

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

CATELLUS DEVELOPMENT CORP

Form 10-Q

November 09, 2001

=====

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal quarter ended September 30, 2001 Commission file number 0-18694

CATELLUS DEVELOPMENT  
CORPORATION  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

94-2953477  
(I.R.S. Employer  
Identification No).

201 Mission Street  
San Francisco, California 94105  
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code:  
(415) 974-4500

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 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of November 6, 2001, there were 96,873,253 issued and outstanding shares of the Registrant's Common Stock.

=====

CATELLUS DEVELOPMENT CORPORATION

INDEX

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheet as of

September 30, 2001 and December 31, 2000 .....

Condensed Consolidated Statement of Operations for the three months and  
nine months ended September 30, 2001 and 2000 .....

Condensed Consolidated Statement of Cash Flows for the nine months ended  
September 30, 2001 and 2000 .....

Notes to Condensed Consolidated Financial Statements .....

Item 2. Management's Discussion and Analysis of Financial

Condition and Results of Operations .....

Item 3. Quantitative and Qualitative Disclosures about Market Risk .....

PART II. OTHER INFORMATION .....

SIGNATURES .....

EXHIBIT INDEX .....

1

PART I

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

CATELLUS DEVELOPMENT CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEET  
(In thousands)

Assets

Properties .....

Less accumulated depreciation .....

Other assets and deferred charges, net .....

Notes receivable, less allowance .....

Accounts receivable, less allowance .....

Restricted cash and investments .....

Cash and cash equivalents .....

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Total .....	
Liabilities and stockholders' equity	
Mortgage and other debt .....	
Accounts payable and accrued expenses .....	
Deferred credits and other liabilities .....	
Deferred income taxes .....	
Total liabilities .....	
Commitments and contingencies (Notes 8 and 9)	
Minority interests .....	
Stockholders' equity	
Common stock, 109,547 and 108,088 shares issued and 98,694 and 106,091 shares outstanding at September 30, 2001 and December 31, 2000, respectively .....	
Paid-in capital .....	
Treasury stock, at cost (10,853 and 1,997 shares at September 30, 2001 and December 31, 2000, respectively) .....	
Accumulated earnings .....	
Total stockholders' equity .....	
Total .....	

See notes to condensed consolidated financial statements

CATELLUS DEVELOPMENT CORPORATION  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
(In thousands, except per share data)

	Three Months Ended September 30,	
	2001	2000
	-----	-----
Rental properties		
Rental revenue .....	\$ 59,116	\$ 52,5
Property operating costs .....	(17,390)	(14,2
Equity in earnings of operating joint ventures, net .....	1,184	1,3
	-----	-----
	42,910	39,5
Property sales and fee services		
Sales revenue .....	64,324	213,1
Cost of sales .....	(36,609)	(172,5
	-----	-----
	27,715	40,6
Equity in earnings of development joint ventures, net .....	13,489	9,2

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Total gain on property sales .....	41,204	49,9
Management and development fees .....	1,266	2,7
Selling, general and administrative expenses .....	(6,373)	(14,2
Other, net .....	(127)	(3,0
	-----	-----
	35,970	35,3
	-----	-----
Interest expense .....	(13,895)	(12,9
Depreciation and amortization .....	(12,877)	(11,6
Corporate administrative costs .....	(4,685)	(3,6
Gain on non-strategic asset sales .....	765	18,6
Other, net .....	1,152	(7
	-----	-----
Income before minority interests and income taxes .....	49,340	64,6
Minority interests .....	(1,604)	(5,2
	-----	-----
Income before income taxes .....	47,736	59,3
	-----	-----
Income tax expense		
Current .....	(5,343)	(2,3
Deferred .....	(13,747)	(21,3
	-----	-----
	(19,090)	(23,7
	-----	-----
Net income .....	\$ 28,646	\$ 35,6
	=====	=====
Net income per share		
Basic .....	\$ 0.29	\$ 0.
	=====	=====
Assuming dilution .....	\$ 0.28	\$ 0.
	=====	=====
Average number of common shares outstanding - basic .....	99,290	106,0
	=====	=====
Average number of common shares outstanding - diluted .....	102,178	109,3
	=====	=====

See notes to condensed consolidated financial statements

3

CATELLUS DEVELOPMENT CORPORATION  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(In thousands)

	Nine Months En September 30 2001	
	-----	-----
Cash flows from operating activities:		
Net income .....	\$ 77,025	\$
Adjustments to reconcile net income to net cash provided by operating		

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

activities:		
Depreciation and amortization .....	38,743	
Deferred income taxes .....	39,276	
Amortization of deferred loan fees and other costs .....	3,779	
Equity in earnings of joint ventures .....	(28,633)	(
Operating distributions from joint ventures .....	29,781	
Gain on sale of investment property .....	(25,433)	(
Cost of development properties and non-strategic assets sold.....	87,999	2
Capital expenditures for development properties .....	(45,910)	(1
Other, net .....	1,431	
Change in deferred credits and other liabilities .....	88,190	(
Change in other operating assets and liabilities .....	28,800	
	-----	-----
Net cash provided by operating activities .....	295,048	2
	-----	-----
Cash flows from investing activities:		
Proceeds from sale of investment property .....	38,016	
Property acquisitions .....	(46,888)	(
Capital expenditures for investment properties .....	(184,731)	(1
Tenant improvements .....	(1,832)	
Distributions from joint ventures .....	--	
Contributions to joint ventures .....	--	
Restricted cash .....	16,920	(
	-----	-----
Net cash used in investing activities .....	(178,515)	(2
	-----	-----
Cash flows from financing activities:		
Borrowings .....	369,873	2
Repayment of borrowings .....	(211,483)	(2
Distributions to minority partners .....	(4,965)	
Repurchase of common stock .....	(151,920)	(
Proceeds from issuance of common stock .....	14,678	
	-----	-----
Net cash provided by financing activities .....	16,183	
	-----	-----
Net increase in cash and cash equivalents .....	132,716	
Cash and cash equivalents at beginning of period .....	336,558	
	-----	-----
Cash and cash equivalents at end of period .....	\$ 469,274	\$ 1
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest (net of amount capitalized) .....	\$ 39,639	\$
Income taxes .....	\$ 3,874	\$
Non-cash financing activities:		
Seller-financed acquisitions, net .....	\$ 8,363	\$

See notes to condensed consolidated financial statements

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

### NOTE 1. DESCRIPTION OF BUSINESS

Catellus Development Corporation, together with its consolidated subsidiaries (the "Company"), is a diversified real estate operating company with a large portfolio of rental properties and developable land that manages and develops real estate for its own account and those of others. Interests of third parties in entities controlled and consolidated by the Company are separately reflected as minority interests in the accompanying balance sheet. The Company's rental properties and development portfolio of industrial, residential, retail, office, and other projects (owned directly or through joint ventures) is located mainly in major markets in California, Illinois, Texas, Colorado, and Oregon.

### NOTE 2. INTERIM FINANCIAL DATA

The accompanying condensed consolidated financial statements should be read in conjunction with the Company's 2000 Annual Report on Form 10-K as filed with the Securities and Exchange Commission. In the opinion of management, the accompanying financial information includes all adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods presented. Certain prior period financial data have been reclassified to conform to the current period presentation.

### NOTE 3. RESTRICTED CASH AND INVESTMENTS

Of the total restricted cash and investments of \$28.6 million at September 30, 2001 and \$45.5 million at December 31, 2000, \$20.8 million and \$38.1 million, respectively, represent proceeds from property sales being held in separate cash accounts at a trust company in order to preserve the Company's options of reinvesting the proceeds on a tax-deferred basis. In addition, restricted investments of \$7.1 million at September 30, 2001, and December 31, 2000, represent certificates of deposits used to guarantee lease performance for certain properties that secure debt, and \$0.7 million and \$0.3 million, respectively, represent prepayments for future leasing commissions.

5

### NOTE 4. INCOME PER SHARE

Net income per share of common stock is computed by dividing net income by the weighted average number of shares of common stock and equivalents outstanding during the period (see table below for effect of dilutive securities).

