

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

CATELLUS DEVELOPMENT CORP

Form 10-Q

August 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 June 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 August 2, 2001, there were 99,155,580 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 June 30, 2001 and December 31, 2000.
Condensed Consolidated Statement of Operations for the three months and
six months ended June 30, 2001 and 2000.....
Condensed Consolidated Statement of Cash Flows for the six months ended
June 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.....

PART I

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

CATELLUS DEVELOPMENT CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands)

Table with columns for description and values. Rows include: 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, Total, Liabilities and stockholders' equity, Mortgage and other debt.

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

Accounts payable and accrued expenses.....		---
Deferred credits and other liabilities.....		---
Deferred income taxes.....		---
 Total liabilities.....		 1
 Commitments and contingencies (Notes 8 and 9)		
 Minority interests.....		 ---
 Stockholders' equity		
Common stock, 108,484 and 108,088 shares issued and 100,050 and 106,091 shares outstanding at June 30, 2001 and December 31, 2000, respectively.....		
Paid-in capital.....		
Treasury stock, at cost (8,434 and 1,997 shares at June 30, 2001 and December 31, 2000, respectively).....		
Accumulated earnings.....		
 Total stockholders' equity.....		 ---
 Total.....		 \$2 ==

See notes to condensed consolidated financial statements

2

### CATELLUS DEVELOPMENT CORPORATION

#### CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (In thousands, except per share data)

	Three Months Ended June 30,		Six
	2001	2000	2000
	----	----	----
	(Unaudited)		
Rental properties			
Rental revenue.....	\$ 57,098	\$ 50,738	\$112,
Property operating costs.....	(14,088)	(13,731)	(28,
Equity in earnings of operating joint ventures, net.....	2,669	2,951	5,
	45,679	39,958	90,
	-----	-----	-----
Property sales and fee services			
Sales revenue.....	67,966	106,978	125,
Cost of sales.....	(41,824)	(64,244)	(76,
	26,142	42,734	48,
Gain on property sales.....	26,142	42,734	48,
Equity in earnings of development joint ventures, net.....	332	1,715	8,
	26,474	44,449	57,
Total gain on property sales.....	26,474	44,449	57,
Management and development fees.....	1,374	3,324	2,

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Selling, general and administrative expenses.....	(8,475)	(9,409)	(18,
Other, net.....	2,901	(6,323)	8,
	-----	-----	-----
	22,274	32,041	50,
	-----	-----	-----
Interest expense.....	(15,017)	(10,753)	(29,
Depreciation and amortization.....	(12,932)	(11,379)	(25,
Corporate administrative costs.....	(5,062)	(3,460)	(10,
Gain (loss) on non-strategic asset sales.....	1,389	(198)	3,
Other, net.....	2,479	(888)	6,
	-----	-----	-----
Income before minority interests and income taxes.....	38,810	45,321	84,
Minority interests.....	(1,841)	(1,871)	(3,
	-----	-----	-----
Income before income taxes.....	36,969	43,450	80,
	-----	-----	-----
Income tax expense			
Current.....	(1,382)	(3,353)	(6,
Deferred.....	(13,416)	(14,030)	(25,
	-----	-----	-----
	(14,798)	(17,383)	(32,
	-----	-----	-----
Net income.....	\$ 22,171	\$ 26,067	\$ 48,
	=====	=====	=====
Net income per share			
Basic.....	\$0.22	\$0.24	\$0
	=====	=====	=====
Assuming dilution.....	\$0.21	\$0.24	\$0
	=====	=====	=====
Average number of common shares outstanding - basic.....	100,469	106,837	102,
	=====	=====	=====
Average number of common shares outstanding - diluted.....	103,324	108,713	105,
	=====	=====	=====

See notes to condensed consolidated financial statements

3

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

		Six Month
		June
		2001
		----
		(Unau
Cash flows from operating activities:		
Net income.....	\$ 48,379	

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

Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization.....	25,866
Deferred income taxes.....	25,529
Amortization of deferred loan fees and other costs.....	2,344
Equity in earnings of joint ventures.....	(13,960)
Operating distributions from joint ventures.....	20,265
Gain on sale of investment property.....	--
Cost of development properties and non-strategic assets sold.....	65,264
Capital expenditures for development properties.....	(24,032)
Other, net.....	(687)
Change in deferred credits and other liabilities.....	89,873
Change in other operating assets and liabilities.....	31,136
	-----
Net cash provided by operating activities.....	269,977
	-----
Cash flows from investing activities:	
Proceeds from sale of investment property.....	--
Property acquisitions.....	(5,069)
Capital expenditures for investment properties.....	(139,399)
Tenant improvements.....	(1,244)
Contributions to joint ventures.....	--
Restricted cash.....	(19,004)
	-----
Net cash used in investing activities.....	(164,716)
	-----
Cash flows from financing activities:	
Borrowings.....	297,891
Repayment of borrowings.....	(183,755)
Distributions to minority partners.....	(4,790)
Repurchase of common stock.....	(108,818)
Proceeds from issuance of common stock.....	4,594
	-----
Net cash provided by financing activities.....	5,122
	-----
Net increase (decrease) in cash and cash equivalents.....	110,383
Cash and cash equivalents at beginning of period.....	336,558
	-----
Cash and cash equivalents at end of period.....	\$ 446,941
	=====
Supplemental disclosures of cash flow information:	
Cash paid during the period for:	
Interest (net of amount capitalized).....	\$ 27,545
Income taxes.....	\$ 673
Non-cash financing activities:	
Seller-financed acquisitions, net.....	\$ 8,363

See notes to condensed consolidated financial statements

4

CATELLUS DEVELOPMENT CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2001  
(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS

Catellus Development Corporation, together with its consolidated subsidiaries (the "Company"), is a diversified real estate operating company

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

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.

