. Words such as "expects," "anticipates," "intends," "projects," "predicts," "plans," "believes," "seeks," "estimates," and "should" and variations of these words and similar expressions, are used in many cases to identify these forward-looking statements. 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 industry to vary materially from the Company's future results, performance or achievements, or those of the industry, expressed or implied in such forward-looking statements. Such factors include the matters described herein and the following factors among others: general industry, economic and business conditions, which will, among other things, affect demand for retail space or retail goods, availability and creditworthiness of current and prospective tenants, Anchor or tenant bankruptcies, closures, mergers or consolidations, lease rates and terms, availability and cost of financing, interest rate fluctuations and operating expenses; adverse changes in the real estate markets including, among other things, competition from other companies, retail formats and technologies, risks of real estate redevelopment, development, acquisitions and dispositions; governmental actions and initiatives (including legislative and regulatory changes); environmental and safety requirements; and terrorist activities that could adversely affect all of the above factors. The Company will not update any forward-looking information to reflect actual results or changes in the factors affecting the forward-looking information.

**Statement on Critical Accounting Policies**

The Securities and Exchange Commission ("SEC") defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The preparation of financial statements in conformity with accounting principles generally accepted 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 uncollectable 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 of the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. However, the following policies could be deemed to be critical within the SEC definition.

*Revenue Recognition:*

Minimum rental revenues are recognized on a straight-line basis over the terms 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 lining of rent adjustment." Currently, 29% of the mall and freestanding leases contain provisions for Consumer Price Index ("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 in accordance with Staff Accounting Bulletin 101. Percentage rents are accrued when the tenants' specified sales targets have been met. Estimated recoveries from tenants for real estate taxes, insurance and other shopping center operating expenses are recognized as revenues in the period the applicable expenses are incurred.



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**Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued:**

*Property:*

Costs related to the development, redevelopment, construction and improvement of properties are capitalized. Interest incurred or imputed on development, redevelopment and construction projects is capitalized until construction is substantially complete.

Maintenance and repairs 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, in accordance with SFAS No. 66—"Accounting for Sales of Real Estate."

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 | initial term of related lease |
| Equipment and furnishings | 5-7 years |

The Company accounts for all acquisitions entered into subsequent to June 30, 2001 in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations ("SFAS 141"). The Company will first determine the value of the land and buildings utilizing an "as if vacant" methodology. The Company will then assign a fair value to any debt assumed at acquisition. The balance of the purchase price will be allocated to tenant improvements and identifiable intangible assets or liabilities. Tenant improvements represent the tangible assets associated with the existing leases valued on a historical basis prorated over the remaining lease terms. The tenant improvements are classified as an asset under real estate investments 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) origination value, which represents the value associated with "cost avoidance" of acquiring in-place leases, such as lease commissions paid under terms generally experienced in our 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. Origination value is recorded as an other asset and is amortized over the remaining lease terms. Value of in-place leases is recorded as an other asset and amortized over the remaining lease term plus an estimate of renewal of the acquired leases. Above or below market leases are classified as an other asset or liability, depending on whether the contractual terms are above or below market, and the asset or liability is amortized to rental revenue over the remaining terms of the leases.

When the Company acquires real estate properties, the Company allocates the components of these acquisitions using relative fair values computed using its estimates and assumptions. These estimates and assumptions impact the amount of costs allocated between various components as well as the amount of costs assigned to individual properties in multiple property acquisitions. These allocations also impact depreciation expense and gains or losses recorded on future sales of properties.

Depending on the materiality of the acquisition, the Company may engage a valuation firm to assist with the allocation.

The Company assesses whether there has been an impairment in the value of its long-lived assets 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 tenants' ability to perform their duties and pay rent under the terms of the leases. The Company may recognize an impairment loss if the cash flows are not sufficient to cover its investment. Such a loss would be determined as the difference between the carrying value and the fair value of a center.



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*Deferred Charges:*

Costs relating to obtaining tenant leases are deferred and amortized over the initial term of the agreement using the straight-line method. Cost 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 renewal. The present value of leasing commissions and legal costs are amortized on a straight-line basis over the individual remaining lease years. The range 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 (weighted average 17 years) |
| Leasing commissions and legal costs | 5 years |

**Off-Balance Sheet Arrangements:**

*Debt guarantees:*

The Company has an ownership interest in a number of joint ventures as detailed in Note 3 to the Company's consolidated financial statements included herein. The Company accounts for those investments 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." A pro rata share of the mortgage debt on these properties is shown in Note 6 to the Company's consolidated financial statements included herein. In addition, the following joint ventures also have debt that could become recourse debt to the Company or its subsidiaries, in excess of its pro rata share, should the partnership be unable to discharge the obligations of the related debt:

| ***Asset/Property*** | ***Maximum amount of debt principal that could be recourse to the Company (Dollars in Thousands)*** | ***Maturity Date*** |
|---|---|---|
| Boulevard Shops | $10,676 | 1/1/2005 |
| Chandler Village Center | 10,610 | 12/19/2006 |
| Scottsdale 101 | 36,969 | 5/1/2006 |
| Total | $58,255 | |

The above amounts increased by $20,845 from December 31, 2003.

Additionally, as of September 30, 2004, the Company has certain obligations of $6.9 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.





*Long-term contractual obligations:*

The following is a schedule of long-term contractual obligations (as of September 30, 2004) for the consolidated Centers over the periods in which they are expected to be paid:

| | **Payment Due by Period** | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations (Dollars in thousands)** | **Total** | **Less than 1 year** | **1-3 years** | **3-5 years** | **More than five years** |
| Long-term debt obligations (includes expected interest payments) | $3,149,610 | $117,324 | $1,223,028 | $768,084 | $1,041,174 |
| Operating lease obligations | 161,466 | 1,270 | 2,540 | 2,540 | 155,116 |
| Purchase obligations | 10,632 | 10,632 | -- | -- | -- |
| Other long-term liabilities | 167,989 | 167,989 | -- | -- | -- |
| Total | $3,489,697 | $297,215 | $1,225,568 | $770,624 | $1,196,290 |

During the nine months ending September 30, 2004, there have been no material changes outside the ordinary course of business in the above specified obligations since the disclosure in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

The following table reflects the Company's acquisitions in 2003 and for the nine months ending September 30, 2004.

| Property/Entity | Date Acquired | Location |
|---|---|---|
| 2003 Acquisitions: | January 31, 2003 | Broomfield, Colorado |
| FlatIron Crossing | September 15, 2003 | Salinas, California |
| Northridge Mall | December 18, 2003 | Phoenix, Arizona |
| Biltmore Fashion Park | | |
| 2004 Acquisitions: | January 30, 2004 | San Bernardino, California |
| Inland Center | May 11, 2004 | Dallas, Texas |
| NorthPark Center | July 1, 2004 | Victor Valley, California |
| Mall at Victor Valley | July 20, 2004 | Santa Barbara, California |
| La Cumbre Plaza | | |

The financial statements reflect the following acquisitions, dispositions and changes in ownership subsequent to the occurrence of each transaction.