	Three Months Ended Sep		
	2001		
	Income	Shares	Per Share Amount
	(In thousands, except p		
Net income .....	\$ 28,646	99,290	\$ 0.29
Effect of dilutive securities: stock options .....	--	2,888	=====



## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

the loan proceeds, \$145.5 million was used to pay off existing variable rate construction debt and related interest at closing. The second was for \$13.0 million, which bears interest at 9.34% (9.54% effective rate considering financing costs) and is amortized over 15 years with a maturity of 5 years. These loans are collateralized by certain of the Company's operating properties and by assignment of rents generated by the underlying properties. Under certain conditions, these loans have a yield maintenance premium if paid prior to maturity.

6

In June 2001, the Company issued a \$10.0 million uncollateralized promissory note in connection with the acquisition of a 50% interest in a residential development partnership. The note matures on June 1, 2003 and bears interest at 6% for the first year if paid on or before the first anniversary date and 8% for the second year if paid on or before the second anniversary date.

In July 2001, the Company closed a \$28.0 million floating rate mortgage loan (LIBOR plus 2.25%) that is amortized over 25 years with a maturity of 5 years. This loan is collateralized by one of the Company's operating properties and by assignment of rents generated by the underlying property. Under certain conditions, this loan has a yield maintenance premium if paid prior to maturity.

Interest costs relating to mortgage and other debt for the three-month and nine-month periods ended September 30, 2001 and 2000, are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	-----		-----	
	(In thousands)		(In thousands)	
Total interest incurred .....	\$ 20,751	\$ 16,422	\$ 62,717	\$ 48,743
Interest capitalized .....	(6,856)	(3,465)	(19,112)	(15,214)
	-----	-----	-----	-----
Interest expensed .....	\$ 13,895	\$ 12,957	\$ 43,605	\$ 33,529
	=====	=====	=====	=====

7

### NOTE 6. PROPERTIES

Book value by property type at September 30, 2001, and December 31, 2000, consisted of the following:

September 30, 2001	December 31, 2000
-----	-----
(In thousands)	



Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Rental properties:		
Industrial buildings .....	\$ 907,042	\$ 874,168
Office buildings .....	261,550	205,179
Retail buildings .....	96,138	94,085
Land and land leases .....	105,003	92,803
Investment in operating joint ventures .....	(14,336)	(16,092)
	-----	-----
	1,355,397	1,250,143
	-----	-----
Developable properties:		
Commercial .....	178,818	177,635
Residential .....	64,806	64,479
Urban development .....	342,452	366,136
Investment in development joint ventures ..	72,919	46,256
	-----	-----
	658,995	654,506
	-----	-----
Work-in-process:		
Commercial .....	92,627	50,098
Commercial--capital lease .....	27,630	37,415
Residential .....	1,947	4,883
Urban development .....	27,882	--
	-----	-----
	150,086	92,396
	-----	-----
Furniture and equipment .....	28,380	26,599
Other .....	3,284	2,169
	-----	-----
Gross book value .....	2,196,142	2,025,813
Accumulated depreciation .....	(342,677)	(320,275)
	-----	-----
Net book value .....	\$ 1,853,465	\$ 1,705,538
	=====	=====

8

NOTE 7. SEGMENT REPORTING

The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting which disaggregates its business by type. The Company has four reportable segments: Commercial, Residential, Urban Development, and Corporate. The Commercial segment leases and manages Company-owned commercial buildings and land, develops real estate for the Company's own account or for third parties, and acquires and sells developable land and commercial buildings. The Residential segment is involved in community development, project management, and, historically, home building activities. The Urban Development segment entitles and develops major mixed-use development sites, which includes development for residential, office, retail, and biotechnology purposes. The Corporate segment consists of administrative and other services.

Inter-segment gains and losses, if any, are not recognized. Debt and interest-bearing assets are allocated to segments based upon the grouping of the underlying assets. All other assets and liabilities are specifically identified.

The Company uses a supplemental performance measure, Earnings Before

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Depreciation and Deferred Taxes ("EBDDT"), along with net income, to report operating results. EBDDT is not a measure of operating results or cash flows from operating activities as defined by generally accepted accounting principles. Further, EBDDT is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to cash flows as a measure of liquidity. The Company believes that EBDDT provides relevant information about operations and is useful, along with net income, for an understanding of the Company's operating results.

EBDDT is calculated by making various adjustments to net income. Depreciation, amortization, and deferred income taxes are added back to net income as they represent non-cash charges. Since depreciation expense is added back to net income in arriving at EBDDT, the portion of gain on property sales attributable to depreciation recapture is excluded from EBDDT. In addition, gains on the sale of non-strategic assets and extraordinary items, including their current tax effect, represent unusual and/or non-recurring items and are excluded from the EBDDT calculation. A reconciliation from EBDDT to net income is also provided.

9

Financial data by reportable segment are as follows:

	Commercial	Residential	Urban Developme
			(In thousand)
Three Months Ended September 30, 2001			
Rental properties:			
Rental revenue .....	\$ 55,078	\$ --	\$ 4,038
Property operating costs .....	(15,949)	--	(1,441)
Equity in earnings of operating joint ventures, net ...	1,184	--	--
	40,313	--	2,597
Property sales and fee services:			
Sales revenue .....	49,173	2,045	13,106
Cost of sales .....	(24,115)	(681)	(11,598)
Gain on property sales .....	25,058	1,364	1,508
Equity in earnings of development joint ventures, net..	--	14,420	--
Total gain on property sales .....	25,058	15,784	1,508
Management and development fees .....	874	(5)	397
Selling, general and administrative expenses .....	(3,324)	(1,812)	(1,237)
Other, net .....	(317)	(786)	976
	22,291	13,181	1,644
Interest expense .....	(16,230)	--	--
Corporate administrative costs .....	--	--	--
Minority interests .....	(1,604)	--	--
Other, net .....	--	--	--
Depreciation recapture .....	(8,176)	--	--
Pre-tax EBDDT .....	\$ 36,594	\$ 13,181	\$ 4,241

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Current taxes .....	=====	=====	=====
EBDDT .....			
Depreciation and amortization .....			
Deferred taxes .....			
Gain on non-strategic asset sales .....			
Depreciation recapture .....			
Net Income .....			

10

	Commercial	Residential	Urban Development
	-----	-----	-----
	(In thousand)		
Three Months Ended September 30, 2000			
Rental properties:			
Rental revenue .....	\$ 49,050	\$ --	\$ 3,47
Property operating costs .....	(12,267)	--	(1,98)
Equity in earnings of operating joint ventures, net .....	1,324	--	--
	-----	-----	-----
	38,107	--	1,48
	-----	-----	-----
Property sales and fee services:			
Sales revenue .....	30,468	182,722	--
Cost of sales .....	(17,752)	(154,760)	--
	-----	-----	-----
Gain on property sales .....	12,716	27,962	--
Equity in earnings of development joint ventures, net .....	--	9,238	--
	-----	-----	-----
Total gain on property sales .....	12,716	37,200	--
Management and development fees .....	2,647	89	1
Selling, general and administrative expenses .....	(3,730)	(9,981)	(53)
Other, net .....	1,318	(4,426)	6
	-----	-----	-----
	12,951	22,882	(46)
	-----	-----	-----
Interest expense .....	(12,113)	(581)	(13)
Corporate administrative costs .....	--	--	--
Minority interests .....	(1,551)	(3,743)	--
Other, net .....	--	--	--
Depreciation recapture .....	(4,289)	--	--
	-----	-----	-----
Pre-tax EBDDT .....	\$ 33,105	\$ 18,558	\$ 89
	=====	=====	=====
Current taxes .....			
EBDDT .....			
Depreciation and amortization .....			
Deferred taxes .....			
Gain on non-strategic asset sales .....			

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Depreciation recapture .....  
 Net Income .....

11

	Commercial -----	Residential -----	Un Deve ----- (In thou
Nine months ended September 30, 2001			
Rental properties:			
Rental revenue .....	\$ 160,850	\$ --	\$ 1
Property operating costs .....	(41,121)	--	(
Equity in earnings of operating joint ventures, net .....	7,017	--	--
	----- 126,746	----- --	----- --
Property sales and fee services:			
Sales revenue .....	111,772	28,621	4
Cost of sales .....	(56,784)	(19,148)	(3
	----- 54,988	----- 9,473	----- 1
Gain on property sales .....	54,988	9,473	1
Equity in earnings of development joint ventures, net .....	--	22,896	--
	----- 54,988	----- 32,369	----- 1
Total gain on property sales .....	54,988	32,369	1
Management and development fees .....	2,918	434	--
Selling, general and administrative expenses .....	(9,963)	(8,335)	(
Other, net .....	3,786	(2,506)	--
	----- 51,729	----- 21,962	----- 1
Interest expense .....	(49,828)	--	--
Corporate administrative costs .....	--	--	--
Minority interests .....	(4,812)	(504)	--
Other, net .....	--	--	--
Depreciation recapture .....	(11,428)	--	--
	----- \$ 112,407	----- \$ 21,458	----- \$ 2
Pre-tax EBDDT .....	=====	=====	=====
Current taxes .....			
EBDDT .....			
Depreciation and amortization .....			
Deferred taxes .....			
Gain on non-strategic asset sales .....			
Depreciation recapture .....			
Net Income .....			

