

CATELLUS DEVELOPMENT CORP
Form 10-K/A
August 11, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

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

For the fiscal year ended December 31, 2002

Commission file number 1-10622

**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

Securities registered pursuant to Section 12(b) of the Act:

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| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|---|---|
| Common Stock, \$.01 par value per share | New York and Chicago Stock Exchanges, and Pacific Exchange |
| Preferred Share Purchase Rights | |

Securities registered pursuant to Section 12(g) of the Act: None

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$1.746 million on March 10, 2003.

As of March 10, 2003, there were 87,275,712 issued and outstanding shares of the Registrant's Common Stock.

PART I

Item 1. Business

Catellus Development Corporation (Catellus or the Company) is a publicly traded real estate operating company with a significant portfolio of rental properties and developable land. Operations consist primarily of the management, acquisition, development, and sale of real estate. At December 31, 2002, we owned a significant portfolio of income producing properties, including approximately 37 million square feet of rental property, 32 million square feet of which is industrial space. Our rental properties provide us with a relatively consistent source of earnings. Additionally, Catellus owns a portfolio of developable land intended for future development activities. Our development activities provide cash flow through sales of land or the conversion of our developable land to property that is either added to our rental portfolio or sold to tenants, developers, or other users. We invest in new land to ensure our potential for growth.

We have four primary groups: (1) Asset Management, which provides management and leasing services for our rental portfolio; (2) Suburban Commercial, which acquires and develops suburban commercial business parks for our own rental portfolio or for sale to third parties; (3) Suburban Residential, which develops suburban residential communities and sells finished lots to homebuilders; and (4) Urban, which focuses on developing three large, urban mixed-use projects for our own rental portfolio or for sale to third parties.

Catellus was formed to conduct the non-railroad real estate activities of the Santa Fe Pacific Corporation and was spun off to stockholders effective in 1990. Our railroad heritage gave us a diverse base of developable properties located near transportation corridors in major western United States markets. This land has proven suitable for the development of a variety of product types, including industrial, retail, office, and residential. Over time, we have expanded our business by acquiring land suitable for primarily industrial development in many of the same suburban locations where we have an established presence.

Our principal office is located at 201 Mission Street, San Francisco, California 94105; our telephone number at that location is (415) 974-4500; and our website address is www.catellus.com. This annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports are available free of charge through our website as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

Recent Developments

On March 3, 2003, we announced that our Board of Directors (Board) has authorized us to restructure our business operations to qualify as a real estate investment trust (REIT), effective January 1, 2004, subject to stockholder and Board approvals. The Company has spent the past several years profitably transforming what was one of the country's largest land portfolios into predominantly industrial rental property and capital that has been reinvested back into our business. We are now embarking upon a transition period to restructure our operations and change our business strategy to focus increasingly on industrial development and reducing focus on other product types.

In anticipation of the REIT conversion, the Company will take steps during 2003 to better position its businesses for operation as a REIT. This will include looking for ways to operate more efficiently, consistent with a focus of new development on industrial product. We plan to continue our Urban mixed use projects that are underway, but do not plan to seek new ones. Since the Urban Group (*see* Urban Group below) will no longer be pursuing new activities, and given the considerable progress made on existing projects, it is anticipated that the scope of activities will be reduced, resulting in a reduction in work force over 2003 and 2004. The Urban Group projects will be operated in a taxable REIT subsidiary (TRS), and the Company expects to recycle surplus capital from the Urban Group projects through continuing development with greater

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emphasis on third party parcel sales, land leases, and joint ventures. During 2003, the Suburban Residential Group (*see* Suburban Residential Group below) projects will be positioned for sale and any remaining assets will be operated in a TRS.

We plan to present the REIT conversion to our shareholders for approval at our annual meeting, which is expected to be held in the third quarter of 2003. If the REIT conversion is consummated, Catellus will operate as an umbrella partnership real estate investment trust, with wholly owned taxable REIT subsidiaries. As part of the REIT conversion, we will provide to shareholders a one-time distribution of pre-REIT earnings and profits, in compliance with the requirements to elect REIT status. Furthermore, subject to final Board approval, we anticipate that we will begin paying a quarterly dividend commencing with a payment of \$0.30 per common share for the third quarter of 2003. A copy of the press release announcing the REIT conversion and other relevant documents are available free of charge at the SEC's website (www.sec.gov) or can be obtained by directing a request to us at 201 Mission Street, Second Floor, San Francisco, California 94105, Attn.: Director of Investor Relations, or by telephone at (415) 974-4649, or email at InvestorRelations@catellus.com. We will soon file a preliminary proxy statement/prospectus with the Securities and Exchange Commission that will provide important information, including detailed risk factors, regarding the proposed transaction. There is no assurance that the proposed REIT conversion will be consummated or that the terms of the REIT conversion or the timing or effects thereof will not differ materially from those described in the press release and other relevant documents.

Property Portfolio

Rental Portfolio

Our income-producing portfolio is comprised of commercial rental property, ground leases and other properties, and interests in several joint ventures. We own 37 million square feet of commercial rental property of which 89.1% is industrial, 8.6% is office, and 2.3% is retail. Since the end of 1995, our portfolio has expanded by more than 22.9 million square feet (163%), primarily through our development activities. Approximately 35% of the rental property, by square footage, is located in Southern California, 19% in Northern California, 18% in Illinois, 11% in Texas, 7% in Colorado, 3% in Arizona, and 3% in Ohio, with the remaining 4% located in five other states. We also own approximately 8,000 acres of land subject to ground leases, approximately 755,000 square feet of other rent generating properties that are located at our urban development projects, the majority of which is projected to be converted to future redevelopment opportunities, and joint ventures interests in two hotels and two office buildings.

The following table provides information on our income-producing portfolio:

| | Number of | | | Square Feet Owned | | | Net Book Value | | |
|------------------------------------|----------------|------|------|-------------------|--------|--------|----------------|------------|------------|
| | Buildings | | | December 31, | | | December 31, | | |
| | 2002 | 2001 | 2000 | 2002 | 2001 | 2000 | 2002 | 2001 | 2000 |
| | (In thousands) | | | | | | (In thousands) | | |
| Rental Portfolio | | | | | | | | | |
| Industrial | 196 | 187 | 198 | 32,944 | 27,594 | 26,251 | \$ 1,134,890 | \$ 943,340 | \$ 874,168 |
| Office | 32 | 27 | 24 | 3,164 | 2,442 | 1,625 | 409,339 | 297,707 | 205,179 |
| Retail | 22 | 19 | 21 | 868 | 864 | 880 | 100,882 | 96,263 | 94,085 |
| Ground leases and other properties | | | | | | | 139,886 | 138,708 | 79,950 |
| Operating joint ventures | | | | | | | (10,920) | (13,026) | (16,092) |
| Subtotal | 250 | 233 | 243 | 36,976 | 30,900 | 28,756 | 1,774,077 | 1,462,992 | 1,237,290 |
| Accumulated depreciation | | | | | | | (366,772) | (325,130) | (287,039) |

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| | | | |
|-------|--------------|--------------|------------|
| Total | \$ 1,407,305 | \$ 1,137,862 | \$ 950,251 |
|-------|--------------|--------------|------------|

Developable Land Inventory

We have developable land capable of supporting up to an estimated 38.1 million square feet of commercial development and approximately 9,300 units of residential development as of December 31, 2002. Substantially all of our commercial and residential developable land is entitled. Approximately 67% of the total commercial development potential by square footage is located in California: San Francisco, Silicon Valley, San Francisco's East Bay area, Los Angeles County, Orange County, the Inland Empire (San Bernardino and Riverside counties), and the City of San Diego; approximately 14% in Texas; approximately 11% in Illinois; and the remaining 8% located in four other states. In terms of residential lots, approximately 59% of the residential land for potential development is located in Northern California, 18% is in Southern California, and 23% is in Colorado.