On January 2, 2003, the Company sold its 67% interest in Paradise Village Gateway, a 296,153 square foot Phoenix area urban village, for approximately $29.4 million. The proceeds from the sale were used to repay a portion of the term loan. The sale resulted in a loss on sale of asset of $0.2 million.

On January 31, 2003, the Company purchased its joint venture partner's 50% interest in FlatIron Crossing. The purchase price consisted of approximately $68.3 million in cash plus the assumption of the joint venture partner's share of debt of $90.0 million.

On May 15, 2003, the Company sold 49.9% of its partnership interest in the Village at Corte Madera for a total purchase price of approximately $65.9 million, which included the assumption of a proportionate amount of the partnership debt in the amount of approximately $34.7 million. The Company is retaining a 50.1% partnership interest and will continue leasing and managing the asset. The sale resulted in a gain on sale of asset of $8.8 million.

On June 6, 2003, the Shops at Gainey Village, a 138,000 square foot Phoenix area specialty center, was sold for $55.7 million. The Company, which owned 50% of this property, received total proceeds of $15.8 million and recorded a gain on sale of asset of $2.8 million in the consolidated financial statements.

On August 4, 2003, the Company sold Bristol Center, a 161,000 square foot community center in Santa Ana, California. The sales price was approximately $30.0 million and the Company recorded a gain on sale of asset of $22.2 million which is reflected in discontinued operations.

On September 15, 2003, the Company acquired Northridge Mall, an 864,071 square foot super-regional mall in Salinas, California. The total purchase price was $128.5 million and was funded by sale proceeds from Bristol Center and borrowings under the Company's line of credit. Northridge Mall is referred to herein as the "2003 Acquisition Center."

On December 18, 2003, the Company acquired Biltmore Fashion Park, a 610,477 square foot regional mall in Phoenix, Arizona. The total purchase price was $158.5 million, which included the assumption of $77.4 million of debt. The Company also issued 705,636 partnership units of the Operating Partnership at a price of $42.80 per unit. The balance of the Company's 50% share of the purchase price of $10.5 million was funded by cash and borrowings under the Company's line of credit. The mall is owned in a 50/50 joint venture with an institutional partner.

On January 30, 2004, the Company, in a 50/50 joint venture with a private investment company, acquired Inland Center, a 1 million square foot super-regional mall in San Bernardino, California. The total purchase price was $63,300 and concurrently with the acquisition, the joint venture placed a $54,000 fixed rate loan on the property. The balance of the Company's pro rata share of the purchase price was funded by cash and borrowings under the Company's line of credit.





On May 11, 2004, the Company, in a 50/50 joint venture with a private mall owner, acquired NorthPark Center, a 1.4 million square foot regional mall in Dallas, Texas. The Company's initial investment in the property was $30,005 which was funded by borrowings under the Company's line of credit. In addition, the Company assumed a prorata share of debt of $86,499 and has committed to fund an additional $45,000. The results of NorthPark Center are included for the period subsequent to its date of acquisition.

On July 1, 2004, the Company acquired the Mall of Victor Valley in Victorville, California and on July 20, 2004, the Company acquired La Cumbre Plaza in Santa Barbara, California. The Mall of Victor Valley is a 507,000 square foot regional mall and La Cumbre Plaza is a 494,000 square foot regional mall. The combined total purchase price was $151,300. The purchase price for the Mall of Victor Valley included the assumption of an existing fixed rate loan of $54,000 at 5.25% maturing in March, 2008. Concurrent with the closing of La Cumbre Plaza, a $30,000 floating rate loan was placed on the property with an initial interest rate of 2.29%. The balance of the purchase price was paid in cash and borrowings from the Company's revolving line of credit. These properties are referred to herein as the "2004 Acquisition Centers."

Biltmore Fashion Park, Inland Center and NorthPark Center are joint ventures and these properties are reflected using the equity method of accounting. The Company's share of these results of these acquisitions are reflected in the consolidated results of operations of the Company in the income statement line item entitled "Equity in income of unconsolidated joint ventures and the management company."

Many of the variations in the results of operations, discussed below, occurred due to the transactions described above including the acquisition of the 2003 Acquisition Center and 2004 Acquisition Centers. Biltmore Fashion Park, Inland Center and NorthPark Center are referred to herein as the "Joint Venture Acquisition Centers." Crossroads Mall-Boulder, Parklane Mall, Santa Monica Place and Queens Center are currently under redevelopment and are referred to herein as the "Redevelopment Centers." La Encantada and Scottsdale 101 are currently under development and are referred herein as the "Development Properties." Scottsdale 101 is a joint venture and the results are reflected using the equity method of accounting. All other Centers, excluding the Redevelopment

Centers, the Development Properties, the Village at Corte Madera, FlatIron Crossing, the 2003 Acquisition Center, the 2004 Acquisition Centers and the Joint Venture Acquisition Centers, are referred to herein as the "Same Centers," unless the context otherwise requires.

Revenues include rents attributable to the accounting practice of straight-lining of rents which requires rent to be recognized each year in an amount equal to the average rent over the term of the lease, including fixed rent increases over that period. The amount of straight-lined rents, included in consolidated revenues, recognized in 2004 was $1.1 million compared to $1.8 million in 2003. Additionally, the Company recognized through equity in income of unconsolidated joint ventures, $1.3 million as its pro rata share of straight-lined rents from joint ventures in 2004 compared to $1.5 million in 2003. These variances resulted from the Company structuring the majority of its new leases using an annual multiple of CPI increases, which generally do not require straight-lining treatment. Currently, 29% of the mall and freestanding 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.