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

12

	Commercial	Residential	Un Devel
	-----	-----	-----
(In th			
Nine months ended September 30, 2000			
Rental properties:			
Rental revenue .....	\$ 142,115	\$ 187	\$ 1
Property operating costs .....	(35,160)	(5)	(
Equity in earnings of operating joint ventures, net .....	7,913	--	--
	-----	-----	-----
	114,868	182	--
	-----	-----	-----
Property sales and fee services:			
Sales revenue .....	120,970	275,219	--
Cost of sales .....	(67,465)	(225,429)	--
	-----	-----	-----
Gain on property sales.....	53,505	49,790	--
Equity in earnings of development joint ventures, net .....	14	12,070	--
	-----	-----	-----
Total gain on property sales .....	53,519	61,860	--
Management and development fees .....	8,154	557	--
Selling, general and administrative expenses .....	(11,441)	(20,555)	--
Other, net .....	3,174	(11,159)	--
	-----	-----	-----
	53,406	30,703	--
	-----	-----	-----
Interest expense .....	(33,891)	(603)	--
Corporate administrative costs .....	--	--	--
Minority interests .....	(4,655)	(4,113)	--
Other, net .....	--	--	--
Depreciation recapture .....	(14,486)	--	--
	-----	-----	-----
Pre-tax EBDDT .....	\$ 115,242	\$ 26,169	\$ --
	=====	=====	=====
Current taxes .....			
EBDDT .....			
Depreciation and amortization .....			
Deferred taxes .....			
Gain on non-strategic asset sales .....			
Depreciation recapture .....			
Net Income .....			

13

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

### NOTE 8. COMMITMENTS AND CONTINGENCIES

The Company is a party to a number of legal actions arising in the ordinary course of business. The Company cannot predict with certainty the final outcome of these proceedings. Considering current insurance coverages, indemnifications, and the substantial legal defenses available, however, management believes that none of these actions, when finally resolved, will have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company. Where appropriate, the Company has established reserves for potential liabilities related to legal actions. These reserves are necessarily based on estimates and probabilities of the occurrence of events and therefore are subject to revision from time to time.

Some of the legal actions to which the Company is a party may seek to restrain actions related to the development process or challenge title to or possession of the Company's properties. Typically, such actions, if successful, would not result in significant financial liability for the Company but might instead prevent the completion of the development process or the completion of the development process as originally planned.

Inherent in the operation of a real estate business is the possibility that environmental liability may arise from the current or past ownership, or current or past operation, of real properties. The Company may be required in the future to take action to correct or reduce the environmental effects of prior disposal or release of hazardous substances by third parties, the Company, or its corporate predecessors. Future environmental costs are difficult to estimate because of such factors as the unknown magnitude of possible contamination, the unknown timing and extent of the corrective actions which may be required, the determination of the Company's potential liability in proportion to that of other potentially responsible parties, and the extent to which such costs are recoverable from insurance. Also, the Company does not generally have access to properties sold in the past that could create environmental liabilities.

At September 30, 2001, management estimates that future costs for remediation of environmental contamination on operating properties and properties previously sold approximate \$9.8 million, and has provided a reserve for that amount. It is anticipated that such costs will be incurred over the next several years. Management also estimates that similar costs relating to the Company's properties to be developed or sold may range from \$24.8 million to \$44.3 million. These amounts will be capitalized as components of development costs when incurred, which is anticipated to be over a period of approximately twenty years, or will be deferred and charged to cost of sales when the properties are sold. Environmental costs capitalized during the nine months ended September 30, 2001 totaled \$1.8 million. The Company's estimates were developed based on reviews that took place over several years based upon then-prevailing law and identified site conditions. Because of the breadth of its portfolio, and past sales, the Company is unable to review each property extensively on a regular basis. Such estimates are not precise and are always subject to the availability of further information about the prevailing conditions at the site, the future requirements of regulatory agencies, and the availability and ability of other parties to pay some or all of such costs.

As of September 30, 2001, the Company has outstanding standby letters of credit and surety bonds in the aggregate amount of \$224.7 million in favor of local municipalities or financial institutions to guarantee performance on construction of real property improvements or financial obligations. The Company guarantees a portion of the debt and interest of certain of its joint ventures. At September 30, 2001, these guarantees totaled \$35.7 million. In addition, the Company has guaranteed debt service of \$3.2 million for a residential project. In some cases, other parties have jointly and severally guaranteed these

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

obligations.

14

In June 2001, \$101 million of Community Facility District ("CFD") bonds were sold to finance public infrastructure improvements at Mission Bay in San Francisco and Pacific Commons in Fremont. Bonds totaling \$71 million were issued for Mission Bay, of which \$17 million have a floating rate of interest initially set at 2.85% with the remaining \$54 million at a fixed rate of 6.02%. The Company has issued a letter of credit totaling \$17 million in support of the floating rate bond issued for Mission Bay. At Pacific Commons, \$30 million of bonds were issued and have a weighted average fixed interest rate of 6.20%. These bonds have a series of maturities up to thirty years. At September 30, 2001, for Mission Bay \$1.6 million of the \$17 million floating rate bonds and \$2.7 million of the \$54 million fixed rate bonds were funded; for Pacific Commons, approximately \$0.1 million was funded.

Upon completion of the infrastructure improvements at Mission Bay for which the \$71 million CFD bonds were issued, the improvements will be transferred to the City of San Francisco. Therefore, the expected reimbursement of the infrastructure costs from the bonds is reflected as a receivable.

The Company will retain the infrastructure improvements at Pacific Commons, for which the \$30 million CFD bonds were issued, until the land is sold. Therefore, as construction of the improvements proceeds, the costs incurred are capitalized and the liability of the CFD bonds has been recorded.

### NOTE 9. STOCK REPURCHASE PROGRAMS

From October 1999 through July 2001, under various stock repurchase programs the Company's Board of Directors has authorized a total of \$250 million in repurchases of the Company's Common Stock. \$21.3 million of the \$250 million total authorized amount has expired. Through June 30, 2001, the Company purchased 8,433,600 shares at a cost of \$137.5 million. During the third quarter of 2001, the Company purchased an additional 2,419,197 shares at a cost of \$43.1 million. All purchases were made on the open market. Subsequent to September 30, 2001, through November 6, 2001, the Company purchased an additional 2,194,300 shares at a cost of \$37.4 million. After previous purchases and expirations, \$10.7 remains authorized for additional purchases on the open market or in privately negotiated transactions.

The Company's repurchases are reflected as treasury stock at cost and are presented as a reduction to consolidated stockholders' equity.

15

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

The following discussion and analysis of financial condition and EBDDT, as defined, should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes appearing elsewhere in this Form 10-Q. This discussion and analysis covers each of our four business segments: Commercial, Residential, Urban Development, and Corporate. This analysis of EBDDT by segment is used in internal reporting to management and, we believe, provides an effective means of understanding our business and corporate structure. (For definition of EBDDT, see Note 7 of the accompanying Condensed Consolidated Financial Statements).

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Summary EBDDT and reconciliation to net income for the three and nine months ended September 30, 2001 and 2000.