The following table summarizes the estimated development potential of our land inventory as of December 31, 2002:

| | <u>Commercial</u> | <u>Residential</u> | <u>Hotel</u> |
|------------------------------------|-------------------|--------------------|--------------|
| | (Square feet) | (Lots or units) | (Rooms) |
| Commercial | 25,907,000 | | |
| Residential | | 5,789 | |
| Urban | 12,226,000 | 3,548 | 500 |
| Total | 38,133,000 | 9,337 | 500 |
| Entitled | 36,806,000 | 9,223 | 500 |
| Entitlements/approvals in progress | 1,327,000 | 114 | |

The following table shows the net book value of our developable land inventory for the years presented:

| | <u>Net Book Value</u> | | |
|----------------------------|-----------------------|-------------------|-------------------|
| | <u>December 31,</u> | | |
| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| | (In thousands) | | |
| Commercial | \$ 171,924 | \$ 188,527 | \$ 174,329 |
| Residential | 52,850 | 52,108 | 64,479 |
| Residential joint ventures | 37,918 | 74,721 | 46,245 |
| Urban | 279,495 | 258,504 | 366,136 |
| Subtotal | 542,187 | 573,860 | 651,189 |
| Accumulated depreciation | (10,699) | (9,888) | (15,819) |
| Total | \$ 531,488 | \$ 563,972 | \$ 635,370 |

Asset Management Group

The Asset Management Group manages our rental portfolio of industrial, office, retail, ground lease properties, and operating of properties for joint ventures. The group provides the following services: (1) leasing and management services; (2) acquisition of properties for, and sale of certain rental properties from, our portfolio; and (3) management and disposition services for our other land holdings. The Asset Management Group provided ground lease management services for a third party before the contract expired in 2000.

The following table summarizes our rental portfolio property-operating income by property type:

| | Property-Operating Income ⁽¹⁾ | | |
|--|--|-------------------|-------------------|
| | Year Ended December 31, | | |
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Rental Portfolio | | | |
| Industrial | \$ 125,744 | \$ 111,409 | \$ 98,831 |
| Office | 31,650 | 24,362 | 20,228 |
| Retail | 10,725 | 9,778 | 10,511 |
| Ground leases | 21,271 | 20,237 | 14,724 |
| Other properties | 6,488 | 6,432 | 7,196 |
| Property-operating income | 195,878 | 172,218 | 151,490 |
| Equity in earnings of operating joint ventures | 8,277 | 8,833 | 9,809 |
| Subtotal | 204,155 | 181,051 | 161,299 |
| Less: Discontinued operations | (486) | (1,816) | (2,267) |
| Total property-operating income | <u>\$ 203,669</u> | <u>\$ 179,235</u> | <u>\$ 159,032</u> |

(1) Property-operating income is rental revenue less property operating costs plus equity in earnings of operating joint ventures.

Building Portfolio

The following table summarizes our building portfolio, by year built, as of December 31, 2002:

| | City | State | Rentable | | Major Tenant | RSF Occupied | YR End Vacancy | Year-End Building Occupancy % |
|-----------------------------|------------------|-------|-------------|------------|--|--------------|----------------|-------------------------------|
| | | | Square Feet | Year Built | | | | |
| Industrial Property: | | | | | | | | |
| 1 | Minooka | IL | 1,034,200 | 2002 | Kellogg's USA, Inc. | 1,034,200 | | 100% |
| 2 | Ontario | CA | 830,000 | 2002 | Exel, Inc. | 830,000 | | 100% |
| 3 | Manteca | CA | 608,860 | 2002 | Ford Motor Company | 608,860 | | 100% |
| 4 | Ontario | CA | 607,320 | 2002 | Specialty Merchandise Corporation | 607,320 | | 100% |
| 5 | Rancho Cucamonga | CA | 449,370 | 2002 | Ford Motor Company | 449,370 | | 100% |
| 6 | Romeoville | IL | 421,361 | 2002 | APL Logistics Warehouse Mgmt. Svcs., Inc | 421,361 | | 100% |
| 7 | Grand Prairie | TX | 398,364 | 2002 | Lagasse Bros., Inc. | 105,918 | 292,446 | 27% |
| 8 | Shepherdsville | KY | 382,800 | 2002 | APL Logistics Warehouse Mgmt. Svcs., Inc | 193,800 | 189,000 | 51% |
| 9 | Denver | CO | 314,978 | 2002 | Ford Motor Company | 200,689 | 114,289 | 64% |
| 10 | Ft Worth | TX | 252,000 | 2002 | Ford Motor Company | 252,000 | | 100% |

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| | | | | | | | | |
|----|------------------|----|---------|------|-----------------------------------|---------|---------|------|
| 11 | Denver | CO | 144,511 | 2002 | Keebler Company | 81,487 | 63,024 | 56% |
| 12 | Fremont | CA | 105,700 | 2002 | Tranax Technologies, Inc. | 41,232 | 64,468 | 39% |
| 13 | Denver | CO | 89,739 | 2002 | Colorado Health Systems, Inc. | 58,050 | 31,689 | 65% |
| 14 | Denver | CO | 360,118 | 2001 | Aspen Pet Products, Inc. | 360,118 | | 100% |
| 15 | Denver | CO | 350,969 | 2001 | United Stationers Supply Co. | 350,969 | | 100% |
| 16 | Woodridge | IL | 167,529 | 2001 | Metro Exhibit Corporation | 167,529 | | 100% |
| 17 | Denver | CO | 161,511 | 2001 | Loving-Kayman, LLC | 161,511 | | 100% |
| 18 | Rancho Cucamonga | CA | 120,620 | 2001 | Scripto-Tokai Corporation | 120,620 | | 100% |
| 19 | Fremont | CA | 100,528 | 2001 | Vacant | | 100,528 | 0% |
| 20 | Fremont | CA | 65,332 | 2001 | Vacant | | 65,332 | 0% |
| 21 | Woodridge | IL | 513,674 | 2000 | Prairie Packaging, Inc. | 513,674 | | 100% |
| 22 | Ontario | CA | 504,530 | 2000 | New Balance Athletic Shoe, Inc. | 504,530 | | 100% |
| 23 | Grand Prairie | TX | 450,864 | 2000 | Quaker Sales & Distribution, Inc. | 450,864 | | 100% |
| 24 | Rancho Cucamonga | CA | 443,190 | 2000 | APL Logistics Warehouse Mgmt. | 443,190 | | 100% |