The Company's historical growth in revenues, net income and Funds From Operations have been closely tied to the acquisition and redevelopment of shopping centers. Many factors, including the availability and cost of capital, the Company's total amount of debt outstanding, interest rates and the availability of attractive acquisition targets, among others, will affect the Company's ability to acquire and redevelop additional properties in the future. The Company may not be successful in pursuing acquisition opportunities and newly acquired properties may not perform as well as expected in terms of achieving the anticipated financial and operating results. Increased competition for acquisitions may impact adversely the Company's ability to acquire additional properties on favorable terms. Expenses arising from the Company's efforts to complete acquisitions, redevelop properties or increase its market penetration may have an adverse effect on its business, financial condition and results of operations. In addition, the following describes some of the other significant factors that may impact the Company's future results of operations.



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*General Factors Affecting the Centers;* Competition: Real property investments are subject to varying degrees of risk that may affect the ability of the Centers to generate sufficient revenues to meet operating and other expenses, including debt service, lease payments, capital expenditures and tenant improvements, and to make distributions to the Company and the Company's stockholders. Income from shopping center properties may be adversely affected by a number of factors, including: the national economic climate; the regional and local economy (which may be adversely impacted by plant closings, industry slowdowns, union activities, adverse weather conditions, natural disasters, terrorist activities, and other factors); local real estate conditions (such as an oversupply of, or a reduction in demand for, retail space or retail goods and the availability and creditworthiness of current and prospective tenants); perceptions by retailers or shoppers of the safety, convenience and attractiveness of the shopping center; and increased costs of maintenance, insurance and operations (including real estate taxes). A significant percentage of the Centers are located in California and Arizona. To the extent that economic or other factors affect California or Arizona (or their respective regions generally) more severely than other areas of the country, the negative impact on the Company's economic performance could be significant. There are numerous shopping facilities that compete with the Centers in attracting tenants to lease space, and an increasing number of new retail formats and technologies other than retail shopping centers that compete with the Centers for retail sales. Increased competition could adversely affect the Company's revenues. Income from shopping center properties and shopping center values are also affected by such factors as applicable laws and regulations, including tax, environmental, safety and zoning laws, interest rate levels and the availability and cost of financing.

*Dependence on Anchors/Tenants:* The Company's revenues and funds available for distribution would be adversely affected if a significant number of the Company's lessees were unable (due to poor operating results, bankruptcy, terrorist activities or other reasons) to meet their obligations, if the Company were unable to lease a significant amount of space in the Centers on economically favorable terms, or if for any reason, the Company were unable to collect a significant amount of rental payments. A decision by an Anchor or a significant tenant to cease operations at a Center could also have an adverse effect on the Company. In addition, mergers, acquisitions, consolidations, dispositions or bankruptcies in the retail industry could result in the loss of Anchors or tenants at one or more Centers. Furthermore, if the store sales of retailers operating in the Centers were to decline sufficiently, tenants might be unable to pay their minimum rents or expense recovery charges. In the event of a default by a lessee, the Center may also experience delays and costs in enforcing its rights as lessor.

*Real Estate Development Risks:* The Company's business strategy has expanded to include the selective development and construction of retail properties. Any development, redevelopment and construction activities that the Company undertakes will be subject to the risks of real estate development, including lack of financing, construction delays, environmental requirements, budget overruns, sunk costs and lease-up. Furthermore, occupancy rates and rents at a newly completed property may not be sufficient to make the property profitable. Real estate development activities are also subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations. If any of the above events occur, the ability to pay distributions and service the Company's indebtedness could be adversely affected.

*Joint Venture Centers:* The Company indirectly owns partial interests in 42 Joint Venture Centers as well as fee title to a site that is ground leased to the entity that owns a Joint Venture Center and several development sites. The Company may also acquire partial interests in additional properties through joint venture arrangements. Investments in Joint Venture Centers involve risks different from those of investments in wholly-owned Centers. The Company may have fiduciary responsibilities to its partners that could affect decisions concerning the Joint Venture Centers. In certain cases, third parties share with the Company or have (with respect to one Joint Venture Center) control of major decisions relating to the Joint Venture Centers, including decisions with respect to sales, financings and the timing and amount of additional capital contributions, as well as decisions that could have an adverse impact on the Company's REIT status. In addition, some of the Company's outside partners control the day-to-day operations of eight Joint Venture Centers. The Company therefore does not control cash distributions from these Centers and the lack of cash distributions from these Centers could jeopardize the Company's ability to maintain its qualification as a REIT.



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*Uninsured Losses:* Each of the Centers has comprehensive liability, fire, terrorism extended coverage and rental loss insurance with insured limits customarily carried for similar properties. The Company does not insure certain types of losses (such as losses from wars), because they are either uninsurable or not economically insurable. In addition, while the Company or the relevant joint venture, as applicable, carries earthquake insurance on the Centers located in California, the policies are subject to a deductible equal to 5% of the total insured value of each Center, a $100,000 per occurrence minimum and a combined annual aggregate loss limit of $200 million on these Centers. Furthermore, the Company carries title insurance on substantially all of the Centers for less than their full value. If an uninsured loss or a loss in excess of insured limits occurs, the Operating Partnership or the entity, as the case may be, that owns the affected Center could lose its capital invested in the Center, as well as the anticipated future revenue from the Center, while remaining obligated for any mortgage indebtedness or other financial obligations related to the Center. There is also no assurance that the Company will be able to maintain its current insurance coverage. An uninsured loss or loss in excess of insured limits may negatively impact the Company's financial condition.

*REIT Qualification:* Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations. The complexity of these provisions and of the applicable income tax regulations is greater in the case of a REIT such as the Company that holds its assets in partnership form. The determination of various factual matters and circumstances not entirely within our control, including by the Company's partners in the Joint Venture Centers, may affect its ability to qualify as a REIT. In addition, legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to the Company's qualification as a REIT or the federal income tax consequences of that qualification.

If in any taxable year the Company fails to qualify as a REIT, the Company will suffer the following negative results:

• the Company will not be allowed a deduction for distributions to stockholders in computing its taxable income; and

• the Company will be subject to federal income tax on its taxable income at regular corporate rates.

In addition, the Company will be disqualified from treatment as a REIT for the four taxable years following the year during which the qualification was lost, unless the Company was entitled to relief under statutory provisions. As a result, net income and the funds available for distribution to the Company's stockholders will be reduced for five years. It is also possible that future economic, market, legal, tax or other considerations might cause the Board of Directors to revoke the Company's REIT election.