	Three Months Ended September 30,		Difference	
	2001	2000		
(In thousands)				
Pre-tax EBDDT				
Commercial .....	\$ 36,594	\$ 33,105	\$ 3,489	\$ 1
Residential .....	13,181	18,558	(5,377)	
Urban Development .....	4,241	893	3,348	
Corporate .....	(2,344)	(4,526)	2,182	
<b>Total pre-tax EBDDT .....</b>	<b>51,672</b>	<b>48,030</b>	<b>3,642</b>	<b>1</b>
Current tax .....	(5,343)	(2,378)	(2,965)	
<b>EBDDT .....</b>	<b>46,329</b>	<b>45,652</b>	<b>677</b>	<b>1</b>
Depreciation and amortization .....	(12,877)	(11,661)	(1,216)	
Deferred taxes .....	(13,747)	(21,338)	7,591	
Gain on non-strategic asset sales .....	765	18,662	(17,897)	
Depreciation recapture .....	8,176	4,289	3,887	
<b>Net income .....</b>	<b>\$ 28,646</b>	<b>\$ 35,604</b>	<b>\$ (6,958)</b>	<b>\$</b>

16

### Commercial:

The Commercial segment acquires and develops suburban commercial business parks for our own account and the account of others. EBDDT consists primarily of rental property operating income for buildings owned and sales gains from properties sold.

	Three Months Ended September 30,		Difference	
	2001	2000		
(In thousands)				
<b>Rental properties:</b>				
Rental revenue .....	\$ 55,078	\$ 49,050	\$ 6,028	\$ 1
Property operating costs .....	(15,949)	(12,267)	(3,682)	
Equity in earnings of operating joint ventures, net .....	1,184	1,324	(140)	
	<b>40,313</b>	<b>38,107</b>	<b>2,206</b>	<b>1</b>
<b>Property sales and fee services:</b>				
Sales revenue .....	49,173	30,468	18,705	1
Cost of sales/(1/) .....	(32,291)	(22,041)	(10,250)	



Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Gain on property sales .....	16,882	8,427	8,455	
Equity in earnings of development joint ventures, net .....	--	--	--	
Total gain on property sales .....	16,882	8,427	8,455	
Management and development fees .....	874	2,647	(1,773)	
Selling, general and administrative expenses .....	(3,324)	(3,730)	406	
Other .....	(317)	1,318	(1,635)	
	14,115	8,662	5,453	
Interest expense .....	(16,230)	(12,113)	(4,117)	(
Minority interests .....	(1,604)	(1,551)	(53)	
Pre-tax EBDDT .....	\$ 36,594	\$ 33,105	\$ 3,489	\$ 1

Rental Building Occupancy: (In thousands of square feet, except percentages)	September 30,		Difference
	2001	2000	
Owned .....	30,254	26,371	3,883
Occupied .....	28,483	25,491	2,992
Occupancy percentage .....	94.1%	96.7%	(2.7%)

(1) For purposes of this segment disclosure, cost of sales for the three and nine months ended September 30, 2001, includes depreciation recapture of \$8.2 million and \$11.4 million, respectively, and for the three and nine months ended September 30, 2000, includes depreciation recapture of \$4.3 million and \$14.5 million, respectively. Depreciation recapture is included in net income but not EBDDT.

Rental Revenue less Property Operating Costs

Rental revenue less property operating costs has increased \$2.3 million and \$12.8 million for the three and nine months ended September 30, 2001, respectively, as compared to the same periods in 2000, mainly because of additions of buildings and an increase in revenue from ground leases, partially offset by properties sold. From October 2000 to September 2001, we added, primarily from our own development projects, a net 3.9 million square feet to our rental portfolio. The decrease in rental revenue less property operating costs from same space for the three months ended September 30, 2000 was primarily attributable to higher non-recurring expenses, such as painting and parking lot repairs, that were not passed through to tenants, and lower occupancy. The increases in rental revenue less property operating costs from ground leases for the three and nine months ended September 30, 2001 as compared to the same periods in 2000 were primarily attributable to the ground lease from a major tenant. The tenant prepaid approximately \$104.8 million ground rent in

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

2001. The prepayment is recorded as part of deferred credits and other liabilities in the accompanying condensed consolidated balance sheet. The prepaid rent is being amortized over the lease term of 34 years. Rental revenue less operating costs for the three and nine months ended September 30, 2001 and 2000 are summarized as follows:

	Three Months Ended September 30,		Difference	
	2001	2000	-----	
	-----		-----	
	(In thousands)			
Rental revenue less property operating costs:				
Same Space .....	\$ 26,270	\$ 28,049	\$ (1,779)	\$ 8
Properties added to portfolio .....	8,035	4,068	3,967	2
Properties sold from portfolio .....	(43)	940	(983)	
Ground leases .....	4,867	3,726	1,141	1
	\$ 39,129	\$ 36,783	\$ 2,346	\$ 11
	=====	=====	=====	=====

Because of the long-term nature of our leases and the historically low growth in rental rates for our product, we do not expect substantial changes in rental income from our Same Space rental portfolio. Rather, we expect growth in overall portfolio income will result primarily from new properties we add to our rental portfolio over time.

### Equity in Earnings of Operating Joint Ventures

Equity in earnings of operating joint ventures, net, decreased by \$0.1 million and \$0.9 million for the three and nine months ended September 30, 2001, over the same periods in 2000, primarily because of higher interest expense due to a refinancing at a joint venture in 2000 and lower occupancy in 2001. (See Variability in Results section).

18

### Gain on Property Sales

Our Commercial segment increased gain from property sales for the three and nine months ended September 30, 2001, compared to the same periods in 2000. Gain on property sales was \$16.9 million and \$43.6 million for the three and nine months ended September 30, 2001, respectively, as compared to \$8.4 million and \$39.0 million for the three and nine months ended September 30, 2000, respectively, summarized as follows:

	Three Months Ended September 30,		Difference
	2001	2000	-----
	-----		-----
	(In thousands)		
Commercial sales:			

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Building sales:

Sales proceeds .....	\$ 38,635	\$ 13,349	\$ 25,286	\$
Cost of sales .....	(23,962)	(9,574)	(14,388)	(
	-----	-----	-----	-----
Gain .....	14,673	3,775	10,898	
	-----	-----	-----	-----
Land sales:				
Sales proceeds .....	8,663	15,428	(6,765)	(
Cost of sales .....	(7,104)	(11,193)	4,089	(
	-----	-----	-----	-----
Gain .....	1,559	4,235	(2,676)	
	-----	-----	-----	-----
Other sales:				
Sales proceeds .....	1,875	1,691	184	
Cost of sales .....	(1,225)	(1,274)	49	
	-----	-----	-----	-----
Gain .....	650	417	233	
	-----	-----	-----	-----
Gain on property sales .....	16,882	8,427	8,455	
Equity in earnings of development joint ventures, net .....	--	--	--	
	-----	-----	-----	-----
Total gain on property sales .....	\$ 16,882	\$ 8,427	\$ 8,455	\$
	=====	=====	=====	=====

For the three months ended September 30, 2001, commercial sales include the closings of 244,000 square feet of industrial building space with associated land and 52.0 acres of improved land capable of supporting 400,000 square feet of commercial development, as compared to 218,000 square feet of industrial building space with associated land and 132.9 acres of improved land capable of supporting 2.6 million square feet of commercial development for the three months ended September 30, 2000.

For the nine months ended September 30, 2001, commercial sales include the closings of 535,000 square feet of industrial building space with associated land and 2,091 acres of improved land capable of supporting 3.1 million square feet of commercial development. For the same period in 2000, the commercial sales include the closings of 202.0 acres of improved land capable of supporting 4.0 million square feet of commercial development and 1.2 million square feet of industrial building space. (See Variability in Results section).

"Other sales" in the table above include the sales of land subject to leases that we had acquired in 1998. These sales totaled 308.7 acres and 795.3 acres for the three and nine months ended September 30, 2001, respectively, and 121.2 acres and 662 acres for the three and nine months ended September 30, 2000, respectively.

Management and Development Fees

In past years, a major source of management fee income was a contract to manage and sell the non-railroad real estate assets of a major railroad company. As anticipated, most of the railroad's inventory of managed assets was sold in accordance with the customer's goals. We decided not to pursue renewal of this contract when it expired on December 31, 2000. Consequently, we expected

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

management fees and the related selling, general and administrative expenses to decline in 2001. Management and development fees decreased by \$1.8 million and \$5.2 million for the three and nine months ended September 30, 2001, respectively, from the same periods in 2000.

### Selling, General and Administrative Expenses

The decreases in the three and nine months ended September 30, 2001, in selling, general and administrative expenses of \$0.4 million and \$1.5 million are primarily due to decreases of \$0.6 million and \$2.7 million during the same periods in non-compensation related administrative and office expenses, offset by the increases of \$0.2 million and \$1.2 million, respectively, in employee related expenses due to higher selling activities, staffing to pursue new development activities and manage additions to the portfolio, and expenses incurred on lost opportunities.