These condensed consolidated statements include the assets and liabilities of Catellus Development Corporation and its consolidated subsidiaries, whether wholly or partially owned, and whether directly or indirectly owned, by Catellus Development Corporation, each of which is a separate legal entity. In the absence of specific contractual arrangements, none of the assets of any of the subsidiary entities would be available to satisfy the liabilities of Catellus Development Corporation or any other of these entities.

### 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 \$64.5 million at June 30, 2001 and \$45.5 million at December 31, 2000, \$56.7 million and \$38.1 million, respectively, represent proceeds from property sales being held in separate cash accounts at trust companies 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 June 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 June			
	2001			
	Income	Shares	Per Share Amount	Income
	(In thousands, except per s			
Net income.....	\$22,171	100,469	\$0.22	\$26,06
			=====	

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Effect of dilutive securities: stock options.....	--	2,855		
Net income assuming dilution.....	\$22,171	103,324	\$0.21	\$26,06

	Six Months Ended June			
	2001			
	Income	Shares	Per Share Amount	Income
	(In thousands, except per s			
Net income.....	\$48,379	102,649	\$0.47	\$60,80
Effect of dilutive securities: stock options.....	--	2,873		
Net income assuming dilution.....	\$48,379	105,522	\$0.46	\$60,80

NOTE 5. MORTGAGE AND OTHER DEBT

Mortgage and other debt at June 30, 2001, and December 31, 2000, are summarized as follows:

	June 30, 2001
	(In thous
Fixed rate mortgage loans.....	\$ 816,104
Floating rate mortgage loans.....	262,518
Construction loans.....	51,357
Land acquisition and development loans.....	44,662
Assessment district bonds.....	34,692
Capital leases.....	14,934
Other loans.....	32,795
Total mortgage and other debt.....	\$1,257,062
Due within one year.....	\$ 22,454

In January and February 2001, the Company closed five variable rate (LIBOR plus 2.0% to LIBOR plus 2.75%) collateralized construction loans with a total capacity of \$63.9 million, maturing at various dates from October 2002 through December 2003. In the second quarter of 2001, two of these loans with a capacity of \$24.2 million were paid off and the remaining loans had a combined outstanding balance of \$24.1 million as of June 30, 2001.

In April and May 2001, the Company closed six variable rate (LIBOR plus 1.8% to LIBOR plus 2.1%) collateralized construction loans with a total capacity of \$187.7 million, maturing at various dates from January 2002 through October

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

2003. These loans had a combined outstanding balance of \$22.5 million at June 30, 2001.

In April 2001, the Company closed a \$200 million mortgage loan which bears interest at 7.25% (7.30% effective rate considering financing costs) and is amortized over 30 years with a maturity of 15 years. Of the loan proceeds, \$145.4 million was used to pay off existing variable rate construction debt and related interest at closing. This loan is collateralized by certain of the Company's operating properties and by assignment of rents generated by the underlying properties. Under certain conditions, this loan has a yield maintenance premium if paid prior to maturity.

6

In June 2001, the Company issued a \$10 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.

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

	Three Months Ended June 30,	
	2001	2000
	(In thousands)	
Total interest incurred.....	\$20,991	\$16,514
Interest capitalized.....	(5,974)	(5,761)
Interest expensed.....	\$15,017	\$10,753
Previously capitalized interest included in cost of sales.....	\$ 666	\$ 3,422

### NOTE 6. PROPERTIES

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

	June 30, 2001
	(In
Rental properties:	
Industrial buildings.....	\$ 910,094
Office buildings.....	221,548
Retail buildings.....	92,287
Land and land leases.....	113,519
Investment in operating joint ventures.....	(14,205)



Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

	1,323,243
	-----
Developable properties:	
Commercial.....	172,894
Residential.....	59,922
Urban development.....	334,595
Investment in development joint ventures.....	62,344
	-----
	629,755
	-----
Work-in-process:	
Commercial.....	55,441
Commercial--capital lease.....	32,572
Residential.....	1,861
Urban development.....	32,349
Corporate (1).....	3,834
	-----
	126,057
	-----
Furniture and equipment.....	28,259
Other.....	3,991
	-----
Gross book value.....	2,111,305
Accumulated depreciation.....	(339,594)
	-----
Net book value.....	\$1,771,711
	=====

(1) Corporate work-in-process represents capitalization of interest on qualifying assets of the Residential and Urban Development segments which provided for capitalization of more interest than directly incurred by the segments.

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, biotechnology, multimedia and entertainment 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 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

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

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.

8

Financial data by reportable segment are as follows:

	Commercial	Residential	Urban Development
	-----	-----	-----
	(In thousands)		
Three Months Ended June 30, 2001			
Rental properties:			
Rental revenue.....	\$ 53,084 (1)	\$ -- (2)	\$ 4,014
Property operating costs.....	(12,455)	-- (2)	(1,633)
Equity in earnings of operating joint ventures, net..	2,669	--	--
	43,298	--	2,381
Property sales and fee services:			
Sales revenue.....	28,613	12,566	26,787
Cost of sales.....	(14,508)	(7,510)	(19,806)
Gain on property sales.....	14,105	5,056	6,981
Equity in earnings of development joint ventures, net	--	681	--
	14,105	5,737	6,981
Total gain on property sales.....	14,105	5,737	6,981
Management and development fees.....	986	388	--
Selling, general and administrative expenses.....	(2,922)	(4,412)	(1,141)
Other, net.....	2,371	301	229
	14,540	2,014	6,069
Interest expense.....	(16,737)	--	(76)
Corporate administrative costs.....	--	--	--
Minority interests.....	(1,604)	(237)	--
Other, net.....	--	--	--
Depreciation recapture.....	(512)	--	--
	\$ 38,985	\$ 1,777	\$ 8,374
	=====	=====	=====
Current taxes.....			
EBDDT.....			
Depreciation and amortization.....			
Deferred taxes.....			