**Comparison of Nine Months Ended September 30, 2004 and 2003**

*Revenues*

Minimum and percentage rents increased by 12.6% to $248.0 million in 2004 from $220.3 million in 2003. Approximately $9.1 million of the increase relates to the Same Centers, $2.1 million of the increase relates to the Company acquiring 50% of its joint venture partner's interest in FlatIron Crossing, $6.8 million relates to the 2003 Acquisition Center, $3.6 million relates to the 2004 Acquisition Centers and $9.5 million relates to the Redevelopment Centers, primarily Queens Center and La Encantada where phases of the developments have been completed. Additionally, these increases in minimum and percentage rents are offset by decreasing revenues of $3.4 million related to the Company's sale of a 49.9% interest in the Village at Corte Madera.

During 2001, the Company adopted SFAS 141. (See "Statement on Critical Accounting Policies"). The amortization of below market leases, which is recorded in minimum rents, increased to $6.6 million in 2004 from $2.6 million in 2003. The increase is primarily due to the 2003 Acquisition Center, 2004 Acquisition Centers and the Company acquiring 50% of its joint venture partner's interest in FlatIron Crossing.

Tenant recoveries increased to $120.0 million in 2004 from $115.0 in 2003. Approximately $1.0 million relates to the Company acquiring 50% of its joint venture partner's interest in FlatIron Crossing, $2.8 million relates to Queens Center and La Encantada, $4.1 million relates to the 2003 Acquisition Center and $1.3 million relates to the 2004 Acquisition Centers. This is offset by a $3.3 million decrease due to a change in estimated recovery rates for prior periods at the Same Centers and a $1.1 million decrease relating to the Company's sale of a 49.9% partnership interest in the Village at Corte Madera.



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**Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued:**

**Comparison of Nine Months Ended September 30, 2004 and 2003, Continued:**

*Expenses*

Shopping center and operating expenses increased to $129.8 million in 2004 compared to $124.3 million in 2003. The increase is a result of $4.1 million related to the 2003 Acquisition Center, $1.5 million due to the 2004 Acquisition Centers, $3.6 million related to Queens Center and La Encantada, $1.1 million related to the Company acquiring 50% of its joint venture partner's interest in FlatIron Crossing and $6.0 million relating to the Same Centers due to increases in recoverable and non-recoverable expenses. This is offset by a decrease of non-recoverable expenses due to a write-off of a $6.5 million contingent compensation liability and a $1.2 million decrease related to the Company's sale of a 49.9% partnership interest in the Village at Corte Madera.

*REIT General and Administrative Expenses*

REIT general and administrative expenses increased to $8.1 million in 2004 from $6.7 million in 2003, primarily due to increases in professional services, travel expenses and stock-based compensation expense.

*Depreciation and Amortization*

Depreciation and amortization increased to $105.2 million in 2004 from $73.4 million in 2003. Approximately $3.2 million relates to the 2003 Acquisition Center, $3.3 million relates to the 2004 Acquisition Centers, $1.9 million relates to consolidating Macerich Management Company effective July 1, 2003 and $5.0 million relates to Queens Center and La Encantada. As a result of SFAS 141, an additional $14.8 million of depreciation and amortization was recorded for the nine months ending September 30, 2004 compared to the same period in 2003 due to the reclassification of the purchase price of 2002 and 2003 acquisitions between buildings and into the value of in-place leases, tenant improvements and lease commissions. This is offset by a $1.1 million decrease relating to the sale of 49.9% of the partnership interest in the Village at Corte Madera.

*Interest Expense*

Interest expense increased to $105.6 million in 2004 from $98.8 million in 2003. Approximately $0.5 million relating to the Company acquiring 50% of its joint venture partner's interest in FlatIron Crossing, $5.0 million is related to the $250 million of unsecured notes issued on May 13, 2003, $2.0 million is related to increased borrowings on the Company's line of credit, $0.8 million relates to the 2003 Acquisition Center, $0.7 million relates to the 2004 Acquisition Centers and $4.3 million relates to Queens Center and La Encantada. These increases are offset by $2.0 million, which relates to the Company's sale of a 49.9% partnership interest in the Village at Corte Madera and $2.2 million is related to the payoff of the $196.5 million term loan on July 30, 2004. Capitalized interest was $7.4 million in 2004, down from $8.7 million in 2003.

*Minority Interest*

The minority interest represents the 19.53% weighted average interest of the Operating Partnership by the Company during 2004. This compares to 20.74% not owned by the Company during 2003.

*Equity in Income from Unconsolidated Joint Ventures and Macerich Management Company*

The income from unconsolidated joint ventures and the Macerich Management Company was $40.2 million for 2004, compared to income of $42.9 million in 2003. This decrease is primarily due to increased depreciation relating to SFAS 141 on the Joint Venture Acquisition Centers and consolidating Macerich Management Company effective July 1, 2003 in accordance with FIN 46. Prior to July 1, 2003, the Macerich Management Company was accounted for using the equity method of accounting.

*Loss on Early Extinguishment of Debt*

In 2004, the Company recorded a loss from early extinguishment of debt of $1.6 million related to the payoff of a loan at one of the Redevelopment Centers and the payoff of the $196.8 million term loan.



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**Comparison of Nine Months Ended September 30, 2004 and 2003, Continued:**

*Gain on Sale of Assets*

A gain of $12.4 million in 2003 represents primarily the Company's sale of 49.9% of its partnership interest in the Village at Corte Madera on May 15, 2003 and the sale of the Shops at Gainey Village. In 2004, a gain of $0.3 million was recorded relating to land sales compared to $0.9 million in 2003.

*Discontinued Operations*

The gain on sale of $22.1 million in 2003 relates primarily to the sale of Bristol Center on August 4, 2003.

*Net Income Available to Common Stockholders*

Primarily as a result of the sale of Bristol Center in 2003, the purchase of the 2003 Acquisition Center and the 2004 Acquisition Centers, the sale of 49.9% of the partnership interest in the Village at Corte Madera, the Company acquiring 50% of its joint venture partner's interest in FlatIron Crossing, the change in depreciation expense due to SFAS 141, Queens Center and La Encantada and the foregoing results, net income available to common stockholders decreased to $52.5 million in 2004 from $87.7 million in 2003.

*Operating Activities*

Cash flow from operations was $151.3 million in 2004 compared to $144.8 million in 2003. The increase is primarily due to the foregoing results at the Centers as mentioned above.