Svcs., Inc

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| Rentable | | | | | | | | |
|----------|------------------|-------------|------------|--------------|---|----------------|-------------------------------|------|
| City | State | Square Feet | Year Built | Major Tenant | RSF Occupied | YR End Vacancy | Year-End Building Occupancy % | |
| 25 | Rancho Cucamonga | CA | 441,970 | 2000 | APL Logistics Warehouse Mgmt. | 441,970 | | 100% |
| | | | | | Svcs., Inc | | | |
| 26 | Grand Prairie | TX | 422,622 | 2000 | APL Logistics Warehouse Mgmt. | 422,622 | | 100% |
| | | | | | Svcs., Inc | | | |
| 27 | Ontario | CA | 373,283 | 2000 | The Hain Food Group | 373,283 | | 100% |
| 28 | Woodridge | IL | 367,999 | 2000 | Central American Distribution & | 367,999 | | 100% |
| | | | | | Transpor | | | |
| 29 | Ontario | CA | 359,996 | 2000 | The Gillette Company | 359,996 | | 100% |
| 30 | Woodridge | IL | 263,007 | 2000 | Corporate Express Office Products, Inc. | 211,949 | 51,058 | 81% |
| 31 | Oakland | CA | 147,500 | 2000 | United States Postal Service | 147,500 | | 100% |
| 32 | Rancho Cucamonga | CA | 56,490 | 2000 | Carpenter Technology Corporation | 56,490 | | 100% |
| 33 | Romeoville | IL | 532,560 | 1999 | The Gillette Co. | 532,560 | | 100% |
| 34 | Grand Prairie | TX | 423,700 | 1999 | APL Logistics Warehouse Mgmt. | 423,700 | | 100% |
| | | | | | Svcs., Inc | | | |
| 35 | Romeoville | IL | 402,266 | 1999 | APL Logistics Warehouse Mgmt. | 402,266 | | 100% |
| | | | | | Svcs., Inc | | | |
| 36 | Woodridge | IL | 396,489 | 1999 | Central American Warehouse Co. | 396,489 | | 100% |
| 37 | Woodridge | IL | 351,799 | 1999 | United States Intermodal Services, LLC | 351,799 | | 100% |
| 38 | Grand Prairie | TX | 343,200 | 1999 | APL Logistics Warehouse Mgmt. | 343,200 | | 100% |
| | | | | | Svcs., Inc | | | |
| 39 | Fremont | CA | 187,168 | 1999 | Peripheral Computer Support | 187,168 | | 100% |
| 40 | Portland | OR | 180,000 | 1999 | Spicers, Inc. | 180,000 | | 100% |
| 41 | Louisville | KY | 166,600 | 1999 | Clark Material Handling Company | 166,600 | | 100% |
| 42 | Woodridge | IL | 165,173 | 1999 | Samuel Manu-Tech, Inc. | 165,173 | | 100% |
| 43 | Portland | OR | 165,000 | 1999 | Synetics Solutions, Inc. | 165,000 | | 100% |
| 44 | Denver | CO | 156,139 | 1999 | Marriott Distribution Services | 156,139 | | 100% |
| 45 | Woodridge | IL | 114,591 | 1999 | Packaging Consultants, Inc. | 114,591 | | 100% |
| 46 | Portland | OR | 103,500 | 1999 | Kinco International, Inc. | 103,500 | | 100% |
| 47 | Richmond | CA | 88,845 | 1999 | Kaiser Foundation Health Plan, Inc. | 88,845 | | 100% |
| 48 | Fremont | CA | 60,000 | 1999 | Fiberstars, Inc. | 60,000 | | 100% |
| 49 | Fremont | CA | 53,395 | 1999 | Sonic Manufacturing Technologies, Inc. | 53,395 | | 100% |
| 50 | Richmond | CA | 42,500 | 1999 | Kaiser Foundation Health Plan, Inc. | 42,500 | | 100% |
| 51 | Ontario | CA | 526,408 | 1998 | Sweetheart Holdings, Inc. | 526,408 | | 100% |
| 52 | Stockton | CA | 500,199 | 1998 | Kellogg s USA Inc. | 500,199 | | 100% |
| 53 | Denver | CO | 325,999 | 1998 | Quantum Logistics, Inc. | 325,999 | | 100% |
| 54 | Woodridge | IL | 240,280 | 1998 | APL Logistics Warehouse Mgmt. Svcs., | 240,280 | | 100% |
| | | | | | Inc | | | |
| 55 | Industry | CA | 183,855 | 1998 | Liberty Glove, Inc. | 183,855 | | 100% |
| 56 | Oakland | CA | 176,826 | 1998 | Public Storage Pick-Up & Delivery, Inc. | 176,826 | | 100% |
| 57 | Woodridge | IL | 158,871 | 1998 | Rock-Tenn Converting Company | 124,742 | 34,129 | 79% |
| 58 | Industry | CA | 140,380 | 1998 | Graybar Electric Company, Inc. | 140,380 | | 100% |
| 59 | Industry | CA | 138,124 | 1998 | Unipac Shipping Co./Continental Agency | 138,124 | | 100% |
| 60 | Denver | CO | 129,442 | 1998 | Callisto Corporation | 129,442 | | 100% |
| 61 | Industry | CA | 109,448 | 1998 | Playhut, Inc. | 109,448 | | 100% |
| 62 | Fremont | CA | 102,626 | 1998 | Mouse Systems | 102,626 | | 100% |
| 63 | Fremont | CA | 476,177 | 1997 | Office Depot, Inc. | 476,177 | | 100% |
| 64 | Aberdeen | MD | 470,707 | 1997 | Saks & Company | 470,707 | | 100% |
| 65 | Industry | CA | 298,050 | 1997 | Viewsonic Corporation | 298,050 | | 100% |
| 66 | Union City | CA | 234,588 | 1997 | Spicers Paper, Inc. | 234,588 | | 100% |
| 67 | Garland | TX | 227,023 | 1997 | Interceramic, Inc. | 227,023 | | 100% |
| 68 | Garland | TX | 226,906 | 1997 | Ascendant Solutions | 226,906 | | 100% |
| 69 | Ontario | CA | 180,608 | 1997 | Tyco Healthcare Group, LLP | 180,608 | | 100% |

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|----|----------|----|---------|------|-----------------------------------|---------|--------|------|
| 70 | Fremont | CA | 174,460 | 1997 | Galgon Industries, Inc. | 126,400 | 48,060 | 72% |
| 71 | Anaheim | CA | 130,466 | 1997 | Anixter Inc. | 130,466 | | 100% |
| 72 | Fremont | CA | 127,452 | 1997 | Victron, Inc. | 127,452 | | 100% |
| 73 | Ontario | CA | 37,000 | 1997 | Los Angeles Times Communications, | 37,000 | | 100% |
| | | | | | LLC | | | |
| 74 | Industry | CA | 230,992 | 1996 | Owens & Minor West, Inc. | 230,992 | | 100% |
| 75 | Ontario | CA | 201,454 | 1996 | McLane Company, Inc. | 201,454 | | 100% |
| 76 | Fremont | CA | 158,400 | 1996 | Home Depot USA, Inc. | 158,400 | | 100% |