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Gain on non-strategic asset sales.....  
 Depreciation recapture.....  
 Net Income.....

- (1) Includes \$0.5 million ground lease rent from a major tenant. The tenant prepaid approximately \$68 million and \$36.8 million of the expected ground rent in the first and second quarters, respectively, which 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.
- (2) All residential asset management responsibilities have been transferred to the Commercial segment and the corresponding results are now classified under "Commercial."

9

	Commercial	Residential	Urban Development
	-----	-----	-----
			(In thousand)
Three Months Ended June 30, 2000			
Rental properties:			
Rental revenue.....	\$ 47,182	\$ (58)	\$ 3,61
Property operating costs.....	(11,886)	(5)	(1,84
Equity in earnings of operating joint ventures, net....	2,951	--	-
	-----	-----	-----
	38,247	(63)	1,77
	-----	-----	-----
Property sales and fee services:			
Sales revenue.....	59,291	47,687	-
Cost of sales.....	(30,161)	(34,083)	-
	-----	-----	-----
Gain on property sales.....	29,130	13,604	-
Equity in earnings of development joint ventures, net..	(5)	1,720	-
	-----	-----	-----
Total gain on property sales.....	29,125	15,324	-
Management and development fees.....	2,771	228	32
Selling, general and administrative expenses.....	(3,806)	(5,045)	(55
Other, net.....	909	(7,232)	-
	-----	-----	-----
	28,999	3,275	(23
	-----	-----	-----
Interest expense.....	(11,201)	(6)	(49
Corporate administrative costs.....	--	--	-
Minority interests.....	(1,550)	(321)	-
Other, net.....	--	--	-
Depreciation recapture.....	(10,005)	--	-
	-----	-----	-----
Pre-tax EBDDT.....	\$ 44,490	\$ 2,885	\$ 1,04
	=====	=====	=====
Current taxes.....			
EBDDT.....			

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Depreciation and amortization.....  
 Deferred taxes.....  
 Loss on non-strategic asset sales.....  
 Depreciation recapture.....  
  
 Net Income.....

10

	Commercial -----	Residential -----	Urban Developme ----- (In thousa
Six Months Ended June 30, 2001			
Rental properties:			
Rental revenue.....	\$105,772 (1)	\$ -- (2)	\$ 7,1
Property operating costs.....	(25,172)	-- (2)	(3,0
Equity in earnings of operating joint ventures, net..	5,833	--	
	-----	-----	-----
	86,433	--	4,1
	-----	-----	-----
Property sales and fee services:			
Sales revenue.....	62,599	26,576	36,6
Cost of sales.....	(32,669)	(18,467)	(25,7
	-----	-----	-----
Gain on property sales.....	29,930	8,109	10,9
Equity in earnings of development joint ventures, net.....	--	8,476	
	-----	-----	-----
Total gain on property sales.....	29,930	16,585	10,9
Management and development fees.....	2,044	439	
Selling, general and administrative expenses.....	(6,639)	(9,001)	(2,4
Other, net.....	4,103	758	3,6
	-----	-----	-----
	29,438	8,781	12,3
	-----	-----	-----
Interest expense.....	(33,598)	--	(
Corporate administrative costs.....	--	--	
Minority interests.....	(3,208)	(504)	
Other, net.....	--	--	
Depreciation recapture.....	(3,252)	--	
	-----	-----	-----
Pre-tax EBDDT.....	\$ 75,813	\$ 8,277	\$ 16,3
	=====	=====	=====
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

- (1) Includes \$0.8 million ground lease rent from a major tenant. The tenant prepaid \$104.8 million of ground rent in the first six months, which 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.
- (2) All residential asset management responsibilities have been transferred to the Commercial segment and the corresponding results are now classified under "Commercial."
- (3) Includes \$3.4 million of lease termination payment related to a former tenant at the Mission Bay project.

11

	Commercial -----	Residential -----	Urban Develop ----- (In thous
Six Months Ended June 30, 2000			
Rental properties:			
Rental revenue.....	\$ 93,065	\$ 187	\$ 7,
Property operating costs.....	(22,893)	(5)	(3,
Equity in earnings of operating joint ventures, net....	6,589	--	
	-----	-----	-----
	76,761	182	3,
	-----	-----	-----
Property sales and fee services:			
Sales revenue.....	90,502	92,497	
Cost of sales.....	(49,713)	(70,669)	
	-----	-----	-----
Gain on property sales.....	40,789	21,828	
Equity in earnings of development joint ventures, net..	14	2,832	
	-----	-----	-----
Total gain on property sales.....	40,803	24,660	
Management and development fees.....	5,507	468	
Selling, general and administrative expenses.....	(7,711)	(10,574)	(1,
Other, net.....	1,856	(6,733)	
	-----	-----	-----
	40,455	7,821	(
	-----	-----	-----
Interest expense.....	(21,778)	(22)	(
Corporate administrative costs.....	--	--	
Minority interests.....	(3,104)	(370)	
Other, net.....	--	--	
Depreciation recapture.....	(10,197)	--	
	-----	-----	-----
Pre-tax EBDDT.....	\$ 82,137	\$ 7,611	\$ 2,
	=====	=====	=====
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.....

12

### 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 or threatened 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 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 operations of the 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 June 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 \$25.4 million to \$40.4 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 six months ended June 30, 2001 totaled \$0.9 million. The Company's estimates were developed based on reviews, which 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.

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

In connection with the acquisition in 2000 of a property known to have environmental problems, an indirect subsidiary of the Company has entered into an agreement with the California Department of Toxic Substance Control to perform certain work to investigate and remedy hazardous materials left behind by previous operators of the site. The Company has guaranteed completion of the work with a limited liability of \$20 million. The Company has entered into a \$15 million fixed price contract for the completion of the work and obtained insurance to cover various cost overruns; this fixed price contract amount is included in our estimated range of \$25.4 million to \$40.4 million of future costs of remediation above.