*Investing Activities*

Cash used in investing activities was $272.4 million in 2004 compared to cash used in investing activities of $233.1 million in 2003. The change resulted primarily from the proceeds of $112.8 million received in 2003 from the sale of Paradise Village Gateway, the Shops at Gainey Village, Bristol Center and the 49.9% interest in the Village at Corte Madera which is offset by increased contributions to joint ventures and acquisitions of joint ventures, $8.4 million increase in development, redevelopment and expansion of Centers primarily due to the Queens Center expansion and by the Company's purchase of its joint venture partner's 50% interest in FlatIron Crossing on January 31, 2003.

*Financing Activities*

Cash flow provided by financing activities was $126.6 million in 2004 compared to cash flow provided by financing activities of $112.4 million in 2003. The 2004 increase compared to 2003 resulted primarily from $130.2 million of additional funding relating to Queens construction loan and the $85,000 Northridge loan which is offset by the Company acquiring 50% of its joint venture partner's interest in FlatIron Crossing in January 2003, the $32.3 million funding of the Panorama loan in the first quarter of 2003 and increased dividends being paid in 2004 compared to 2003.

*Funds From Operations*

Primarily as a result of the factors mentioned above, Funds from Operations—Diluted increased 9.8% to $209.6 million in 2004 from $190.8 million in 2003. For the reconciliation of FFO and FFO-diluted to net income available to common stockholders, see "Funds from Operations."

**Comparison of Three Months Ended September 30, 2004 and 2003**

*Revenues*

Minimum and percentage rents increased by 18.9% to $87.3 million in 2004 from $73.4 million in 2003. Approximately $3.1 million of the increase relates to the Same Centers, $2.3 million relates to the 2003 Acquisition Center, $3.6 million relates to the 2004 Acquisition Centers and $4.9 million relates to Queens Center and La Encantada where phases of the developments have been completed.



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**Comparison of Three Months Ended September 30, 2004 and 2003, Continued:**

During 2001, the Company adopted SFAS 141. (See "Statement on Critical Accounting Policies"). The amortization of below market leases, which is recorded in minimum rents, increased to $2.8 million in 2004 from $0.9 million in 2003. The increase is primarily due to the 2003 Acquisition Center and the 2004 Acquisition Centers.

Tenant recoveries decreased to $37.2 million in 2004 from $39.5 in 2003. Approximately $3.3 million of the decrease is due to a change in estimated recovery rates for prior periods at the Same Centers. This is offset by increases of $1.1 million relating to the 2003 Acquisition Center, $1.3 million from the 2004 Acquisition Centers and $0.5 million from Queens Center and La Encantada.

*Expenses*

Shopping center and operating expenses decreased to $39.4 million in 2004 compared to $42.7 million in 2003. The decrease is partially due to a $6.5 million write-off of a contingent compensation liability in non-recoverable expenses. This is offset by a $2.7 million increase related to the 2003 Acquisition Center and 2004 Acquisition Centers, $1.0 million from Queens Center and La Encantada and $2.8 million relating to increased recoverable and non-recoverable expenses at the Same Centers.

*REIT General and Administrative Expenses*

REIT general and administrative expenses increased to $2.8 million in 2004 from $1.7 million in 2003, primarily due to increases in stock-based compensation expense.

*Depreciation and Amortization*

Depreciation and amortization increased to $35.6 million in 2004 from $25.3 million in 2003. Approximately $1.4 million relates to the 2003 Acquisition Center, $3.3 million relates to the 2004 Acquisition Centers and $2.1 million relates to Queens Center and La Encantada. As a result of SFAS 141, an additional $2.5 million of depreciation and amortization was recorded for the three months ending September 30, 2004 compared to the same period in 2003 due to the reclassification of the purchase price of 2002 and 2003 acquisitions between buildings and into the value of in-place leases, tenant improvements and lease commissions.

*Interest Expense*

Interest expense increased to $37.5 million in 2004 from $31.9 million in 2003. Approximately $2.7 million is related to increased borrowings under the Company's line of credit, $0.8 million relating to the 2003 Acquisition Center, $0.8 million relates to the 2004 Acquisition Centers and $2.4 million relates to Queens Center and La Encantada. This is offset by $1.6 million relating to the Company's payoff of the $196.5 million term loan on July 30, 2004. Capitalized interest was $1.7 million in 2004 compared to $3.8 million in 2003.

*Minority Interest*

The minority interest represents the 19.46% weighted average interest of the Operating Partnership by the Company during 2004. This compares to 20.45% not owned by the Company during 2003.

*Equity in Income from Unconsolidated Joint Ventures and Macerich Management Company*

The income from unconsolidated joint ventures and the Macerich Management Company was $12.1 million for 2004, compared to income of $13.2 million in 2003. This decrease is primarily due to increased depreciation expense resulting from SFAS 141 on 2002 and 2003 acquisitions, which is offset by increased income from the Joint Venture Acquisition Centers.

*Gain on Sale of Assets*

A gain of $22.3 million in 2003 represents the sale of Bristol Center on August 4, 2003. In 2003, a gain of $0.7 million was recorded relating to land sales.



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**Comparison of Three Months Ended September 30, 2004 and 2003, Continued:**

*Net Income Available to Common Stockholders*

Primarily as a result of the sale of Bristol Center on August 4, 2003, the purchase of the 2003 Acquisition Center and the 2004 Acquisition Centers, the change in depreciation expense due to SFAS 141, Queens Center and La Encantada and the foregoing results, net income available to common stockholders decreased to $17.3 million in 2004 from $39.7 million in 2003.

*Funds From Operations*

Primarily as a result of the factors mentioned above, Funds from Operations—Diluted increased 14.3% to $72.9 million in 2004 from $63.8 million in 2003. For the reconciliation of FFO and FFO-diluted to net income available to common stockholders, see "Funds from Operations."