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| | | Rentable | | | | RSF | YR End | Year-End |
|---------------------------|------------------|----------------|-------------------|--------------|-------------------------------------|-------------------|------------------|------------|
| City | State | Square Feet | Year Built | Major Tenant | Occupied | Vacancy | Occupancy % | |
| 77 | Oklahoma City | OK | 124,905 | 1996 | Pollock Investments Inc. | 60,000 | 64,905 | 48% |
| 78 | Fremont | CA | 114,948 | 1996 | Menlo Logistics, Inc. | 114,948 | | 100% |
| 79 | Fremont | CA | 94,080 | 1996 | Galgon Industries, Inc. | 58,368 | 35,712 | 62% |
| 80 | Vernon | CA | 41,712 | 1996 | Lucky Brand Dungarees, Inc. | 41,712 | | 100% |
| 81 | Vernon | CA | 27,798 | 1996 | Vacant | | 27,798 | 0% |
| 82 | Ontario | CA | 300,136 | 1995 | Dunlop Tire Corp. | 300,136 | | 100% |
| 83 | Santa Fe Springs | CA | 100,000 | 1995 | Spicers Paper, Inc. | 100,000 | | 100% |
| Subtotal 1995-2002 | | | 21,954,180 | | (83 buildings) | 20,771,742 | 1,182,438 | 95% |
| 1 | Grove City | OH | 300,211 | 1994 | Vista Packaging, Inc. | 300,211 | | 100% |
| 2 | Garland | TX | 262,000 | 1994 | Interceramic, Inc | 262,000 | | 100% |
| 3 | Fullerton | CA | 100,000 | 1994 | Adams Rite Aerospace, Inc. | 100,000 | | 100% |
| 4 | Anaheim | CA | 17,575 | 1994 | Los Angeles Times Communications | 17,575 | | 100% |
| | | LLC | | | | | | |
| 5 | Grove City | OH | 360,412 | 1993 | McKesson Medical-Surgical | 331,052 | 29,360 | 92% |
| | | Minnesota Inc. | | | | | | |
| 6 | Grove City | OH | 305,268 | 1993 | McGraw Hill | 305,268 | | 100% |
| 7 | Woodridge | IL | 261,400 | 1993 | Dollar Tree Stores, Inc. | 261,400 | | 100% |
| 8 | Ontario | CA | 149,406 | 1992 | THMX Holdings, LLC | 149,406 | | 100% |
| 9 | Livermore | CA | 148,440 | 1992 | Owens & Minor West | 148,440 | | 100% |
| 10 | Woodridge | IL | 148,416 | 1992 | Multifoods Distribution Group, Inc. | 148,416 | | 100% |
| 11 | Anaheim | CA | 130,595 | 1992 | Micro Technology, Inc. | 130,595 | | 100% |
| 12 | Anaheim | CA | 79,846 | 1992 | Partition Installations, Inc. | 79,846 | | 100% |
| 13 | Vernon | CA | 47,000 | 1992 | John S. Dull & Associates, Inc. | 47,000 | | 100% |
| 14 | Anaheim | CA | 36,800 | 1992 | SCP Superior Acquisition Company, | 36,800 | | 100% |
| | | LLC. | | | | | | |
| 15 | Anaheim | CA | 26,200 | 1992 | S-B Power Tool Company | 26,200 | | 100% |
| 16 | Industry | CA | 449,049 | 1991 | Circuit City Stores, Inc. | 449,049 | | 100% |
| 17 | Woodridge | IL | 265,057 | 1991 | Sportmart, Inc. | 265,057 | | 100% |
| 18 | Woodridge | IL | 116,544 | 1991 | Argo Turboserve Corporation | 116,544 | | 100% |
| 19 | Union City | CA | 105,408 | 1991 | Anixter Bros, Inc. | 46,848 | 58,560 | 44% |
| 20 | Vernon | CA | 49,250 | 1991 | Brambles Info. Mgmt., Inc. | 49,250 | | 100% |
| 21 | Santa Fe Springs | CA | 42,890 | 1991 | Highlight Graphics | 35,990 | 6,900 | 84% |
| 22 | Santa Fe Springs | CA | 37,268 | 1991 | Hotchkis Performance | 37,268 | | 100% |
| 23 | Santa Fe Springs | CA | 31,638 | 1991 | Polestar, Inc. | 31,638 | | 100% |
| 24 | Vernon | CA | 30,840 | 1991 | Monami Textile, Inc. | 30,840 | | 100% |
| 25 | Vernon | CA | 30,840 | 1991 | Alto Products | 30,840 | | 100% |
| 26 | Santa Fe Springs | CA | 11,929 | 1991 | Marinco Electric Inc. | 7,994 | 3,935 | 67% |
| 27 | Santa Fe Springs | CA | 11,045 | 1991 | Dover Resources Inc | 9,750 | 1,295 | 88% |
| 28 | Ontario | CA | 412,944 | 1990 | Cott Beverages USA, Inc. | 412,944 | | 100% |
| 29 | Santa Fe Springs | CA | 237,814 | 1990 | La Salle Paper Company, Inc. | 237,814 | | 100% |
| 30 | Garland | TX | 200,000 | 1990 | Sears Logistics Services, Inc. | 200,000 | | 100% |
| 31 | Tempe | AZ | 165,646 | 1990 | Vacant | | 165,646 | 0% |
| 32 | Ontario | CA | 141,150 | 1990 | H. Tedmori, Inc. | 141,150 | | 100% |
| 33 | Livermore | CA | 131,128 | 1990 | Nature Kist | 131,128 | | 100% |
| 34 | Union City | CA | 116,993 | 1990 | Tyco Printed Circuit Group LLP | 116,993 | | 100% |
| 35 | Vernon | CA | 48,187 | 1990 | Mister S | 48,187 | | 100% |
| 36 | Vernon | CA | 26,923 | 1990 | Barth and Dreyfuss Of California | 26,923 | | 100% |
| 37 | Vernon | CA | 26,653 | 1990 | Maruhana U.S.A., Corp. | 26,653 | | 100% |
| Subtotal 1990-1994 | | | 5,062,765 | | (37 buildings) | 4,797,069 | 265,696 | 95% |
| 1 | Stockton | CA | 435,609 | 1989 | Ralphs Grocery Co. | 435,609 | | 100% |
| 2 | Ontario | CA | 405,864 | 1989 | Exel Inc. | 405,864 | | 100% |
| 3 | Anaheim | CA | 39,285 | 1989 | V & M Restoration | 39,285 | | 100% |

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| | | | | | | | |
|---|-----------|----|---------|------|---------------------------------|---------|------|
| 4 | Anaheim | CA | 28,185 | 1989 | Shaxon Industries | 28,185 | 100% |
| 5 | Santa Ana | CA | 24,968 | 1989 | Severn Trent Laboratories, Inc. | 24,968 | 100% |
| 6 | Anaheim | CA | 24,955 | 1989 | Specification Seals Co. | 24,955 | 100% |
| 7 | Anaheim | CA | 20,705 | 1989 | Automation Products | 20,705 | 100% |
| 8 | Phoenix | AZ | 206,263 | 1988 | Freeport Logistics Inc. | 206,263 | 100% |
| 9 | Vernon | CA | 137,307 | 1988 | Pepboys Of California | 137,307 | 100% |

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| | | Rentable | | | | | Year-End | |
|---------------------------|------------------|-------------|------------------|--------------|--|------------------|----------------------|------------|
| City | State | Square Feet | Year Built | Major Tenant | RSF Occupied | YR End Vacancy | Building Occupancy % | |
| 10 | Tempe | AZ | 133,291 | 1988 | Eagle Global Logistics | 133,291 | | 100% |
| 11 | Carson | CA | 133,240 | 1988 | F.R.T. International, Inc. | 133,240 | | 100% |
| 12 | Carson | CA | 118,545 | 1988 | Expeditors International | 118,545 | | 100% |
| 13 | Union City | CA | 115,200 | 1988 | California Equipment Distributors, Inc. | 115,200 | | 100% |
| 14 | Livermore | CA | 92,022 | 1988 | Trans Western Polymers, Inc. | 92,022 | | 100% |
| 15 | Vernon | CA | 85,349 | 1988 | Rayem Investments, Inc. | 85,205 | 144 | 100% |
| 16 | Union City | CA | 82,944 | 1988 | Orthopedic Systems, Inc. | 82,944 | | 100% |
| 17 | Union City | CA | 77,760 | 1988 | National Retail Transportation, Inc. | 77,760 | | 100% |
| 18 | Livermore | CA | 76,800 | 1988 | Trans Western Polymers, Inc. | 76,800 | | 100% |
| 19 | Tustin | CA | 69,763 | 1988 | Terumo Medical Corporation | 69,763 | | 100% |
| 20 | Tustin | CA | 59,505 | 1988 | GE Medical Systems Info Technologies, Inc. | 59,505 | | 100% |
| 21 | Orange | CA | 54,177 | 1988 | Freedom Communications Inc. | 54,177 | | 100% |
| 22 | Santa Ana | CA | 36,225 | 1988 | Applied Industrial Technology, Inc. | 36,225 | | 100% |
| 23 | Los Angeles | CA | 31,311 | 1988 | Tanimura Distributing | 31,311 | | 100% |
| 24 | Rancho Cucamonga | CA | 419,064 | 1987 | Weingart Foundation | 419,064 | | 100% |
| 25 | Stockton | CA | 314,392 | 1987 | Ralphs Grocery Co. | 314,392 | | 100% |
| 26 | Phoenix | AZ | 221,116 | 1987 | Huhtamaki Plastics, Inc. | 221,116 | | 100% |
| 27 | Santa Fe Springs | CA | 98,882 | 1987 | Galleher Hardwood Company | 98,882 | | 100% |
| 28 | Union City | CA | 88,704 | 1987 | Am-Pac Tire Distribution, Inc. | 88,704 | | 100% |
| 29 | Union City | CA | 86,496 | 1987 | Logitech, Inc. | 86,496 | | 100% |
| 30 | Santa Fe Springs | CA | 70,756 | 1987 | Atlantic, Inc. | 70,756 | | 100% |
| 31 | Anaheim | CA | 52,965 | 1987 | Mintek Digital, Inc. | 52,965 | | 100% |
| 32 | Anaheim | CA | 51,153 | 1987 | Meiho Technology, Inc. | 51,153 | | 100% |
| 33 | Union City | CA | 44,909 | 1987 | Exp Pharmaceutical Waste Management, Inc. | 44,909 | | 100% |
| 34 | Anaheim | CA | 43,428 | 1987 | United Media Services, Inc. | 43,428 | | 100% |
| 35 | Anaheim | CA | 32,074 | 1987 | Saint-Gobain Industrial Ceramics, Inc. | 32,074 | | 100% |
| 36 | Los Angeles | CA | 30,104 | 1987 | Tanimura Distributing | 30,104 | | 100% |
| 37 | La Mirada | CA | 220,000 | 1986 | Mohawk Industries, Inc. | 220,000 | | 100% |
| 38 | Union City | CA | 126,144 | 1986 | Runco International, Inc. | 47,852 | 78,292 | 38% |
| 39 | Orange | CA | 108,222 | 1986 | Data Aire, Inc. | 108,222 | | 100% |
| 40 | Tempe | AZ | 101,601 | 1986 | Triumph / Stolper | 101,601 | | 100% |
| 41 | Tempe | AZ | 93,366 | 1986 | Southern Wine and Spirits | 93,366 | | 100% |
| 42 | Vernon | CA | 77,184 | 1986 | Jade Apparel, Inc. | 77,184 | | 100% |
| 43 | Tustin | CA | 75,226 | 1986 | Scan-Tron Corporation | 75,226 | | 100% |
| 44 | Orange | CA | 42,918 | 1986 | Mailing and Marketing, Inc. | 42,918 | | 100% |
| 45 | Orange | CA | 35,000 | 1986 | Cano Container Corporation | 35,000 | | 100% |
| 46 | Vernon | CA | 28,875 | 1986 | Master Knits USA, Inc. | 28,875 | | 100% |
| 47 | Fullerton | CA | 50,000 | 1985 | Sonic Air Systems, Inc. | 50,000 | | 100% |
| 48 | Anaheim | CA | 20,769 | 1985 | Fremont Investment & Loan | 20,769 | | 100% |
| Subtotal 1985-1989 | | | 5,022,621 | | (48 buildings) | 4,944,185 | 78,436 | 98% |
| 1 | Sacramento | CA | 46,500 | 1983 | Competition Parts Warehouse | 46,500 | | 100% |
| 2 | Sacramento | CA | 21,976 | 1983 | Competition Parts Warehouse | 21,976 | | 100% |
| 3 | Sacramento | CA | 21,000 | 1983 | American River Flood Control | 21,000 | | 100% |
| 4 | Sacramento | CA | 21,000 | 1983 | American River Flood Control | 21,000 | | 100% |
| 5 | Fullerton | CA | 97,056 | 1980 | Modular Systems Services, Inc. | 97,056 | | 100% |
| 6 | Vernon | CA | 10,600 | 1980 | U.S. Filter Distribution Group | 10,600 | | 100% |
| 7 | Phoenix | AZ | 78,327 | 1976 | Willey Brothers, Inc. | 50,913 | 27,414 | 65% |
| 8 | Tustin | CA | 65,910 | 1975 | ADC Telecommunications, Inc. | 65,910 | | 100% |
| 9 | Houston | TX | 57,058 | 1975 | Insituform Technologies, Inc. | 57,058 | | 100% |
| 10 | San Diego | CA | 32,905 | 1971 | Michael Culleton | 32,905 | | 100% |
| 11 | San Diego | CA | 21,507 | 1971 | Refrigeration Supplies Dist. | 21,507 | | 100% |