As of June 30, 2001, the Company has outstanding standby letters of credit and surety bonds in the aggregate amount of \$195.2 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 June 30, 2001, these guarantees totaled \$35.5 million. In addition, the Company has guaranteed debt service of \$4.4 million for a residential project. In some cases, other parties have jointly and severally guaranteed these obligations.

13

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 and no amounts were funded to the Company from either issuances at June 30, 2001.

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 reimbursement of the infrastructure costs from the bonds will be 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 the construction for improvements proceeds, the corresponding asset will be capitalized and the liability of the CFD bonds will be recorded.

14

### NOTE 9. STOCK REPURCHASE PROGRAMS

In October 1999, the Company's Board of Directors authorized a stock repurchase program for up to \$50 million of the outstanding common stock. Stock purchases under the program were made on the open market. The program was authorized for a period of one year. Under the program, the Company repurchased 1,997,300 shares at a cost of \$28.7 million.

In December 2000, the Company's Board of Directors authorized a stock repurchase program for up to \$50 million of the outstanding stock through the end of 2001. Stock purchases under the program were made on the open market. The Company purchased 2,888,900 shares at a cost of \$49.9 million under this program.

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

In March 2001, the Company received from its Board of Directors authorization for an additional \$50 million for stock repurchases. The Company purchased 3,047,400 shares at a cost of \$50 million on the open market.

In May 2001, the Company's Board of Directors authorized an additional \$50 million for the stock repurchase program. Under the newly authorized program, purchases can be made on the open market or in privately negotiated transactions. The Company purchased 500,000 shares at a cost of \$8.8 million through June 30, 2001. Subsequent to June 30, 2001, the Company purchased an additional 1,311,600 shares at a cost of \$23.6 million.

In July 2001, the Company's Board of Directors authorized an additional \$50 million for the stock repurchase program. Under the newly authorized program, purchases can be made on the open market or in privately negotiated transactions. There were no repurchases under this program as of August 2, 2001.

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.)

Summary EBDDT and reconciliation to net income for the three and six months ended June 30, 2001 and 2000

	Three Months Ended June 30,			Six
	2001	2000	Difference	2000
	(In thousands)			(I
Pre-tax EBDDT				
Commercial.....	\$ 38,985	\$ 44,490	\$ (5,505)	\$ 75,
Residential.....	1,777	2,885	(1,108)	8,
Urban Development.....	8,374	1,043	7,331	16,
Corporate.....	(1,136)	(3,396)	2,260	(
	48,000	45,022	2,978	100,
Total pre-tax EBDDT.....				
Current tax.....	(1,382)	(3,353)	1,971	(6,
	46,618	41,669	4,949	93,
EBDDT.....				
Depreciation and amortization.....	(12,932)	(11,379)	(1,553)	(25,
Deferred taxes.....	(13,416)	(14,030)	614	(25,
Gain (loss) on non-strategic asset sales.....	1,389	(198)	1,587	3,
Depreciation recapture.....	512	10,005	(9,493)	3,



Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Net income.....	\$ 22,171	\$ 26,067	\$ (3,896)	\$ 48,
	=====	=====	=====	=====

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 June 30,			Six M J 2001
	2001	2000	Difference	2001
	(In thousands)			(In
<b>Rental properties:</b>				
Rental revenue.....	\$ 53,084	\$ 47,182	\$ 5,902	\$105,
Property operating costs.....	(12,455)	(11,886)	(569)	(25,
Equity in earnings of operating joint ventures, net..	2,669	2,951	(282)	5,
	-----	-----	-----	-----
	43,298	38,247	5,051	86,
	-----	-----	-----	-----
<b>Property sales and fee services:</b>				
Sales revenue.....	28,613	59,291	(30,678)	62,
Cost of property sold/(1)/.....	(15,020)	(40,166)	25,146	(35,
	-----	-----	-----	-----
Gain on property sales.....	13,593	19,125	(5,532)	26,
Equity in earnings of development joint ventures, net	--	(5)	5	(3,
	-----	-----	-----	-----
Total gain on property sales.....	13,593	19,120	(5,527)	26,
Management and development fees.....	986	2,771	(1,785)	2,
Selling, general and administrative expenses.....	(2,922)	(3,806)	884	(6,
Other.....	2,371	909	1,462	4,
	-----	-----	-----	-----
	14,028	18,994	(4,966)	26,
	-----	-----	-----	-----
Interest expense.....	(16,737)	(11,201)	(5,536)	(33,
Minority interests.....	(1,604)	(1,550)	(54)	(3,
	-----	-----	-----	-----
Pre-tax EBDDT.....	\$ 38,985	\$ 44,490	\$ (5,505)	\$ 75,
	=====	=====	=====	=====

Rental Building Occupancy:	June 30,		
(In thousands of square feet, except percentages)	2001	2000	Difference
	-----	-----	-----
Owned.....	29,736	26,127	3,609
Occupied.....	28,033	24,981	3,052
Occupancy percentage.....	94.3%	95.6%	(1.4%)

-----

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

/(1)/ Cost of sales for the three and six months ended June 30, 2001, includes \$0.5 million and \$3.3 million, respectively, and for the three and six months ended June 30, 2000, excludes \$10 million and \$10.2 million, respectively, of depreciation recapture, which is included in net income but not EBDDT.