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**Liquidity and Capital Resources**

The Company intends to meet its short term liquidity requirements through cash generated from operations, working capital reserves, property secured borrowings and borrowing under the new revolving line of credit. The Company anticipates that revenues will continue to provide necessary funds for its operating expenses and debt service requirements, and to pay dividends to stockholders in accordance with REIT requirements. The Company anticipates that cash generated from operations, together with cash on hand, will be adequate to fund capital expenditures which will not be reimbursed by tenants, other than non-recurring capital expenditures. The following table summarizes capital expenditures incurred at the Centers, including the pro rata share of joint ventures, for the nine months ending September 30,:

| **(Dollars in Millions)** | **2004** | **2003** |
|---|---|---|
| Acquisitions of property and equipment | $ 197.2 | $ 152.4 |
| Development, redevelopment and expansion of Centers | 118.5 | 121.4 |
| Renovations of Centers | 22.8 | 12.0 |
| Tenant allowances | 11.4 | 5.7 |
| Deferred leasing charges | 13.8 | 14.1 |
| Total | $ 363.7 | $ 305.6 |

Management expects similar levels to be incurred in future years for tenant allowances and deferred leasing charges and to incur between $125 million to $180 million in 2004 for development, redevelopment, expansion and renovations, excluding the Queens Center expansion and the developments of La Encantada and Scottsdale 101 which will be separately financed as described below. Capital for major expenditures or major developments and redevelopments has been, and is expected to continue to be, obtained from equity or debt financings which include borrowings under the Company's line of credit and construction loans. However, 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.

On February 28, 2002, the Company issued 1,968,957 common shares with total net proceeds of $52.3 million. The proceeds from the sale of the common shares were used principally to finance a portion of the Queens Center expansion and redevelopment project and for general corporate purposes. The Queens Center expansion and redevelopment is anticipated to cost between $250 million and $275 million. The Company has a $225.0 million construction loan which converts to a permanent loan at completion and stabilization, which is collateralized by the Queens Center property, to finance the remaining project costs. Construction began in the second quarter of 2002 with completion estimated to be, in phases, through late 2004 and stabilization expected in 2005.

The Company has obtained construction loans for $51.0 million and $54.0 million for the developments of La Encantada and Scottsdale 101, respectively. These loans will be funded as construction costs are incurred.

The Company believes that it will have access to the capital necessary to expand its business in accordance with its strategies for growth and maximizing Funds from Operations. The Company presently intends to obtain additional capital necessary for these purposes through a combination of debt or equity financings, joint ventures and the sale of non-core assets. The Company believes joint venture arrangements have in the past and may in the future provide an attractive alternative to other forms of financing, whether for acquisitions or other business opportunities.

The Company's total outstanding loan indebtedness at September 30, 2004 was $4.1 billion (including its pro rata share of joint venture debt). This equated to a debt to Total Market Capitalization (defined as total debt of the Company, including its pro rata share of joint venture debt, plus aggregate market value of outstanding shares of common stock, assuming full conversion of OP Units and preferred stock into common stock) ratio of approximately 50.45% at September 30, 2004. The majority of the Company's debt consists of fixed-rate conventional mortgages payable collateralized by individual properties.

The Company has filed a shelf registration statement, effective June 6, 2002, to sell securities. The shelf registration is for a total of $1.0 billion of common stock, common stock warrant or common stock rights. The Company sold a total of 15.2 million shares of common stock under this shelf registration on November 27, 2002. The aggregate offering price of this transaction was approximately $440.2 million, leaving approximately $559.8 million available under the shelf registration statement. In addition, the Company filed another shelf registration statement, effective October 27, 2003, to sell up to $300 million of preferred stock.



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**Liquidity and Capital Resources, Continued:**

The Company had a $425,000 revolving line of credit. This revolving line of credit had a three-year term through July 26, 2005 with a one-year extension option. The interest rate fluctuated from LIBOR plus 1.75% to LIBOR plus 3.00% depending on the Company's overall leverage level. As of December 31, 2003, $319,000 of borrowings were outstanding under this credit facility at an average interest rate of 3.69%. On July 30, 2004, the Company amended and expanded the revolving line of credit to $1,000,000 and extended the maturity to July 30, 2007 plus a one-year extension. The interest rate has been reduced to 1.50% over LIBOR based on the Company's current leverage level. As of September 30, 2004, $547,000 of borrowings were outstanding at an average interest rate of 3.27%.

On May 13, 2003, the Company issued $250.0 million in unsecured notes maturing in May 2007 with a one-year extension option bearing interest at LIBOR plus 2.50%. The proceeds were used to pay down and create more availability under the Company's line of credit. At September 30, 2004 and December 31, 2003, the entire $250.0 million of notes were outstanding at an interest rate of 4.45%. In October 2003, the Company entered into an interest rate swap agreement which effectively fixed the interest rate at 4.45% from November 2003 to October 13, 2005.

At September 30, 2004, the Company had cash and cash equivalents available of $52.7 million.

*Funds From Operations*

The Company uses Funds from Operations ("FFO") in addition to net income to report its operating and financial results and considers FFO and FFO-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 ("NAREIT") 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. FFO and FFO on a fully 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. FFO on a fully diluted basis is one of the measures investors find most useful in measuring the dilutive impact of outstanding convertible securities. FFO does 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 is not indicative of cash available to fund all cash flow needs. FFO, as presented, may not be comparable to similarly titled measures reported by other real estate investment trusts. The reconciliation of FFO and FFO-diluted to net income available to common stockholders is provided below.

In compliance with the Securities and Exchange Commission's new regulations, the Company has revised its FFO definition as of January 1, 2003 and for all prior periods presented. FFO now includes gains or losses on sales of peripheral land, impairment of assets, losses on debt-related transactions and the effect of SFAS No. 141. The Company's revised definition is in accordance with the definition provided by NAREIT.

The inclusion of gains (losses) on sales of peripheral land included in FFO for the nine and three months ended September 30, 2004 were $2.9 million (including $2.6 million from joint ventures at pro rata) and $0.5 million (including $0.5 million from joint ventures at pro rata), respectively. The inclusion of gains (losses) on sales of peripheral land included in FFO for the nine and three months ended September 30, 2003 were $1.2 million (including $0.4 million from joint ventures at pro rata) and $0.7 million (including $0.0 million from joint ventures at pro rata), respectively.

The Company's losses on debt-related transactions for the nine and three months ended September 30, 2004 was $1.6 million and $1.2 million, respectively. The Company's losses on debt-related transactions for the nine and three months ended September 30, 2003 was $0.1 million and $0.1 million, respectively.