### Other

"Other" decreased by \$1.6 million for the three months ended September 30, 2001, as compared to the same period in 2000, primarily because of the expense of certain predevelopment costs previously capitalized. "Other" increased by \$0.6 million for the nine months ended September 30, 2001 as compared to the same period in 2000, primarily because of interest income, from a higher balance of short-term investments, partially offset by the expense of certain predevelopment costs previously capitalized.

### Interest

Interest expense increased \$4.1 million and \$15.9 million for the three and nine months ended September 30, 2001, respectively, as compared to the same periods in 2000, primarily because of new mortgages placed on completed buildings added to our portfolio. The increases in capitalized interest in the nine months ended September 30, 2001 are due to higher levels of development activity. (See Note 6 of the accompanying Condensed Consolidated Financial Statements).

Following is a summary of interest:

	Three Months Ended September 30,		Difference	Ni
	2001	2000	-----	20
	-----		-----	-----
	(In thousands)			(
Total interest incurred .....	\$ 20,120	\$ 15,395	\$ 4,725	\$ 60,
Interest capitalized .....	(3,890)	(3,282)	(608)	(10,
	-----	-----	-----	-----
Interest expensed .....	\$ 16,230	\$ 12,113	\$ 4,117	\$ 49,
	=====	=====	=====	=====

We expect interest expense to increase in 2001 as a result of new debt associated with and collateralized by newly completed and retained buildings.

Residential:

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

The Residential segment acquires and develops land primarily for single-family residential property via direct investment or through joint ventures. Through the third quarter of 2000, the residential segment activities also included home building; however, these assets were sold as discussed below. Therefore, we expect our residential sales activities to decrease as compared to 2000.

	Three Months Ended September 30,		Diffe
	2001	2000	-----
	(In thousands)		
Rental properties income .....	\$ --	\$ --	\$
Property sales and fee services:			
Sales revenue .....	2,045	182,722	(180,6
Cost of sales .....	(681)	(154,760)	154,0
	-----	-----	-----
Gain on property sales .....	1,364	27,962	(26,5
Equity in earnings of development joint ventures, net .....	14,420	9,238	5,1
	-----	-----	-----
Total gain on property sales .....	15,784	37,200	(21,4
Management and development fees .....	(5)	89	(
Selling, general and administrative expenses .....	(1,812)	(9,981)	8,1
Other .....	(786)	(4,426)	3,6
	-----	-----	-----
	13,181	22,882	(9,7
	-----	-----	-----
Interest expense .....	--	(581)	5
Minority interests .....	--	(3,743)	3,7
	-----	-----	-----
Pre-tax EBDT .....	\$ 13,181	\$ 18,558	\$ (5,3
	=====	=====	=====

### Gain on Property Sales

Gain from residential property sales for the three and nine months ended September 30, 2001, as compared to the same periods in 2000, decreased primarily because of the sale of our home-building assets in 2000. Gain on residential property sales for the three months ended September 30, 2000, included \$14.4 million from the sale of our home building assets to a newly formed limited liability company managed by Brookfield Homes of California, Inc. ("BHC, LLC"), as well as \$10.2 million, before deduction of approximately \$4 million in minority interest, from the sale of an 80-lot site, and \$3.4 million from the closings of 357 lots and 82 homes. The \$1.4 million gain on property sales for the three months ended September 30, 2001 represents our portion of profit participation related to certain properties that were sold in the prior year. Gain on property sales of \$9.5 million for the nine months ended September 30, 2001, is primarily from the closings of 227 lots and 55 homes, compared to the \$49.8 million gain from closings of 395 lots and 296 homes during the same period in 2000.

In July 2000, we sold a majority of our home-building assets to BHC, LLC for \$139 million in cash and retained interest in BHC, LLC at an agreed-upon value of \$22.5 million. In addition, we were entitled to a preferred return on the retained interest and 35% of additional profits from BHC, LLC operations. The deferred gain related to the retained interest and our 35% share of profits from BHC, LLC's operations were recorded as part of "Equity in earnings of

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

development joint ventures, net" as homes/lots are sold. Of the \$22.5 million deferred gain related to the retained interest, we recognized \$8.3 million in 2000 and \$14.2 million during the nine months ended September 30, 2001. In September 2001, we sold our interest in BHC, LLC for \$8.2 million and recognized the remaining deferred gain related to the retained interest. (See Variability in Results section).

21

Equity in Earnings of Development Joint Ventures, Net:

	Three Months Ended September 30,		Difference	2
	2001	2000		
	(In thousands)			
Sales proceeds-unconsolidated JVs .....	\$ 61,932	\$ 72,491	\$ (10,559)	\$ 15
Cost of sales .....	(46,926)	(55,600)	8,674	(13
Gain .....	15,006	16,891	(1,885)	2
Joint Venture partners interest .....	(586)	(7,653)	7,067	
Equity in earnings of development joint ventures, net .....	\$ 14,420	\$ 9,238	\$ 5,182	\$ 2

Equity in earnings of development joint ventures, net, increased \$5.2 million and \$10.8 million for the three and nine months ended September 30, 2001, as compared to the same periods in 2000. The increase for the three and nine months of 2001 was primarily attributable to the sale of our interest in BHC, LLC as noted in the Gain on Property Sales section, and higher income from our combined investment projects. (See Variability in Results section).

22

### Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased \$8.2 million and \$12.2 million for the three and nine months ended September 30, 2001, respectively, as compared to the same periods in 2000. As expected, the decrease in 2001 is primarily attributable to the related decrease of employees from the sale of our home-building assets to BHC, LLC in 2000.

### Other

"Other" increased for the three and nine months ended September 30, 2001, as compared to the same periods in 2000, due to the \$4.0 million and \$11.0 million reserves, respectively, provided for certain losses related to cost overruns on a fixed price contract for a development project in 2000.

### Interest

Following is a summary of interest incurred:

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

	Three Months Ended September 30,		Difference	Nine Mont
	2001	2000		2001
	(In thousands)			(In thou
Total interest incurred .....	\$ 152	\$ 763	\$ (611)	\$ 518
Interest capitalized .....	(152)	(182)	30	(518)
Interest expensed .....	\$ --	\$ 581	\$ (581)	\$ --

Interest incurred and capitalized decreased for three and nine months ended September 30, 2001, primarily because of the sale of our home-building assets in 2000.

Minority Interest

Minority interest for the three and nine months ended September 30, 2001, as compared to the same periods in 2000, decreased \$3.7 million and \$3.6 million, respectively, primarily because of the sale of an 80-lot site in San Franciscoby a consolidated joint venture in 2000.

23

Urban Development:

The Urban Development segment entitles and develops urban mixed-use sites in San Francisco, Los Angeles, and San Diego. The principal active project of the segment is Mission Bay in San Francisco.

	Three Months Ended September 30,		Difference
	2001	2000	
	(In thousands)		
Rental properties:			
Rental revenue .....	\$ 4,038	\$ 3,473	\$ 565
Property operating costs .....	(1,441)	(1,984)	543
	2,597	1,489	1,108
Property sales and fee services:			
Sales revenue .....	13,106	--	13,106
Cost of sales .....	(11,598)	--	(11,598)
Total gain on property sales .....	1,508	--	1,508
Management and development fees .....	397	13	384
Selling, general and administrative expenses .....	(1,237)	(538)	(699)
Other .....	976	65	911
	1,644	(460)	2,104

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Interest expense .....	--	(136)	136
	-----	-----	-----
Pre-tax EBDDT .....	\$ 4,241	\$ 893	\$ 3,348
	=====	=====	=====

Rental Building Occupancy (Interim-use properties): (In thousands and square feet, except percentages)	2001	September 30, 2000	Difference
	-----	-----	-----
Owned .....	810	913	(103)
Occupied .....	702	835	(133)
Occupancy percentage .....	86.7%	91.5%	(5.2%)

Rental Revenue less Property Operating Costs

The increase in rental revenue less property operating costs for the three and nine months ended September 30, 2001, as compared to the same periods in 2000, was primarily due to the commencement of rent from two ground leases and a joint venture ground lease and lower property tax expense. Income provided from interim rental uses in this segment will decrease as development occurs on these sites.

Gain on Property Sales

The gain resulted from land sales of approximately 1.4 acres and 5.1 acres of land at Mission Bay for the three and nine months ended September 30, 2001, respectively. (See Variability in Results section).