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| | | | | | | | |
|----|-----------|----|--------|------|------------------------------|--------|------|
| 12 | San Diego | CA | 18,001 | 1971 | Ljungquist Enterprises, Inc. | 18,001 | 100% |
| 13 | San Diego | CA | 14,401 | 1971 | Oceanus Press | 14,401 | 100% |
| 14 | San Diego | CA | 14,000 | 1971 | California Board Sports | 14,000 | 100% |
| 15 | San Diego | CA | 12,822 | 1971 | Transwestern Publishing | 12,822 | 100% |
| 16 | San Diego | CA | 12,801 | 1971 | Aquatic Design System | 12,801 | 100% |
| 17 | San Diego | CA | 12,599 | 1971 | Nico & Associates, Inc. | 12,599 | 100% |

| | | Rentable | | | | | | Year-End |
|---------------------------|---------------|-------------|-------------------|--------------|--|-------------------|----------------------|------------|
| City | State | Square Feet | Year Built | Major Tenant | RSF Occupied | YR End Vacancy | Building Occupancy % | |
| 18 | San Diego | CA | 11,200 | 1971 | Insight Systems LLC | 11,200 | | 100% |
| 19 | San Diego | CA | 9,928 | 1971 | Vacant | | 9,928 | 0% |
| 20 | San Diego | CA | 9,600 | 1971 | Smalley & Company | 9,600 | | 100% |
| 21 | San Diego | CA | 9,599 | 1971 | Environmental Spray, Inc. | 9,599 | | 100% |
| 22 | San Diego | CA | 8,400 | 1971 | Taiwanese American Foundation | 8,400 | | 100% |
| 23 | Tustin | CA | 39,600 | 1966 | Action Wholesale Products, Inc. | 39,600 | | 100% |
| 24 | Phoenix | AZ | 83,317 | 1950 | Reliant Building Products, Inc | 83,317 | | 100% |
| 25 | Phoenix | AZ | 40,495 | 1950 | Reliant Building Products, Inc | 40,495 | | 100% |
| 26 | Vernon | CA | 15,288 | 1940 | A. Rudin, Inc. | 15,288 | | 100% |
| 27 | Vernon | CA | 48,315 | 1937 | Griffith Micro Science, Inc. | 48,315 | | 100% |
| 28 | Topeka | KS | 70,266 | 1931 | Capital Label, LLC | 26,896 | 43,370 | 38% |
| Subtotal Pre-1985 | | | 904,471 | | (28 buildings) | 823,759 | 80,712 | 91% |
| Total Industrial | | | 32,944,037 | | (196 buildings-Average Age 6.5 Years) | 31,336,755 | 1,607,282 | 95% |
| Office Property: | | | | | | | | |
| 1 | San Francisco | CA | 282,773 | 2002 | The Gap, Inc. | 282,773 | | 100% |
| 2 | Westminster | CO | 151,040 | 2002 | CSG Systems, Inc. | 87,468 | 63,572 | 58% |
| 3 | Glenview | IL | 116,015 | 2002 | AC Neilson Company | 18,499 | 97,516 | 16% |
| 4 | Coppell | TX | 101,844 | 2002 | Washington Mutual Bank | 101,844 | | 100% |
| 5 | Westminster | CO | 121,461 | 2001 | American Skandia Life Assurance | 121,461 | | 100% |
| 6 | Woodridge | IL | 97,964 | 1991 | Argonne National Laboratory | 97,964 | | 100% |
| 7 | Anaheim | CA | 94,086 | 1990 | Fremont Investment & Loan | 86,479 | 7,607 | 92% |
| 8 | Corona | CA | 61,724 | 1990 | Centex Real Estate Corp | 60,013 | 1,711 | 97% |
| 9 | Santa Ana | CA | 66,106 | 1989 | County Of Orange | 66,106 | | 100% |
| 10 | Northridge | CA | 56,964 | 1988 | 101 Communications LLC | 56,964 | | 100% |
| 11 | Northridge | CA | 53,292 | 1988 | Washington Mutual | 53,292 | | 100% |
| 12 | Northridge | CA | 43,117 | 1988 | Synergistic Systems Inc. | 43,117 | | 100% |
| 13 | San Jose | CA | 70,903 | 1986 | Aon Service Corporation | 59,003 | 11,900 | 83% |
| 14 | San Jose | CA | 69,956 | 1986 | Puma Technology Inc. | 69,956 | | 100% |
| 15 | Northridge | CA | 60,175 | 1986 | Washington Mutual Bank | 59,971 | 204 | 100% |
| 16 | Orange | CA | 40,000 | 1986 | Control Air Corporation | 40,000 | | 100% |
| 17 | San Jose | CA | 77,092 | 1985 | MCI Worldcom Communications, Inc. | 70,924 | 6,168 | 92% |
| 18 | San Jose | CA | 71,514 | 1985 | Parametric Technology Corporation | 63,261 | 8,253 | 88% |
| 19 | San Jose | CA | 69,952 | 1985 | Porter Novelli Inc. | 65,924 | 4,028 | 94% |
| 20 | San Jose | CA | 67,317 | 1985 | MCI Worldcom Communications, Inc. | 44,447 | 22,870 | 66% |
| Subtotal 1985-2002 | | | 1,773,295 | | (20 buildings) | 1,549,466 | 223,829 | 87% |
| 1 | Santa Ana | CA | 52,133 | 1983 | Nations Direct Lender & Ins. | 45,938 | 6,195 | 88% |
| 2 | Portland | OR | 56,934 | 1979 | Anesthesiologists Assoc. Inc. | 49,437 | 7,497 | 87% |
| 3 | Irving | TX | 69,049 | 1978 | General Motors Corporation | 67,310 | 1,739 | 97% |
| 4 | Dallas | TX | 473,090 | 1975 | J. C. Penney Company, Inc. | 434,582 | 38,508 | 92% |
| 5 | Dallas | TX | 224,211 | 1975 | J. C. Penney Company, Inc. | 224,211 | | 100% |
| 6 | Sacramento | CA | 24,671 | 1975 | Community Health Charities | 9,931 | 14,740 | 40% |
| 7 | Sacramento | CA | 11,542 | 1975 | Cal Assoc. For Local Econ Dev. | 11,542 | | 100% |
| 8 | Sacramento | CA | 7,987 | 1975 | Law Offices Of W. Scott De Bie | 5,946 | 2,041 | 74% |
| 9 | Sacramento | CA | 53,696 | 1974 | Volunteers Of America | 41,173 | 12,523 | 77% |
| 10 | Newport Beach | CA | 24,018 | 1972 | Express Capital Lending | 21,815 | 2,204 | 91% |
| 11 | Newport Beach | CA | 22,727 | 1972 | United Auto Credit Corporation | 20,524 | 2,204 | 90% |
| 12 | Chicago | IL | 370,263 | 1903 | Skidmore, Owings & Merrill LLP | 325,357 | 44,906 | 88% |
| Subtotal Pre-1985 | | | 1,390,321 | | (12 buildings) | 1,257,765 | 132,556 | 90% |
| Total Office | | | 3,163,616 | | (32 buildings) | 2,807,231 | 356,385 | 89% |
| Retail Property: | | | | | | | | |