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**Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued:**

*Funds From Operations, Continued:*

The following reconciles net income available to common stockholders to FFO and FFO-diluted for the nine months ending September 30,:

*(amounts in thousands)*

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | **Shares** | **Amount** | **Shares** | **Amount** |
| Net income-available to common stockholders | | $ 52,528 | | $ 87,728 |
| Adjustments to reconcile net income to FFO-basic: | | | | |
| Minority interest | | 12,650 | | 22,913 |
| (Gain) loss on sale or write-down of wholly-owned assets | | (994) | | (34,567) |
| Add: Gain on land sales--consolidated assets | | 339 | | 859 |
| (Gain) loss on sale or write-down of assets from unconsolidated entities (pro rata) | | (2,581) | | (160) |
| Add: Gain (loss) on land sales--pro rata unconsolidated entities | | 2,616 | | 392 |
| Depreciation and amortization on wholly-owned centers | | 105,256 | | 73,853 |

| | | | | |
|---|---|---|---|---|
| Depreciation and amortization on joint ventures and from the management company (pro rata) | | 40,988 | | 34,180 |
| Less: depreciation on personal property and amortization of loan costs and interest rate caps | | (7,967) | | (6,847) |
| FFO--basic(1) | 72,669 | 202,835 | 65,995 | 178,351 |
| Additional adjustments to arrive at FFO-diluted: | | | | |
| Impact of convertible preferred stock | 3,629 | 6,783 | 8,653 | 12,458 |
| Impact of stock options using the treasury method | 383 | -- | 476 | -- |
| Impact of restricted stock using the treasury method | (n/aantidilutive) | (n/aantidilutive) | | |
| FFO--diluted(2) | 76,681 | $ 209,618 | 75,124 | $ 190,809 |





**Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued:**

*Funds From Operations, Continued:*

The following reconciles net income available to common stockholders to FFO and FFO-diluted for the three months ending September 30,:

*(amounts in thousands)*

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | **Shares** | **Amount** | **Shares** | **Amount** |
| Net income-available to common stockholders | | $ 17,298 | | $ 39,732 |
| Adjustments to reconcile net income to FFO-basic: | | | | |
| Minority interest | | 4,180 | | 10,214 |
| (Gain) loss on sale or write-down of wholly-owned assets | | 101 | | (23,015) |
| Add: Gain on land sales--consolidated assets | | 5 | | 705 |
| (Gain) loss on sale or write-down of assets from unconsolidated entities (pro rata) | | (498) | | 41 |
| Add: Gain (loss) on land sales--pro rata unconsolidated entities | | 533 | | (41) |
| Depreciation and amortization on wholly-owned centers | | 35,644 | | 25,364 |
| Depreciation and amortization on joint ventures and from the management company (pro rata) | | 15,854 | | 11,240 |
| Less: depreciation on personal property and amortization of loan costs and interest rate caps | | (2,588) | | (2,544) |
| FFO--basic(1) | 72,851 | 70,529 | 67,042 | 61,696 |
| Additional adjustments to arrive at FFO-diluted: | | | | |
| Impact of convertible preferred stock | 3,629 | 2,358 | 7,743 | 2,067 |
| Impact of stock options using the treasury method | 357 | -- | 522 | -- |
| Impact of restricted stock using the treasury method | (n/aantidilutive) | (n/aantidilutive) | | |
| FFO--diluted(2) | 76,837 | $ 72,887 | 75,307 | $ 63,763 |

*(1) Calculated based upon basic net income as adjusted to reach basic FFO. As of September 30, 2004 and 2003, 14.2 million and 13.5 million of OP Units and Westcor partnership units were outstanding, respectively.*

*(2) The computation of FFO—diluted shares outstanding includes the effect of outstanding common stock options and restricted stock using the treasury method. On February 25, 1998, the Company sold $100 million of its Series A Preferred Stock. On June 16, 1998, the Company sold $150 million of its Series B Preferred Stock. On September 9, 2003, 5.5 million shares of Series B Preferred Stock were converted into common shares. The preferred stock can be converted on a one-for-one basis for common stock. The preferred shares are assumed converted for purposes of 2004 and 2003 FFO-diluted as they are dilutive to that calculation.*





**Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued:**

Included in minimum rents were rents attributable to the accounting practice of straight-lining of rents. The amount of straight-lining of rents, including the Company's pro rata share from joint ventures, that impacted minimum rents was $1.9 million and $0.6 million for the nine and three months ending September 30, 2004, respectively; and $3.3 million and $0.9 million for the nine and three months ending September 30, 2003, respectively. The decrease in straight-lining of rents in 2004 compared to 2003 is related to the Company structuring its new leases using rent increases tied to the change in CPI rather than using contractually fixed rent increases.

***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 through the lease term. These rent increases are either in fixed increments or based on using an annual multiple of increases in the CPI. In addition, about 7%-12% 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. Additionally, the majority of the leases require the tenants to pay their pro rata share of operating expenses.

***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 and the implementation of Staff Accounting Bulletin 101, earnings are generally higher in the fourth quarter of each year.





**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 variable rate exposure is kept at an acceptable level, (2) reducing interest rate exposure on certain long-term variable 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, 2004 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 December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** | **2008** | **Thereafter** | **Total** | **FV** |
| Consolidated Centers: | | | | | | | | |
| Long term debt: | | | | | | | | |
| Fixed rate | $ 6,769 | $ 34,064 | $108,296 | $117,048 | $358,858 | $1,061,824 | $1,686,859 | $1,838,114 |
| Average interest rate | 6.52% | 6.53% | 6.51% | 6.58% | 6.61% | 6.54% | 6.52% | -- |
| Variable rate | -- | 181,315 | 79,875 | 862,280 | -- | 183,101 | $1,306,571 | 1,306,571 |
| Average interest rate | -- | 2.90% | 2.75% | 3.60% | -- | -- | 3.53% | -- |
| Total debt-Consolidated Centers | $ 6,769 | $215,379 | $188,171 | $979,328 | $358,858 | $1,244,925 | $2,993,430 | $3,144,685 |
| Joint Venture Centers: | | | | | | | | |
| (at Company's pro rata share:) | | | | | | | | |
| Fixed rate | $ 6,649 | $ 93,412 | $275,841 | $127,260 | $ 63,975 | $ 405,367 | 972,504 | $1,053,409 |
| Average interest rate | 6.46% | 6.42% | 6.40% | 6.65% | 6.76% | 7.71% | 6.46% | -- |
| Variable rate | 7,034 | 14,229 | 167,276 | -- | -- | -- | 188,539 | 188,539 |
| Average interest rate | 3.36% | 3.84% | 2.52% | -- | -- | -- | 2.62% | -- |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total debt - Joint Ventures | $13,683 | $107,641 | $443,117 | $127,260 | $ 63,975 | $ 405,367 | $1,161,043 | $1,241,948 |

The consolidated Centers' total fixed rate debt increased from $1,606,003 at December 31, 2003 to $1,686,859 at September 30, 2004. The average interest rate at December 31, 2003 was 6.65% compared to 6.52% at September 30, 2004.