24

Selling, General, and Administrative Expenses

The increase of \$0.7 million and \$2.1 million for the three and nine months ended September 30, 2001, respectively, as compared to the same periods in 2000, is primarily attributable to changes in overall staffing to accommodate increased activity associated with the projects of the Urban Development segment.

Other

The increase in "other" of \$0.9 million for the three months ended September 30, 2001, was primarily because of higher interest income from restricted cash generated by tax-deferred exchanges. The increase of \$4.7 million for the nine months ended September 30, 2001, was primarily because of a lease termination payment related to a former tenant at the Mission Bay project.

Interest

Following is a summary of interest incurred:

Three Months Ended September 30, 2001	2000	Difference	Nine Month Septemb 2001
-----	-----	-----	-----



Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

	(In thousands)			(In thou
Total interest incurred .....	\$ 940	\$ 136	\$ 804	\$ 1,860
Interest capitalized .....	(940)	--	(940)	(1,804)
	-----	-----	-----	-----
Interest expensed .....	\$ --	\$ 136	\$ (136)	\$ 56
	=====	=====	=====	=====

The decrease in interest expense is attributable to the increased capitalization of interest as the result of higher development activities at our Mission Bay project in San Francisco.

Corporate:

Corporate consists of administrative costs and interest contra-expense for interest capitalized on a consolidated basis but not attributed to an operating segment.

	Three Months Ended September 30,			Nine Month September
	2001	2000	Difference	2001
	-----			-----
	(In thousands)			(In thou
Interest (contra-expense) .....	\$ 2,335	\$ (127)	\$ 2,462	\$ 6,279
Cost of sales .....	(1,146)	--	(1,146)	(1,495)
Corporate administrative costs .....	(4,685)	(3,656)	(1,029)	(15,292)
Other .....	1,152	(743)	1,895	7,858
	-----	-----	-----	-----
Pre-tax EBDT .....	\$ (2,344)	\$ (4,526)	\$ 2,182	\$ (2,650)
	=====	=====	=====	=====

Interest (contra-expense)

Corporate interest consists primarily of interest contra-expense because the Residential and Urban Development segments had qualifying assets under development that provided for the capitalization of more interest than was directly incurred by these segments. As a result, the Corporate segment capitalized interest during the period and, as the qualifying assets are sold, the corresponding capitalized interest is reflected as cost of sales under the Corporate segment. We expect the interest contra-expense to continue to increase in 2001 because of the increase in business activities at our Mission Bay project in San Francisco.

Cost Of Sales

As noted above, as the qualifying assets from the Residential and Urban Development segments are sold, the corresponding capitalized interest is reflected as cost of sale. For the three and nine months ended September 30, 2001, cost of sales was \$1.1 million and \$1.5 million, respectively.

Corporate Administrative Costs

Corporate administrative costs consist primarily of general and administrative expenses. General and administrative expenses increased by \$1.0 million and \$3.9 million for the three and nine months ended September 30, 2001, respectively, as compared to the same periods in 2000, primarily because of the

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

increase in our overall activities.

25

### Other

The increase in "other" income for the three and nine months ended September 30, 2001 is primarily attributable to higher interest income generated from a higher balance of short-term investments.

### Items Not Included in EBDDT by Segment

See comparative presentation of reconciliation from EBDDT to net income at Note 7 of the accompanying Condensed Consolidated Financial Statements.

### Depreciation and Amortization Expense

The increases in depreciation and amortization expense of \$1.2 million and \$4.8 million for the three and nine months ended September 30, 2001, respectively, as compared to the same periods in 2000, are primarily attributable to the new buildings added to the portfolio between October 2000 and September 2001.

### Gain on Non-Strategic Asset Sales

Gain on sales of non-strategic assets decreased \$17.9 million and \$42.2 million for the three and nine months ended September 30, 2001, respectively, as compared to the same periods in 2000, primarily because of sales of desert land to the Federal Government in 2000.

### Depreciation Recapture

We exclude the portion of gain on property sales attributable to depreciation recapture from EBDDT (see Note 7 of the accompanying Condensed Consolidated Financial Statements). The increase of \$3.9 million in depreciation recapture for the three months ended September 30, 2001, over the same period in 2000 is because of higher sales volume of older properties in the third quarter of 2001 as compared to the third quarter of 2000. The decrease of \$3.1 million in depreciation recapture for the nine months ended September 30, 2001, over the same period in 2000 is because of lower sales volume of older properties in the first nine months of 2000 as compared to the first nine months of 2001.

### Variability in Results

Although we have a large portfolio of rental properties that provides relatively stable operating results, our earnings from period to period will be affected by the nature and timing of sales of property. Many of our projects require a lengthy process to complete the development cycle before they are sold. Also, sales of assets are difficult to predict and are generally subject to lengthy negotiations and contingencies that need to be resolved before closing. These factors may tend to "bunch" income in particular periods rather than producing a more even pattern throughout the year or from year to year. In addition, gross margins may vary significantly as the mix of types of property varies. The cost basis of the properties sold varies because (i) properties have been owned for varying periods of time; (ii) properties are owned in various geographical locations; and (iii) development projects have varying infrastructure costs and build-out periods.

### Liquidity and Capital Resources

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

### Cash flows from operating activities

Cash provided by operating activities reflected in the statement of cash flows for the nine months ended September 30, 2001 and 2000, was \$295.1 million and \$288.7 million, respectively. The increase of \$6.4 million in 2001 was primarily attributed to a combined decrease of \$86.4 million in uses offset by a combined decrease of \$80.0 million in sources. The decrease of \$86.4 million in uses was mainly because of a decrease in capital expenditures for development properties. The decrease of \$80.0 million in sources was primarily due to a decrease of \$217.2 million in proceeds from sales of development, non-strategic, and other properties and a decrease of \$4.4 million in other income offset by a change of \$126.8 million in asset and liabilities, which primarily resulted from a \$104.8 million prepayment of rent associated with a 34-year ground lease and an increase of \$21.6 million in operating distributions from joint ventures.

26

### Cash flows from investing activities

Net cash used in investing activities reflected in the statement of cash flows for the nine months ended September 30, 2001 and 2000, was \$178.5 million and \$227.3 million, respectively. The decrease of \$48.8 million was primarily attributed to a combined increase of \$71.5 million in sources offset by a combined increase of \$22.7 million in uses. The increase of \$71.5 million in sources was due to a net increase of \$83.7 million in short-term investments and restricted cash and increase of \$3.3 million in proceeds from sale of investment property, offset by a decrease of \$15.6 million in distributions from joint ventures. The increase of \$22.7 million in uses was due to an increase of \$20.4 million in capital expenditures for investment properties and a \$11.9 million increase in property acquisitions, offset by a decrease of \$6.7 million in contributions to joint ventures and a decrease of \$3.0 million in tenant improvements.

Capital expenditures reflected in the statement of cash flows include the following:

	Nine Months Ended September 30,	
	2001	2000
	----	----
	(In thousands)	
Capital Expenditures from Operating Activities/(1)/		
Capital expenditures for development properties .....	\$ 45,126	\$ 98,831
Residential property acquisitions .....	--	26,464
Capitalized interest and property tax .....	784	7,063
	-----	-----
Capital expenditures for operating activities .....	45,910	132,358
Seller-financed acquisitions .....	10,000	--
	-----	-----
Total capital expenditures for operating activities .....	55,910	132,358
Capital Expenditures from Investing Activities (2)		
Construction and building improvements .....	106,244	112,312
Predevelopment .....	15,545	8,430
Infrastructure and other .....	44,027	32,245
Capitalized interest and property tax .....	18,915	11,314

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Capital expenditures for investment properties .....	184,731	164,301
Investment property acquisitions .....	46,888	34,969
Tenant improvements .....	1,832	4,824
Capital expenditures for investment activities .....	233,451	204,094
Seller-financed acquisitions .....	--	1,702
Total capital expenditures in investing activities .....	233,451	205,796
Total capital expenditures .....	\$289,361	\$338,154

/(1)/ This category includes capital expenditures for properties we intend to build to sell.

/(2)/ This category includes capital expenditures for properties we intend to hold for our own account.

Capital expenditures for development properties--This item relates to the development of residential and commercial for-sale development properties. The decrease from 2000 to 2001 is primarily because of the sale of home-building assets in July 2000 (see discussion of gain on property sales in Residential section).