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| | | | | | | | | | |
|---|------------|----|---------|------|-------------------------|---------|-------|--|------|
| 1 | Tucson | AZ | 51,242 | 2002 | Fleming Companies, Inc. | 51,242 | | | 100% |
| 2 | Tucson | AZ | 12,414 | 2002 | Curves for Women | 3,505 | 8,909 | | 28% |
| 3 | Tucson | AZ | 5,840 | 2002 | Ole Mexican Grille | 3,450 | 2,390 | | 59% |
| 4 | Tucson | AZ | 4,950 | 2002 | Top 10 Nails | 1,950 | 3,000 | | 39% |
| 5 | Emeryville | CA | 23,923 | 2001 | Michaels Stores, Inc. | 23,923 | | | 100% |
| 6 | Emeryville | CA | 117,000 | 1994 | Home Depot USA, Inc. | 117,000 | | | 100% |

| | | Rentable | | | | | | Year-End |
|---------------------------|----------------|-------------|-------------------|--------------|-------------------------------------|-------------------|----------------------|------------|
| City | State | Square Feet | Year Built | Major Tenant | RSF Occupied | YR End Vacancy | Building Occupancy % | |
| 7 | Emeryville | CA | 102,501 | 1994 | Home Depot USA, Inc. | 102,501 | 100% | |
| 8 | Emeryville | CA | 96,954 | 1994 | Sportmart, Inc. | 96,954 | 100% | |
| 9 | Emeryville | CA | 59,195 | 1994 | Pak N Save | 59,195 | 100% | |
| 10 | Emeryville | CA | 4,897 | 1994 | Mattress Discounters Corporation | 4,897 | 100% | |
| 11 | Emeryville | CA | 3,561 | 1994 | Designs CMAL Store Inc. | 3,561 | 100% | |
| 12 | Emeryville | CA | 3,537 | 1994 | Walker, Robin M. and Swarm, Ezel N. | 3,537 | 100% | |
| 13 | Anaheim | CA | 12,307 | 1985 | Auto Insurance Spclsts-L.B Inc | 7,039 | 5,268 | 57% |
| 14 | Anaheim | CA | 10,668 | 1985 | Koosharem Corp | 5,002 | 5,666 | 47% |
| Subtotal 1985-2002 | | | 508,989 | | (14 buildings) | 483,756 | 25,233 | 95% |
| 1 | Woodland Hills | CA | 72,765 | 1973 | Toys R Us Inc. | 72,765 | | 100% |
| 2 | Woodland Hills | CA | 11,317 | 1973 | Shelley S Stereo | 11,317 | | 100% |
| 3 | Denver | CO | 99,627 | 1971 | King Soopers Inc. | 91,672 | 7,955 | 92% |
| 4 | Livermore | CA | 69,224 | 1970 | Lucky Stores, Inc | 59,412 | 9,812 | 86% |
| 5 | Tustin | CA | 39,600 | 1968 | Micro Center | 39,600 | | 100% |
| 6 | Portland | OR | 25,284 | 1968 | Bank Of The West | 15,186 | 10,098 | 60% |
| 7 | Portland | OR | 11,998 | 1968 | Hollywood Video | 10,610 | 1,388 | 88% |
| 8 | Woodland Hills | CA | 29,071 | 1965 | Strouds The Linen Experts | 28,927 | 144 | 100% |
| Subtotal Pre-1985 | | | 358,886 | | (8 buildings) | 329,489 | 29,397 | 92% |
| Total Retail | | | 867,875 | | (22 buildings) | 813,245 | 54,630 | 94% |
| Grand Total | | | 36,975,528 | | (250 buildings) | 34,957,231 | 2,018,297 | 95% |

Building Occupancy

The rental buildings were 94.5% leased as of December 31, 2002. Sixty-two percent of the total square footage of the rental buildings in our portfolio was constructed between 1995 and 2002, 15% between 1990 and 1994, 16% between 1985 and 1989, and the remaining 7% prior to 1985. Our goal is to continually upgrade the quality of our portfolio; correspondingly, certain older buildings and other properties are likely to be sold over time.

Leasing. The following table summarizes our leasing statistics for our rental portfolio:

| | As of December 31, | | |
|----------------------------|--------------------|--------|--------|
| | 2002 | 2001 | 2000 |
| (Square feet in thousands) | | | |
| Industrial Buildings | | | |
| Square feet owned | 32,944 | 27,594 | 26,251 |
| Square feet leased | 31,337 | 26,103 | 25,143 |
| Percent leased | 95.1% | 94.6% | 95.8% |
| Office Buildings | | | |
| Square feet owned | 3,164 | 2,442 | 1,625 |

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| | | | |
|-------------------------|--------|--------|--------|
| Square feet leased | 2,807 | 2,260 | 1,513 |
| Percent leased | 88.7% | 92.5% | 93.1% |
| Retail Buildings | | | |
| Square feet owned | 868 | 864 | 880 |
| Square feet leased | 813 | 820 | 856 |
| Percent leased | 93.7% | 94.9% | 97.3% |
| Total | | | |
| Square feet owned | 36,976 | 30,900 | 28,756 |
| Square feet leased | 34,957 | 29,183 | 27,512 |
| Percent leased | 94.5% | 94.4% | 95.7% |

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Lease Expirations. The following table summarizes our lease expirations in our rental portfolio as of December 31, 2002:

| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>Thereafter</u> |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|
| Percent | 12.2% | 10.5% | 15.0% | 9.0% | 9.9% | 2.5% | 7.0% | 6.5% | 4.6% | 22.8% |
| Square feet (in thousands) | 4,252 | 3,673 | 5,249 | 3,156 | 3,461 | 874 | 2,430 | 2,270 | 1,602 | 7,990 |

Approximately 127,000 square feet of month-to-month leases are shown as expiring in 2003.