17

### Rental Revenue less Property Operating Costs

Rental revenue less property operating costs has increased \$5.3 million and \$10.4 million for the three and six months ended June 30, 2001, respectively, as compared to the same periods in 2000, mainly because of additions of buildings, an increase in revenue from ground leases, and rental increases on Same Space (properties that were owned and operated for the entire current year and the entire immediately preceding year are referred to as "Same Space"), partially offset by properties sold. From July 2000 to June 2001, we added from our own development projects, a net 3.6 million square feet to our rental portfolio. Rental revenue less operating costs for the three and six months ended June 30, 2001 and 2000 are summarized as follows:

	Three Months Ended June 30,		Difference	Six Mon Jun 2001
	2001	2000		2001
	(In thousands)			(In th
Rental revenue less property operating costs:				
Same Space.....	\$28,910	\$27,878	\$ 1,032	\$58,100
Properties added to portfolio.....	7,259	2,977	4,282	14,078
Properties sold from portfolio.....	310	1,493	(1,183)	795
Ground leases.....	4,150	2,948	1,202	7,627
	\$40,629	\$35,296	\$ 5,333	\$80,600
	=====	=====	=====	=====

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 \$0.3 million and \$0.8 million for the three and six months ended June 30, 2001 over the same periods in 2000 primarily because of higher interest expense due to a refinancing at a joint venture in 2000. (See Variability in Results section.)

18

### Sales Revenue

Our Commercial segment has decreased gain from property sales for the three and six months ended June 30, 2001 compared to the same periods in 2000. Gain on property sales was \$13.6 million and \$26.7 million for the three and six months ended June 30, 2001, respectively, as compared to \$19.1 million and \$30.6

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

million for the three and six months ended June 30, 2000, respectively, summarized as follows:

	Three Months Ended June 30,		Difference
	2001	2000	
	(In thousands)		
Commercial sales:			
Building sales:			
Sales proceeds.....	\$ 1,155	\$ 49,216	\$ (48,061)
Cost of sales.....	(371)	(32,859)	32,488
	784	16,357	(15,573)
Land sales:			
Sales proceeds.....	23,829	8,891	14,938
Cost of sales.....	(12,290)	(6,415)	(5,875)
	11,539	2,476	9,063
Other sales:			
Sales proceeds.....	3,629	1,184	2,445
Cost of sales.....	(2,359)	(892)	(1,467)
	1,270	292	978
Gain on property sales.....	13,593	19,125	(5,532)
Equity in earnings of development joint ventures, net.....	--	(5)	(5)
	\$ 13,593	\$ 19,120	\$ (5,527)
Total gain on property sales.....	\$ 13,593	\$ 19,120	\$ (5,527)

The commercial property sales for the three months ended June 30, 2001, include 76.7 acres of improved land capable of supporting 0.8 million square feet of commercial development, as compared to 27.2 acres of improved land capable of supporting 0.5 million square feet of commercial development for the three months ended June 30, 2000. No significant building sales occurred for the three months ended June 30, 2001, as compared to the closing of the sale of 836,000 square feet of industrial building space and associated land in the same period in 2000.

For the six months ended June 30, 2001, commercial property sales include the closings of 291,000 square feet of industrial building space and the associated land, and 2,038.7 acres of improved land capable of supporting 1.0 million square feet of commercial development. For the same period in 2000, the commercial property sales include the closings of 69.1 acres of improved land capable of supporting 1.4 million square feet of commercial development, and 1.1 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 during 1998. These sales totaled 373.3 acres and 486.6 acres for the three and six months ended June 30, 2001, respectively, and 458.4 acres and 541.2 acres for the three and six months ended June 30, 2000, respectively.

Following is a summary of property sales under contract but not closed:

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

	June 30,	
	----- 2001 -----	----- 2000 -----
	(In thousands)	
Sales under contract, but not closed.....	\$56,100	\$55,000
	=====	=====

19

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 has been 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 expect management fees and the related selling, general and administrative expenses to decline in 2001. Management and development fees decreased by \$1.8 million and \$3.5 million for the three and six months ended June 30, 2001, respectively, from the same periods in 2000.

Selling, General and Administrative Expenses

The decreases in the three and six months ended June 30, 2001 in selling, general and administrative expenses of \$0.9 million and \$1.1 million are primarily due to decreases of \$2.1 million and \$3.2 million during the same periods in non-compensation related administrative and office expenses offset by increases in the three and six months ended June 30, 2001 of \$1.2 million and \$2.1 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" increased by \$1.5 million and \$2.2 million for the three and six months ended June 30, 2001, respectively, as compared to the same periods in 2000, primarily because of interest income from restricted cash generated by tax-deferred exchanges.

Interest

Interest expense increased \$5.5 million and \$11.8 million for the three and six months ended June 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 six months ended June 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 incurred:

	Three Months Ended June 30,		Six Months Ended June 30,
	2001	2000	2000
		Difference	

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

	(In thousands)			
Total interest incurred.....	\$20,034	\$14,117	\$ 5,917	\$40,4
Interest capitalized.....	(3,297)	(2,916)	(381)	(6,8
Interest expensed.....	\$16,737	\$11,201	\$ 5,536	\$33,5
Previously capitalized interest included in cost of sales.....	\$ 303	\$ 1,740	\$(1,437)	\$ 1,4

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

20

Residential:

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.

	Three Months Ended June 30,			Six Mo J
	2001	2000	Difference	2001
	(In thousands)			(In
Rental properties income (loss).....	\$ --	\$ (63)	\$ 63	\$ -
Property sales and fee services:				
Sales revenue.....	12,566	47,687	(35,121)	26,57
Cost of property sold.....	(7,510)	(34,083)	26,573	(18,46
Gain on property sales.....	5,056	13,604	(8,548)	8,10
Equity in earnings of development joint ventures, net.....	681	1,720	(1,039)	8,47
Total gain on property sales.....	5,737	15,324	(9,587)	16,58
Management and development fees.....	388	228	160	43
Selling, general and administrative expenses.....	(4,412)	(5,045)	633	(9,00
Other.....	301	(7,232)	7,533	75
	2,014	3,275	(1,261)	8,78
Interest expense.....	--	(6)	6	-
Minority interests.....	(237)	(321)	84	(50
Pre-tax EBDDT.....	\$ 1,777	\$ 2,885	\$ (1,108)	\$ 8,27

Sales Revenue

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

Gain from residential property sales for the three and six months ended June 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 June 30, 2001, resulted from the closings of 117 lots and 7 homes, compared to the closings of 20 lots and 128 homes for the three months ended June 30, 2000. Gain on residential property sales for the six months ended June 30, 2001 of \$8.1 million is primarily from the closings of 227 lots and 55 homes, compared to the closings of 38 lots and 279 homes during the same period in 2000.