The consolidated Centers' total variable rate debt increased from $1,076,596 at December 31, 2003 to $1,306,571 at September 30, 2004. The average interest rate at December 31, 2003 and September 30, 2004 was 3.55% and 3.53%, respectively.

The Company's pro rata share of the Joint Venture Centers' fixed rate debt at December 31, 2003 and September 30, 2004 was $861,883 and $972,504, respectively. The average interest rate increased from 6.40% in 2003 to 6.46% in 2004. The Company's pro rata share of the Joint Venture Centers' variable rate debt at December 31, 2003 and September 30, 2004 was $184,159 and $188,539, respectively. The average interest rate increased from 1.88% in 2003 to 2.62% in 2004.

The Company uses derivative financial instruments in the normal course of business to manage, or hedge, interest rate risk and records all derivatives on the balance sheet at fair value. The Company requires that hedging derivative instruments are effective in reducing the risk exposure that they are designated to hedge. For derivative instruments associated with the hedge of an anticipated transaction, hedge effectiveness criteria also require that it be probable that the underlying transaction occurs. Any instrument that meets these hedging criteria is formally designated as a hedge at the inception of the derivative contract. When the terms of an underlying transaction are modified resulting in some ineffectiveness, the portion of the change in the derivative fair value related to ineffectiveness from period to period will be included in net income. If any derivative instrument used for risk management does not meet the hedging criteria then it is marked-to-market each period, however, the Company intends for all derivative transactions to meet all the hedge criteria and qualify as hedges.



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**Item 3.**

**Quantitative and Qualitative Disclosures about Market Risk, Continued:**

On an ongoing quarterly basis, the Company adjusts its balance sheet to reflect the current fair value of its derivatives. Changes in the fair value of derivatives are recorded each period in income or comprehensive income, depending on whether the derivative is designated and effective as part of a hedged transaction, and on the type of hedge transaction. To the extent that the change in value of a derivative does not perfectly offset the change in value of the instrument being hedged, the ineffective portion of the hedge is immediately recognized in income. Over time, the unrealized gains and losses held in accumulated other comprehensive income will be reclassified to income. This reclassification occurs when the hedged items are also recognized in income. The Company has a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors.

To determine the fair value of derivative instruments, the Company uses standard market conventions and techniques such as discounted cash flow analysis, option pricing models, and termination cost at each balance sheet date. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

The $250.0 million variable rate debt maturing in 2007 has an interest rate swap agreement which effectively fixed the interest rate at 4.45% from November 2003 to October 13, 2005. This swap has been designated as a hedge in accordance with SFAS No. 133. The fair value of this swap agreement at September 30, 2004 was $1.2 million.

The Company has an interest rate cap with a notional amount of $92,000 on their $108,000 loan on The Oaks. This interest rate cap prevents the LIBOR interest rate from exceeding 7.10%. The fair value of this cap agreement at September 30, 2004 was zero.

The Company's East Mesa Land and Superstition Springs joint venture have an interest rate swap which converts $12,845 of variable rate debt with a weighted average interest rate of 3.97% to a fixed rate of 5.39%. This swap has been designated as a hedge in accordance with SFAS No. 133. Additionally, interest rate caps were simultaneously sold to offset the effect of the interest rate cap agreements. These interest rate caps do not qualify for hedge accounting in accordance with SFAS 133.

In addition, the Company has assessed the market risk for its variable rate debt and believes that a 1% increase in interest rates would decrease future earnings and cash flows by approximately $12.4 million per year based on $1.2 billion outstanding of variable rate debt, excluding the $250.0 million of debt maturing in 2007, at September 30, 2004.

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.



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**Item 4**

**Controls and Procedures**

The principal executive officer and principal financial officer of the Company (collectively, the "certifying officers") have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) as of the end of the quarterly period covered by this report. The certifying officers concluded, based on their evaluation, that the Company's disclosure controls and procedures were effective as of the end of the quarterly period covered by this report. There has been no change in the Company's internal control over financial reporting 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

During the ordinary course of business, the Company, from time to time, is threatened with, or becomes a party to, legal actions and other proceedings. Management is of the opinion that the outcome of currently known actions and proceedings to which it is a party will not, singly or in the aggregate, have a material adverse effect on the Company.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

On September 8, 2004, the Company issued 40,000 shares of common stock upon the redemption of 40,000 OP Units in a private placement to a limited partner of the Operating Partnership, an accredited investor, pursuant to Section 4(2) of the Securities Act of 1933.

Item 3 Defaults Upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

None

Item 5 Other Information

None

Item 6 Exhibits

a. Exhibits

| | |
|---|---|
| 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 Certification of Arthur Coppola, Chief Executive Officer and Thomas O'Hern, Chief Financial Officer |



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**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Macerich Company

By: /s/ Thomas E. O'Hern
Thomas E. O'Hern
Executive Vice President and
Chief Financial Officer

Date: November 8, 2004



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Exhibit Index

**Exhibit No.**

(a) Exhibits

| Number | Description |
|---|---|
| 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 Certification of Arthur Coppola, Chief Executive Officer and Thomas O'Hern, Chief Financial Officer |

**THE MACERICH COMPANY (The Company)**

**SECTION 302 CERTIFICATION**

I, Arthur M. Coppola, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended September 30, 2004 of The Macerich Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2004

/s/ Arthur M. Coppola
[Signature]

President and Chief Executive Officer
[Title]

**THE MACERICH COMPANY (The Company)**

**SECTION 302 CERTIFICATION**

I, Thomas E. O'Hern, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended September 30, 2004 of The Macerich Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2004

/s/ Thomas E. O'Hern
[Signature]

Executive Vice President and Chief Financial Officer
[Title]

**Exhibit 32.1**

**THE MACERICH COMPANY (The Company)**

WRITTEN STATEMENT

PURSUANT TO

18 U.S.C. SECTION 1350

The undersigned, Arthur M. Coppola and Thomas E. O’Hern, the Chief Executive Officer and Chief Financial Officer, respectively, of The Macerich Company (the “Company”), pursuant to 18 U.S.C. §1350, hereby certify that:

(i) the Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 of the Company (the “Report”) fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2004

/s/ Arthur Coppola
[Signature]

President and Chief Executive Officer
[Title]

/s/ Thomas E. O'Hern
[Signature]

Executive Vice President and Chief Financial Officer
[Title]