Rental Portfolio

Following is a discussion of our rental portfolio by property type:

Industrial Buildings

The following table summarizes the industrial buildings in our rental portfolio as of, or for, the year ended December 31, 2002:

| | <u>Number</u> | <u>Square Feet</u> | <u>Revenues</u> | <u>Property Operating Costs</u> | <u>Property Operating Income</u> |
|--|---------------|--------------------|-------------------|---|--|
| <u>of Buildings</u> | | | | | |
| (In thousands, except for number of buildings) | | | | | |
| Southern California | 99 | 12,200 | \$ 62,952 | \$ 11,484 | \$ 51,468 |
| Northern California | 39 | 5,773 | 35,550 | 7,915 | 27,635 |
| Illinois | 18 | 5,921 | 25,799 | 6,873 | 18,926 |
| Texas | 11 | 3,264 | 11,995 | 2,872 | 9,123 |
| Colorado | 9 | 2,033 | 10,095 | 2,590 | 7,505 |
| Arizona | 9 | 1,123 | 4,042 | 1,901 | 2,141 |
| Maryland | 1 | 471 | 3,402 | 296 | 3,106 |
| Ohio | 3 | 966 | 2,960 | 567 | 2,393 |
| Oregon | 3 | 449 | 2,898 | 529 | 2,369 |
| Kentucky | 2 | 549 | 1,141 | 169 | 972 |
| Other | 2 | 195 | 302 | 196 | 106 |
| Total | 196 | 32,944 | \$ 161,136 | \$ 35,392 | \$ 125,744 |

The following table summarizes the lease expirations for our industrial buildings as of December 31, 2002:

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| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>Thereafter</u> |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|
| Percent | 12.2% | 10.4% | 14.6% | 9.4% | 9.4% | 2.1% | 7.0% | 7.1% | 4.6% | 23.2% |
| Square feet (in thousands) | 3,838 | 3,258 | 4,560 | 2,961 | 2,935 | 645 | 2,184 | 2,239 | 1,450 | 7,267 |

Of the 3.8 million square feet of leased industrial space that is scheduled to expire in 2003, 46% is located in Southern California, 16% in Northern California, 16% in Ohio, 13% in Illinois, and the remaining 9% in three other states. Approximately 116,000 square feet of month-to-month leases are shown as expiring in 2003.

In 2002, we completed and added to our rental portfolio 5.6 million square feet of industrial buildings. In addition, during the year, we purchased 0.4 million square feet and sold 0.7 million square feet of industrial buildings.

Office Buildings

The following table summarizes the office buildings in our rental portfolio as of, or for, the year ended December 31, 2002:

| | Number | | Property | Property |
|--|---------------------|--------------------|--------------|---------------|
| | of Buildings | Square Feet | Operating | Operating |
| | <u>of Buildings</u> | <u>Square Feet</u> | <u>Costs</u> | <u>Income</u> |
| (In thousands, except for number of buildings) | | | | |
| Northern California | 11 | 808 | \$ 4,550 | \$ 11,301 |
| Southern California | 11 | 574 | 9,250 | 4,977 |
| Texas | 4 | 868 | 5,337 | 5,816 |
| Illinois | 3 | 584 | 6,599 | 6,510 |
| Colorado | 2 | 273 | 1,860 | 2,626 |
| Oregon | 1 | 57 | 561 | 420 |
| Totals | 32 | 3,164 | \$ 23,180 | \$ 31,650 |

The following table summarizes the lease expirations for our office buildings as of December 31, 2002:

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Thereafter |
|----------------------------|-------|-------|-------|------|-------|------|------|------|------|------------|
| Percent | 12.8% | 10.8% | 23.0% | 4.6% | 18.1% | 6.4% | 4.7% | 0.0% | 4.6% | 15.0% |
| Square feet (in thousands) | 359 | 304 | 644 | 130 | 508 | 181 | 132 | 1 | 128 | 420 |

Of the 359,000 square feet of leased office space scheduled to expire in 2003, 42% is located in Illinois, 32% in Northern California, and 18% in Southern California. Approximately 11,000 square feet of month-to-month leases are shown as expiring in 2003.

In 2002, we completed the development of and added to our rental portfolio four office buildings totaling 650,000 square feet and purchased one office building totaling 69,000 square feet.

Retail Buildings

The following table summarizes the retail buildings in our rental portfolio as of, or for, the year ended December 31, 2002:

| Number | Square Feet | Revenues | Property | Property |
|--------------|-----------------------------|-----------------------------|-----------|-----------|
| of Buildings | <u> </u> | <u> </u> | Operating | Operating |

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| | | | | Costs | Income |
|--|-----------|------------|------------------|-----------------|------------------|
| (In thousands, except for number of buildings) | | | | | |
| Northern California | 9 | 481 | \$ 8,981 | \$ 2,783 | \$ 6,198 |
| Southern California | 6 | 176 | 3,816 | 965 | 2,851 |
| Arizona | 4 | 74 | 446 | 84 | 362 |
| Oregon | 2 | 37 | 565 | 247 | 318 |
| Colorado | 1 | 100 | 1,480 | 484 | 996 |
| Totals | 22 | 868 | \$ 15,288 | \$ 4,563 | \$ 10,725 |

The following table summarizes the lease expirations for our retail buildings as of December 31, 2002:

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Thereafter |
|----------------------------|------|-------|------|------|------|------|-------|------|------|------------|
| Percent | 6.8% | 13.6% | 5.5% | 8.0% | 2.2% | 5.9% | 14.0% | 3.7% | 3.0% | 37.3% |
| Square feet (in thousands) | 55 | 111 | 45 | 65 | 18 | 48 | 114 | 30 | 24 | 303 |

Of the 55,000 square feet of leased retail space scheduled to expire in 2003, 85% is located in Southern California and 15% is in Colorado. In 2002, we completed and added to our portfolio 72,000 square feet of retail buildings and sold an older 70,000-square-foot retail building.

Ground Leases and Other Properties

Ground Leases

We own approximately 8,000 acres of ground leases, of which approximately 1,200 acres are being marketed for sale.

The following table summarizes our ground leases for the year ended December 31, 2002:

| | <u>Revenues</u> | <u>Property Operating Costs</u> | <u>Property Operating Income</u> |
|---------------------|------------------|---|--|
| | (In thousands) | | |
| Southern California | \$ 11,184 | \$ 1,279 | \$ 9,905 |
| Northern California | 8,121 | 633 | 7,488 |
| Other states | 5,800 | 1,922 | 3,878 |
| Totals | \$ 25,105 | \$ 3,834 | \$ 21,271 |

Other Properties

In addition to 37 million square feet of buildings in our rental portfolio, we also own other income-generating properties at our Urban Group projects that we intend to convert to land development (Other Property). As of December 31, 2002, our Other Property portfolio included 15 buildings aggregating approximately 755,000 square feet, which were 84.8% leased, and several parking lots. We expect that the level of income generated from this category will decline as development occurs over the next several years.

The following table summarizes our other property portfolio as of, or for, the year ended December 31, 2002:

| | <u>Number of Buildings</u> | <u>Square Feet⁽¹⁾</u> | <u>Revenues</u> | <u>Property Operating Costs</u> | <u>Property Operating Income</u> |
|---------------------|--|--------------------------------------|-----------------|---|--|
| | (In thousands, except for number of buildings) | | | | |
| Northern California | 10 | 628 | \$ 5,409 | \$ 1,164 | \$ 4,245 |
| Southern California | 5 | 127 | 6,039 | 3,796 | 2,243 |

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| | | | | | |
|--------|----|-----|-----------|----------|----------|
| Totals | 15 | 755 | \$ 11,448 | \$ 4,960 | \$ 6,488 |
|--------|----|-----|-----------|----------|----------|

(1) Other Property is not included in the total square feet of rental portfolio.