In July 2000, we sold a majority of our home-building assets to a newly formed limited liability company managed by Brookfield Homes of California, Inc. for \$139 million in cash and a retained interest in the new company ("BHC, LLC") at an agreed-upon value of \$22.5 million. In addition, we are 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 as well as our 35% share of profits from BHC, LLC's operations are recorded as part of "Equity in earnings of development joint ventures, net" as homes/lots are sold. Of the \$22.5 million retained interest, we recognized \$8.3 million in 2000 and another \$6.2 million during the first six months of 2001. (See Variability in Results section.)

21

Equity in Earnings of Development Joint Ventures, Net:

	Three Months Ended June 30,			Six Mo Ju
	2001	2000	Difference	2001
	(In thousands)			(In t
Sales proceeds-unconsolidated JVs.....	43,134	20,936	22,198	96,403
Cost of sales.....	(40,827)	(15,906)	(24,921)	(90,367)
	2,307	5,030	(2,723)	6,036
Gain.....	2,307	5,030	(2,723)	6,036
Joint Venture partners interest.....	(1,626)	(3,310)	1,684	2,440
	681	1,720	(1,039)	8,476
Equity in earnings of development joint ventures, net.....	681	1,720	(1,039)	8,476

Equity in earnings of development joint ventures, net, decreased \$1.0 million for the three months ended June 30, 2001 but increased \$5.6 million for the first six months of 2001 as compared to the same periods in 2000. The decrease for the three months ended June 30, 2001 was primarily due to decreased sales margins at our Serrano project and decreased sales volume at our Talega project. The increase for the six months of 2001 was primarily attributable to the income of \$6.2 million from BHC, LLC during the first quarter this year. No income was accrued from BHC, LLC for the three months ended June 30, 2001. (See Variability in Results section.)

22

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased \$0.6 million and

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

\$1.6 million for the three and six months ended June 30, 2001, respectively, as compared to the same periods in 2000. The decrease in 2001 is primarily attributable to the sale of the home-building assets to BHC, LLC during 2000. We expect selling, general and administrative expenses to decrease in 2001 compared to 2000 as a result of the sale of home-building assets.

### Other

"Other" increased for the three and six months ended June 30, 2001, as compared to the same periods in 2000, due to a \$7.0 million reserve 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:

	Three Months Ended June 30,		Difference	Six Mo Ju 2001
	2001	2000		
	(In thousands)			(In t
Total interest incurred.....	\$ 119	\$ 2,851	\$ (2,732)	\$ 366
Interest capitalized.....	(119)	(2,845)	2,726	(366)
	-----	-----	-----	-----
Interest expensed.....	\$ --	\$ 6	\$ (6)	\$ --
	=====	=====	=====	=====
Previously capitalized interest included in cost of sales.....	\$ 363	\$ 1,681	\$ (1,318)	\$ 973
	=====	=====	=====	=====

Interest incurred and capitalized decreased for three and six months ended June 30, 2001 is primarily because of the sale of the home-building assets in July 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 June 30,		Difference	Six Mo Ju 2001
	2001	2000		
	(In thousands)			(In t
Rental properties:				
Rental revenue.....	\$ 4,014	\$ 3,614	\$ 400	\$ 7,137
Property operating costs.....	(1,633)	(1,840)	207	(3,036)
	-----	-----	-----	-----
	2,381	1,774	607	4,101

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Property sales and fee services:				
Sales revenue.....	26,787	--	26,787	36,687
Cost of sales.....	(19,806)	--	(19,806)	(25,739)
Total gain on property sales.....	6,981	--	6,981	10,948
Management and development fees.....	--	325	(325)	71
Selling, general and administrative expenses...	(1,141)	(558)	(583)	(2,418)
Other.....	229	--	229	3,699
	6,069	(233)	6,302	12,300
Interest expense.....	(76)	(498)	422	(56)
Pre-tax EBDT.....	\$ 8,374	\$ 1,043	\$ 7,331	\$ 16,345

Rental Building Occupancy: (In thousands of square feet, except percentages)	June 30,		Difference
	2001	2000	
Owned.....	811	1,003	(192)
Occupied.....	728	953	(225)
Occupancy percentage.....	89.8%	95.0%	(5.5%)

Rental Revenue less Property Operating Costs

The increase in rental revenue less property operating costs for the three and six months ended June 30, 2001, as compared to the same periods in 2000, was primarily due to the commencement of rent in December 2000 from two ground leases and lower repairs and maintenance expenses. Income provided from interim rental uses in this segment will decrease as development occurs on these sites. We will continue to generate future income in the Urban Development segment from development activities, rental income, and sales gains.

Following is a summary of property sales under contract but not closed:

	June 30,	
	2001	2000
Sales under contract, but not closed.....	\$13,000	\$

(In thousands)

Property Sales

The gain resulted from land sales of approximately 2.4 acres and 3.7 acres of land at Mission Bay for the three and six months ended June 30, 2001, respectively. (See Variability section).

Management and Development Fees

Management and development fees decreased \$0.3 million and \$0.5 million for



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

the three and six months ended June 30, 2001, respectively, as compared to the same periods of 2000, primarily because development management activities related to the Dodger Stadium renovation were completed in 2000.

24

### Selling, General and Administrative Expenses

The increase of \$0.6 million and \$1.4 million for the three and six months ended June 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 all of the projects of the Urban Development segment.