Residential property acquisitions--For the nine months ended September 30, 2000, we invested approximately \$26.5 million in the acquisition of properties either directly or through joint ventures.

27

Capitalized interest and property taxes from operating and investing activities--This item represents interest and property taxes capitalized as part of our development projects. The increase is primarily attributable to additional capitalized interest from the qualifying assets of the Residential and Urban development segments. (See additional discussion under Corporate section).

Construction and building improvements--This item relates primarily to development of new commercial properties held for lease and improvements to existing buildings. This development activity is summarized below:

	Three Months Ended September 30,		Nine months end September 30,	
	2001	2000	2001	2000
	(In square feet)		(In square feet)	
Under construction, beginning of period	2,866,000	4,962,000	3,474,000	4,640,000
Construction starts	2,688,000	1,204,000	3,345,000	3,860,000
Completed--retained in portfolio	(192,000)	(428,000)	(1,304,000)	(2,760,000)
Completed--design/build or sold	(74,000)	(80,000)	(227,000)	(80,000)
Under construction, end of period	5,288,000	5,658,000	5,288,000	5,658,000

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Predevelopment--This item relates to amounts incurred for our urban development projects and commercial development projects, primarily the Mission Bay project in San Francisco, California, an acquisition in Ontario, California, and the Santa Fe Depot project in San Diego, California, because of increased development activities.

Infrastructure and other--This item represents primarily infrastructure costs incurred in connection with our urban development and commercial development projects. Infrastructure costs relate primarily to the projects at Woodridge, Illinois; Denver, Colorado; Ontario, California; Fremont, California; and Mission Bay, San Francisco, California.

### Cash flows from financing activities

Net cash provided by financing activities reflected in the statement of cash flows for the nine months ended September 30, 2001 and 2000, was \$16.2 million and \$18.6 million, respectively. The decrease in 2001 is primarily attributable to \$151.9 million expended for the purchase of 8,855,497 shares of our stock under the share repurchase programs as compared to \$28.7 million expended for the purchase of 1,997,300 shares during the same period in 2000. The decrease is offset by an increase of \$111.5 million in net borrowings, an increase of \$7.2 million in proceeds from issuance of Common Stock, and a decrease of \$2.2 million in distributions to minority partners.

### Capital commitments

As of September 30, 2001, we had outstanding standby letters of credit and surety bonds in the amount of \$224.7 million in favor of local municipalities or financial institutions to guarantee performance on real property improvements or financial obligations.

As of September 30, 2001, we had approximately \$195.0 million in total commitments for capital expenditures to vendors. These commitments are primarily contracts to construct commercial development projects, predevelopment costs, and re-leasing costs.

28

### Cash balances, available borrowings and capital resources

As of September 30, 2001, we had total cash of \$497.8 million, of which \$28.6 million is restricted cash. In addition to the \$497.8 million cash, we had \$181.3 million in borrowing capacity under our commercial construction facilities and \$3.0 million in additional borrowing capacity under our term loans, both available upon satisfaction of certain conditions.

Our short- and long-term liquidity and capital resources requirements will be provided primarily from four sources: (1) cash on hand, (2) ongoing income from rental properties, (3) proceeds from sales of developed properties, land and non-strategic assets, and (4) additional debt. As noted above, construction loan facilities are available for meeting liquidity requirements. Our ability to meet our mid- and long-term capital requirements is dependent upon the ability to obtain additional financing for new construction, completed buildings, acquisitions, and currently unencumbered properties. There is no assurance that we can obtain this financing or obtain this financing on favorable terms.

Stock Repurchase Program--From October 1999 through July 2001, our Board of

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Directors authorized five separate stock repurchase programs; each has a limit of \$50 million. \$21.3 million of the \$250 million total authorized amount has expired. Share purchases under these programs were made on the open market. Through September 30, 2001, under these programs, we have repurchased a total of 10,852,797 shares at a total cost of \$180.6 million. Subsequent to September 30, 2001, through November 6, 2001, we purchased an additional 2,194,300 shares at a cost of \$37.4 million. (See Note 9 of the accompanying Condensed Consolidated Financial Statements for details).

Debt covenants--Certain loan agreements contain restrictive financial covenants, the most restrictive of which require our fixed charge coverage ratio to be at least 1.60:1, require stockholders' equity to be no less than \$589.1 million (as adjusted for stock repurchases), and require that we maintain certain other specified financial ratios. We were in compliance with all such covenants as of September 30, 2001.

Bonds--In June 2001, \$101 million of Community Facility District bonds were sold to finance public infrastructure improvements at Mission Bay in San Francisco and Pacific Commons in Fremont. Bonds totaling \$71 million were issued for Mission Bay, of which \$17 million have a floating rate of interest initially set at 2.85% with the remaining \$54 million at a fixed rate of 6.02%. At Pacific Commons, \$30 million of bonds were issued and have a weighted average fixed interest rate of 6.2%. These bonds have a series of maturities up to thirty years. At September 30, 2001, for Mission Bay \$1.6 million of the \$17 million floating rate bonds and \$2.7 million of the \$54 million fixed rate bonds were funded. For Pacific Commons, approximately \$0.1 million was funded at September 30, 2001. (See Note 8 of the accompanying Condensed Consolidated Financial Statement for details).

### Insurance

General economic conditions within the insurance and the events of September 11, 2001, have caused significant changes in the cost and availabilities of most types of insurance. Specifically, we renewed our earthquake coverage as of October 1, 2001, and were able to place approximately 65% of the previous \$100 million coverage level. We will continue to seek additional earthquake coverage as market conditions allow.

### Trading

Our executives from time to time in the future may enter into so-called "Rule 10b5-1 Plans." Under an appropriate Rule 10b5-1 Plan, an executive may instruct a third party, such as a brokerage firm, to engage in specified securities transactions in the future based on a formula without further action by the executives provided that the plan satisfies the legal requirements of Rule 10b5-1 under the Securities Exchange Act of 1934.

### Environmental Matters

Many of our properties or those of our subsidiaries are in urban or industrial areas and may have been leased to or previously owned by commercial or industrial companies that discharged hazardous materials. Our subsidiaries and we incur ongoing environmental remediation and disposal costs, legal costs relating to clean up, defense of litigation, and the pursuit of responsible third parties. Costs incurred by the consolidated group in connection with operating properties and with properties previously sold are expensed. Costs incurred for properties to be sold by our subsidiaries or us are capitalized and will be charged to cost of sales when the properties are sold. Costs relating to

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

undeveloped properties held by us or our subsidiaries are capitalized as part of development costs.

In recent years, certain of our subsidiaries have acquired properties with known significant environmental issues for cleanup and redevelopment, and we expect that we may continue to form subsidiaries to acquire such properties (or that existing subsidiaries will acquire such properties) when the potential benefits of redevelopment warrant. When our subsidiaries acquire such properties, they undertake extensive due diligence to determine the nature of environmental problems and the likely cost of remediation, and they mitigate the risk with undertakings from third parties, including the sellers and their affiliates, remediation contractors, third party sureties, and/or insurers. The costs associated with such environmental costs are included in the estimates for properties to be developed. (See Note 8 of the accompanying Condensed Consolidated Financial Statements for further discussion).

30

### Forward-Looking Information and Risk Factors

Except for historical matters, the matters discussed in this quarterly report are forward-looking statements that involve risks and uncertainties. We have tried, wherever practical, to identify these forward-looking statements by using words like "anticipate", "believe", "estimate", "project", "expect," "plan," "prospects," and similar expressions. Forward-looking statements include, but are not limited to, statements about plans; opportunities; negotiations; markets and economic conditions; development, construction, rental, and sales activities; availability of financing; and property values.

We caution you not to place undue reliance on these forward-looking statements, which reflect our current beliefs and are based on information currently available to us. We do not undertake any obligation to revise these forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs.