### Other

The increase in "other" of \$3.7 million for the six months ended June 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 June 30,		Difference	Six Mo Ju
	2001	2000		2001
	-----		-----	-----
	(In thousands)			(In t
Total interest incurred.....	\$ 668	\$ 498	\$ 170	\$ 920
Interest capitalized.....	(592)	--	(592)	(864)
	-----	-----	-----	-----
Interest expensed.....	\$ 76	\$ 498	\$(422)	\$ 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 June 30,		Difference	Six Mo Ju
	2001	2000		2001
	-----		-----	-----
	(In thousands)			(In t
Interest (contra-expense).....	\$ 1,796	\$ 952	\$ 844	\$ 3,944
Corporate administrative costs.....	(5,062)	(3,460)	(1,602)	(10,607)
Other.....	2,130	(888)	3,018	6,357
	-----	-----	-----	-----
Pre-tax EBDDT.....	\$(1,136)	\$(3,396)	\$ 2,260	\$ (306)

=====

## 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 in the Corporate segment. As of June 30, 2001, \$349,000 of cost of sales is included in "other". 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.

## Corporate Administrative Costs

Corporate administrative costs consist primarily of general and administrative expenses. General and administrative expenses increased by \$1.6 million and \$2.9 million for the three and six months ended June 30, 2001, respectively, as compared to the same periods in 2000, primarily because of the increase in our overall activities.

## Other

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

25

## 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 \$1.6 million and \$3.6 million for the three and six months ended June 30, 2001, respectively, as compared to the same periods in 2000, are primarily attributable to the new buildings added to the portfolio between July 2000 and June 2001.

## Gain on Non-Strategic Asset Sales

Gain on sales of non-strategic assets increased \$1.6 million for the three months ended June 30, 2001 as compared to the same period in 2000. Gain on sales of non-strategic asset sales decreased \$24.3 million for the six months ended June 30, 2001 as compared to the same period in 2000. The decrease in 2001 is primarily because of a sale 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 decrease of \$9.5 million and \$6.9 million in depreciation recapture for the three and six months ended June 30, 2001, respectively, over the same periods in 2000 is because of higher sales volume of older properties in 2000 as compared to 2001.

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

### 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 acquisitions and 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 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

#### Cash flows from operating activities

Cash provided by operating activities reflected in the statement of cash flows for the six months ended June 30, 2001 and 2000, was \$270.0 million and \$96.1 million, respectively. The increase in 2001 consists primarily of a \$100.8 million increase in deferred credits and other liabilities, a \$75.4 million decrease in capital expenditures for development properties, and a \$13.7 million increase in operating distributions from joint ventures. The change of \$100.8 million in deferred credits and other liabilities is primarily because of a \$104 million prepayment of rent associated with a 34-year ground lease at our Pacific Commons project. The \$75.4 million decrease in capital expenditures is mostly because of the sale of our home-building assets in 2000. The increase in operating distributions is primarily because of a joint venture investment associated with the sale of our home-building assets in 2000.

26

#### Cash flows from investing activities

Net cash used in investing activities reflected in the statement of cash flows for the six months ended June 30, 2001 and 2000, was \$164.7 million and \$168.8 million, respectively. The decrease in 2001 consists primarily of a \$66.7 million net decrease in restricted cash, a \$4.7 million decrease in property acquisitions, a \$5.2 million decrease in contributions to joint ventures, and a \$2.7 million decrease in tenant improvements. These were offset by a \$40.5 million increase in capital expenditures for investment properties and a \$34.7 million decrease in proceeds from sale of investment property.

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

		Six Months Ended June 30,
	2001	2000
	-----	-----
	(In thousands)	
Capital Expenditures from Operating Activities/(1)/		
Capital expenditures for residential and commercial development properties.....	\$ 23,666	\$ 7

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

Residential property acquisitions.....	--	2
Capitalized interest and property tax.....	366	
	-----	-----
Capital expenditures for operating activities.....	24,032	9
Seller-financed acquisitions.....	10,000	
	-----	-----
Total Capital expenditures for operating activities.....	34,032	9
Capital Expenditures from Investing Activities/(2)/		
Construction and building improvements.....	73,454	6
Predevelopment.....	24,346	
Infrastructure and other.....	28,207	2
Capitalized interest and property tax.....	13,392	
	-----	-----
Capital expenditures for investment properties.....	139,399	9
Commercial property acquisitions.....	5,069	
Tenant improvements.....	1,244	
	-----	-----
Capital expenditures for investment activities.....	145,712	11
Seller-financed acquisitions.....	--	
	-----	-----
Total capital expenditures in investing activities.....	145,712	11
	-----	-----
Total capital expenditures.....	\$179,744	\$21
	=====	=====

-----  
 /(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 residential and commercial 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 six months ended June 30, 2000, we invested approximately \$21.6 million in the acquisition of properties either directly or through joint ventures.

27

Capitalized interest and property taxes--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 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		Six Months
June 30,		June 30,
2001	2000	2001
-----	-----	-----
(In square feet)		(In square

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

Under construction, beginning of period	2,997,000	4,371,000	3,474,000
Construction starts	100,000	1,970,000	374,000
Completed--retained in portfolio	(514,000)	(1,379,000)	(1,112,000)
Completed--design/build or sold	--	--	(153,000)
	-----	-----	-----
Under construction, end of period	2,583,000	4,962,000	2,583,000
	=====	=====	=====

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, and the Pacific Commons project in Fremont, California because of the 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 six months ended June 30, 2001 and 2000, was \$5.1 million and \$59.1 million, respectively. The decrease in 2001 is primarily attributable to \$108.8 million expended for the purchase of 6,436,300 shares of our stock under the share repurchase programs as compared to \$18.9 million expended for the purchase of 1,410,700 shares during the same period in 2000. Also contributing to the decrease in 2001 were both a \$1.9 million increase in distributions to minority partners and a \$1.0 million decrease in proceeds from issuance of common stock. The overall decrease in cash provided by financing activities is offset by an increase of \$38.8 million in net borrowings.