These forward-looking statements are subject to risks and uncertainties that could cause our actual results, performance, or achievements to differ materially from those expressed in or implied by these statements. In particular, among the factors that could cause actual results to differ materially are:

- . Changes in the real estate market or in general economic conditions in the areas in which we own property, including the possibility of a worsening economic slowdown or recession. Such changes may result in higher vacancy rates for commercial property and lower prevailing rents, lower sales prices or slower sales, lower absorption rates, more tenant defaults and bankruptcies, and the like.
- . Product and geographical concentration
- . Competition in the real estate industry
- . Unavailability of financing to meet our capital needs, the variability of interest rates, and our inability to use our collateral to secure loans
- . Changes in insurance markets or unavailability of particular insurance products
- . Delay in receipt of or denial of government approvals and entitlements

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

for development projects, other political and discretionary government decisions affecting the use of or access to land, or legal challenges to the issuance of approvals or entitlements

- . Changes in the management team
- . Changes in tax laws and other circumstances that affect our ability to control the timing and recognition of deferred tax liability
- . Exposure of our assets to damage from natural occurrences such as earthquakes, and weather conditions that affect the progress of construction
- . Liability for us or our subsidiaries for environmental remediation at properties owned, managed, or formerly owned or managed by us, our subsidiaries, or the predecessors of either, and changes in environmental laws and regulations
- . Failure to reach agreement with third parties on definitive terms or failure to close transactions, and failure or inability of third parties to perform their obligations under agreements, including tenants under lease or other agreements with us
- . Increases in the cost of land and building materials
- . Limitations on or challenges to title to our properties
- . Risks related to the performance, interests, and financial strength of the co-owners of our joint venture projects
- . Changes in policies and practices of organized labor groups who may work on our projects
- . Issues arising from shortages in electrical power to us or to our customers, or higher prices for power, which could affect our ability to rent or sell properties, the ability of tenants or buyers to pay for our properties or for the use of our properties, or our ability to conduct our business
- . Other risks inherent in the real estate business

31

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposure is interest rate risk; the majority of our financial instruments are not subject to foreign exchange rate risk or commodity price risk. As of September 30, 2001, we did not have any outstanding interest-protection contracts. We intend to continually and actively monitor and manage interest costs on our variable rate debt and may enter into interest rate-protection contracts based on market fluctuations.

As of September 30, 2001, approximately 69.3% of our debt bore interest at fixed rates with a weighted average maturity of approximately 8.6 years and a weighted average coupon rate of approximately 6.68%, which approximates market. Therefore, unless there were significant decreases in interest rates, the fair value of our fixed-rate debt would not be adversely affected. The remainder of our debt bears interest at variable rates with a weighted average maturity of



## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

approximately 2.7 years and a weighted average coupon rate of approximately 5.64% at September 30, 2001. To the extent that we incur additional variable rate indebtedness, our exposure to increases in interest rates would increase. If coupon interest rates increased 100 basis points, the annual effect on our financial position and cash flow would be approximately \$4.0 million, based on the outstanding balance of our debt at September 30, 2001. This would be offset by interest income on cash balances, which are in short-term floating rate money market investments. We believe, however, that increase in interest expense as a result of inflation would not have a significant effect on our financial position, results of operations, or cash flow.

32

### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

None. See Note 8, "Commitments and Contingencies," for further information.

#### Item 2. Changes in Securities and Use of Proceeds

None.

#### 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 and Reports on Form 8-K

##### (a) EXHIBITS

An Exhibit Index follows the signatures below.

##### (b) No reports on Form 8-K were filed during the quarter for which the report is filed.

33

### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Catellus Development Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

# Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

CATELLUS DEVELOPMENT CORPORATION

Date: November 8, 2001  
-----  
By: /s/ C. William Hosler  
-----  
C. William Hosler  
Senior Vice President  
Chief Financial Officer  
Principal Financial Officer

Date: November 8, 2001  
-----  
By: /s/ Paul A. Lockie  
-----  
Paul A. Lockie  
Vice President and Controller  
Principal Accounting Officer

34

## EXHIBIT INDEX

Exhibit  
Number  
-----

3.1A Restated Certificate of Incorporation of the Registrant effective December 4, 1990, is incorporated by reference to the exhibits to the Registration Statement on Form 10 (Commission File No. 0-18694) as filed with the Commission on July 18, 1990.

3.1B Amendment to Restated Certificate of Incorporation of the Registrant effective July 13, 1993 is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 2000.

3.2 Amended and Restated Bylaws of the Registrant is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 2000.

4.1 Form of Certificate of Designations of Series A Junior Participating Preferred Stock is incorporated by reference to the exhibits to the Form 8-K as filed with the Commission on December 28, 1999.

4.3 Loan Agreement by and between Catellus Finance 1, L.L.C. and Prudential Mortgage Capital Company, Inc. dated as of October 28, 1998, is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1998.

10.1 Restated Tax Allocation and Indemnity Agreement dated December 29, 1989, among the Registrant and certain of its subsidiaries and Santa Fe Pacific Corporation is incorporated by reference to the exhibits to the Registration Statement on Form 10 (Commission File No. 0-18694) as filed with the Commission on July 18, 1990.

10.2 State Tax Allocation and Indemnity Agreement dated December 29, 1989, among the Registrant and certain of its subsidiaries and Santa Fe Pacific Corporation is incorporated by reference to the exhibits to the Registration Statement on Form 10 (Commission File No. 0-18694) as filed with the Commission on July 18, 1990.

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

- 10.3A Registration Rights Agreement dated as of December 29, 1989, among the Registrant, BAREIA, O&Y and Itel is incorporated by reference to the exhibits to the Registration Statement on Form 10 (Commission File No. 0-18694) as filed with the Commission on July 18, 1990.
- 10.3B First Amendment to Registration Rights Agreement among the Registrant, BAREIA, O&Y and Itel is incorporated by reference to the exhibits to Amendment No. 2 to Form S-3 as filed with the Commission on February 4, 1993.
- 10.3C Letter Agreement dated November 14, 1995, between the Registrant and California Public Employees' Retirement System is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1995.
- 10.4 Amendment to Registrant's Amended and Restated 1991 Stock Option Plan, dated as of September 26, 2001, is attached. The Amended and Restated 1991 Stock Option Plan, as previously amended and restated, is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1997.
- 10.5 Amendment to Registrant's Amended and Restated 1995 Stock Option Plan, dated as of September 26, 2001, is attached. The Amended and Restated 1995 Stock Option Plan, as previously amended and restated, is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1997.
- 10.6 Amendment to Registrant's Amended and Restated Executive Stock Option Plan, dated as of September 26, 2001, is attached. The Amended and Restated Executive Stock Option Plan, as previously amended and restated, is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1997.
- 10.7 Amendment to Registrant's Amended and Restated 1996 Performance Award Plan, dated as of September 26, 2001, is attached. The Amended and Restated 1996 Performance Award Plan, as previously amended and restated, is incorporated by reference to the exhibits to the Form 10-Q for the quarter ended March 31, 1999.
- 10.8 Amendment to Registrant's 2000 Performance Award Plan, dated as of September 26, 2001, is attached. The 2000 Performance Award Plan is incorporated by reference to the exhibits to the Registrant's proxy statement filed with the Commission on Schedule 14A on March 31, 2000 for the annual stockholders' meeting held on May 2, 2000.
- 10.9 Registrant's Deferred Compensation Plan is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1997.
- 10.10 Second Amended and Restated Employment Agreement dated as of October 1, 1999, between the Registrant and Nelson C. Rising is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1999.
- 10.10A Amendment to Second Amended and Restated Employment Agreement dated as of February 7, 2001, between the Registrant and Nelson C. Rising is incorporated by reference to the exhibits to the Form 10-K for

## Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

the year ended December 31, 2000.

- 10.11 Employment Agreement dated July 24, 1995, between the Registrant and Stephen P. Wallace is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1995.
- 10.11A Letter Agreement dated November 16, 1996, between the Registrant and Stephen P. Wallace is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1996.
- 10.12 Memorandum of Understanding regarding Employment dated February 7, 2001, between the Registrant and Kathleen Smalley is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 2000.
- 10.13 Memorandum of Understanding regarding Employment dated February 7, 2001, between the Registrant and C. William Hosler is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 2000.
- 10.14 Memorandum of Understanding regarding Employment dated February 7, 2001, between the Registrant and Timothy J. Beaudin is attached.
- 10.15 Rights Agreement dated as of December 16, 1999, between the Registrant and American Stock Transfer and Trust Company is incorporated by reference to the exhibits to the Form 8-K as filed with the Commission on December 28, 1999.

The Registrant has omitted instruments with respect to long-term debt where the total amount of the securities authorized thereunder does not exceed 10 percent of the assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant agrees to furnish a copy of such instrument to the Commission upon request.