### Capital commitments

As of June 30, 2001, we had outstanding standby letters of credit and surety bonds in the amount of \$195.2 million in favor of local municipalities or financial institutions to guarantee performance on real property improvements or financial obligations.

As of June 30, 2001, we had approximately \$153.5 million in total commitments for capital expenditures to vendors. These commitments are primarily contracts to construct industrial development projects, predevelopment costs, and re-leasing costs.

28

### Cash balances, available borrowings and capital resources

As of June 30, 2001, we had total cash of \$511.4 million, of which \$64.5 million is restricted cash. In addition to the \$511.4 million cash, we had \$179.7 million in borrowing capacity under our commercial construction facilities and \$3.1 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

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

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--Between October 1999 and May 2001, our Board of Directors authorized four separate stock repurchase programs; each has a limit of \$50 million. Share purchases under these programs were made on the open market. Through June 30, 2001, under these programs, we have repurchased a total of 8,433,600 shares at a total cost of \$137.5 million. Subsequent to June 30, 2001, we purchased an additional 1,311,600 shares at a cost of \$23.6 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 \$610.8 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 June 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. No amounts were funded from either issuances as of June 30, 2001. (See Note 8 of the accompanying Condensed Consolidated Financial Statement for details.)

### 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 stockholder 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 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

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

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 discussions.)

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. Also, on occasion, management makes oral statements that may include similar forward-looking statements. Again, we try, wherever practical, to identify these forward-looking statements with appropriate language.

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 general economic slowdown or recession. Such changes may result in higher vacancy rates for commercial property and lower prevailing rents, lower sales prices, lower absorption rates, more tenant defaults, and the like
- . Product and geographical concentration
- . Competition in the real estate industry
- . Availability of financing to meet our capital needs, the variability of interest rates, and our ability to use our collateral to secure loans
- . Delay in receipt of or denial of government approvals and entitlements 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 or competition for employees
- . Changes in tax laws and other circumstances that affect our ability to control the timing and recognition of deferred tax liability

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

- . 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
- . Increases in the cost of land and building materials
- . Tight labor markets
- . 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 from 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

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 considered market risk sensitive instruments, as they are not subject to foreign exchange rate risk or commodity price risk. As of June 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 June 30, 2001, approximately 71.2% of our debt bore interest at fixed rates with a weighted average maturity of approximately 8.8 years and a weighted average coupon rate of approximately 6.65%, which is below market. Therefore, unless there was a drastic decrease 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 approximately 2.8 years and a weighted average coupon rate of approximately 6.41% at June 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 \$3.6 million, based on the outstanding balance of our debt at June 30, 2001. We believe, however, that in no event would increases in interest expense as a result of inflation have negative effect on our financial position, results of operations, or cash flow since our current cash and cash equivalents balance of \$446.9 million is greater than our total variable rate indebtedness.

32



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

## 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

At the Company's Annual Meeting of Stockholders held on May 1, 2001, stockholders voted as follows with respect to the election of directors:

Nominees	Votes For	Votes Withheld
Joseph F. Alibrandi	97,446,645	436,491
Stephen F. Bollenbach	78,022,604	19,860,532
Daryl J. Carter	97,566,899	316,237
Richard D. Farman	97,560,709	322,427
Christine Garvey	96,924,060	959,076
William M. Kahane	97,566,394	316,742
Leslie D. Michelson	86,877,041	11,006,095
Deanna W. Oppenheimer	97,538,725	344,411
Nelson C. Rising	97,565,364	317,722
Thomas M. Steinberg	97,562,382	320,754
Cora M. Tellez	97,544,383	338,753

### 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.

CATELLUS DEVELOPMENT CORPORATION

Edgar Filing: CATELLUS DEVELOPMENT CORP - Form 10-Q

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

Date: August 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, 2000, filed with the Commission along with the Form 10-K for the year ended December 31, 2000.
- 3.2 Amended and Restated Bylaws of the Registrant as filed with the Commission along with 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 July 28, 1999.
- 4.3 Loan Agreement by and between Catellus Finance 1, L.L.C. and Prudential Mortgage Capital 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.
- 10.3A Registration Rights Agreement dated as of December 29, 1989, among the Registrant, BAREIA, Inc. and Iritel 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 Iritel

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

incorporated by reference to the exhibits to Amendment No. 2 to Form S-3 as filed with Commission on February 4, 1993.

- 10.3C Letter Agreement dated November 14, 1995, between the Registrant and California Public Retirement System is incorporated by reference to the exhibits to the Form 10-K for the December 31, 1995.
- 10.4 Registrant's Amended and Restated Executive Stock Option Plan is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1997.
- 10.5 Registrant's Amended and Restated 1996 Performance Award Plan is incorporated by reference to the exhibits to the Form 10-Q for the quarter ended March 31, 1999.
- 10.6 Registrant's 2000 Performance Award Plan is incorporated by reference to the exhibits to the Registrant's proxy statement for the annual stockholders' meeting held on May 2, 2000.
- 10.7 Registrant's Deferred Compensation Plan is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1997.
- 10.8 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.

35

- 10.8A Amendment to Second Amended and Restated Employment Agreement dated as of February 7, 2001, between the Registrant and Nelson C. Rising as filed with the Commission along with the exhibits to the Form 10-K for the year ended December 31, 2000.
- 10.9A 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.
- 10.9B 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.
- 10.10 Memorandum of Understanding regarding Employment dated February 7, 2001, between the Registrant and Kathleen Smalley as filed with the Commission along with the exhibits to the Form 10-K for the year ended December 31, 2000.
- 10.11 Memorandum of Understanding regarding Employment dated February 7, 2001, between the Registrant and C. William Hosler as filed with the Commission along with the exhibits to the Form 10-K for the year ended December 31, 2000.
- 10.12 Rights Agreement dated as of December 16, 1999, between the Registrant and American Stock 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.

36