Operating Joint Venture Portfolio

The Asset Management Group had direct or indirect equity interests in four joint ventures that owned rental properties during the year. The joint ventures provided us with cash distributions of \$6.1 million and earnings of \$8.3 million for the year ended December 31, 2002. The joint venture agreements of these joint ventures contain provisions with certain safeguard features for our investments, such as voting rights in major decisions of the joint ventures, and venture partners' consents on sales of a venture partner's ownership interest.

We owned joint venture interests in the following operating properties for the years presented.

| | No. of Ventures | Size | Ownership Interest | Equity in Earnings | | |
|----------------------|--------------------|-----------------|-----------------------|-------------------------|-----------------|-----------------|
| | | | | Year Ended December 31, | | |
| | | | | 2002 | 2001 | 2000 |
| | | | | (In thousands) | | |
| Hotel ⁽¹⁾ | 3 | 1,937 rooms | 25-50% | \$ 8,213 | \$ 8,570 | \$ 9,835 |
| Office | 1 | 202,000 sq. ft. | 67% | 64 | 263 | (26) |
| Total | 4 | | | \$ 8,277 | \$ 8,833 | \$ 9,809 |

(1) Includes a hotel parking lot joint venture.

Sales

During 2002, we sold property from our rental portfolio. Of the sales revenue in 2002, approximately \$11.7 million came from the sale to tenants of older buildings totaling 227,000 square feet; approximately \$22.5 million from the sale to investors of buildings totaling 542,000 square feet that were built in the 1970s and 1980s; and approximately \$9 million from the sale of approximately 1,100 acres of land subject to ground leases.

The following table summarizes the sales of our rental properties, before the adjustments for discontinued operations for the years presented:

| | Year Ended December 31, | | |
|------------------------|-------------------------|-----------|-----------|
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Total sales: | | | |
| Sales revenue | \$ 43,184 | \$ 71,818 | \$ 89,323 |
| Cost of sales | (14,256) | (30,744) | (46,410) |
| Gain on property sales | \$ 28,928 | \$ 41,074 | \$ 42,913 |

See Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K for more information regarding our sales activity.

Other Land Holdings

As of December 31, 2002, we own approximately 256,000 acres of land in the Southern California desert. The ownership of these desert properties is the result of historical land grants to our railroad predecessors. Because of its location, lack of contiguity among parcels, and other factors, much of this land is not currently suitable for traditional development activities. We have assessed the desert portfolio to explore the potential for agricultural, mineral, water, telecommunications, energy, and waste management uses for these properties and concluded that the land, although valuable, does not fit within our overall corporate strategy.

Since December 31, 1998, our portfolio of desert holdings has declined from approximately 784,000 to 256,000 acres, primarily as a result of sales activity. In 2000, we sold approximately 437,000 acres of desert holdings and 20,000 acres of severed mineral rights to the federal government, through an agreement with The Wildlands Conservancy (TWC), for \$45.1 million. In late 2001, we amended our agreement with TWC to provide for additional, future sales of up to approximately 170,000 acres of desert land for approximately \$13.6 million. We closed on the sale of approximately 94,000 acres of these lands to the federal government in 2002 at a price of \$7.5 million. We anticipate closing on approximately 62,000 acres at a price of \$5.0 million in March 2003 and on approximately 8,000 acres at a price of \$0.7 million in June 2003. The closing of these sales would conclude our current agreement with TWC.

Upon completion of TWC-related sales, we will own approximately 186,000 acres of desert land. We are currently in negotiations with the federal government regarding an option agreement that would cover the sale of up to 100,000 acres as mitigation for impacts on threatened and

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endangered species of the proposed expansion of a Department of Defense installation in the California desert. An additional 30,000 acres are contemplated for disposition through an exchange with the federal government. The remaining 56,000 acres are being marketed for sale to private parties on a portfolio and individual property basis.

We will continue to pursue sale, lease, and exchange opportunities involving public and private buyers, as well as other arrangements to maximize the value of this land. These transactions are often complicated and, therefore, may take a significant amount of time to complete. No binding agreements have been entered on any of the major dispositions of the remaining 186,000 acres and no assurance can be made that the dispositions will occur as outlined.

See Management's Discussion and Analysis of Financial Condition and Results of Operations - Gain on Non-Strategic Asset Sales of this Form 10-K for information regarding the aggregate total of non-strategic asset sales.

Sales

The following table summarizes our sales of other land holdings for the periods presented:

| | Year Ended December 31, | | |
|---------------|-------------------------|----------|-----------|
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Sales | \$ 8,373 | \$ 4,161 | \$ 50,759 |
| Cost of sales | (1,109) | (252) | (4,480) |
| Gain | \$ 7,264 | \$ 3,909 | \$ 46,279 |

Suburban Commercial Group

The Suburban Commercial Group develops suburban commercial business parks comprised of predominantly industrial buildings on land we have acquired or that is included in our historic portfolio. Our suburban commercial development activities include (1) the acquisition and entitlement of commercial land sites; (2) the construction of predominantly industrial pre-leased buildings and non-pre-leased buildings to be added to our rental portfolio, some of which may be subject to tenant purchase options; (3) the construction of predominantly industrial buildings on land we own, for sale to users; (4) the construction of predominantly industrial buildings for sale to investors; and (5) the sale of land to third parties for their own development. In certain instances, we have generated development and management fees from design-build services and construction management services.

In 2002, the Suburban Commercial Group commenced construction on 3.3 million square feet of commercial development. It completed approximately 6.1 million square feet of construction, all of which were added to our rental portfolio. As of December 31, 2002, the group had approximately 3.3 million square feet under construction, 1.9 million square feet of which is scheduled to be added to our rental portfolio upon completion, although certain of these properties may be sold.

Sales

During 2002, we sold improved land capable of supporting 3.8 million square feet of commercial development.

The following table summarizes sales of our commercial development properties in the periods presented:

| | Year Ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Sales | \$ 52,966 | \$ 75,686 | \$ 68,951 |
| Cost of sales | (42,689) | (50,896) | (52,415) |
| Gain on property sales | 10,277 | 24,790 | 16,536 |
| Equity in earnings of development joint ventures | | 9 | 13 |
| Total gain on property sales | \$ 10,277 | \$ 24,799 | \$ 16,549 |

The 2002 gain came from land sales to developers and other users in our suburban business parks.

See Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K for more information regarding our sales activity.

Suburban Commercial Developable Land Inventory

Our existing developable land can support an estimated 25.9 million square feet of new development based upon current entitlements.

In 2002, we invested approximately \$8 million in the acquisition of land capable of supporting approximately 3 million square feet of commercial development.

The following table summarizes our commercial developable land inventory activity by location as of, or for, the year ended December 31, 2002:

| Region/State/City | Potential Development | Revisions/ Transfers | Acquisitions | Ground Leases and Sales | Development | Potential Development | % of Total | Book Value |
|-------------------------------------|-----------------------|-------------------------|--------------|----------------------------|----------------|-----------------------|---------------|---------------|
| | 12/31/01 | (1) | | | | 12/31/02 | | (000 s) |
| (Square feet in thousands) | | | | | | | | |
| Southern California | | | | | | | | |
| Rancho Cucamonga | 812 | (2) | | (24) | (468) | 318 | | \$ 3,560 |
| Ontario | 2,016 | | | | | 2,016 | | 3,609 |
| Anaheim | 44 | 13 | | (13) | | 44 | | 2,810 |
| Northridge | 44 | | | (44) | | | | |
| Fontana (Kaiser) | 7,563 | (238) | | (2,933) | (1,178) | 3,214 | | 29,997 |
| Subtotal Southern California | 10,479 | (227) | | (3,014) | (1,646) | 5,592 | 21% | 39,976 |
| Northern California | | | | | | | | |
| Alameda | 1,300 | | | | | 1,300 ⁽²⁾ | | 8,458 |
| Richmond | 89 | | | | | 89 | | 833 |
| Fremont | 3,755 | (84) | | (37) | | 3,634 | | 20,921 |
| Stockton | | | 2,000 | | | 2,000 | | 2,571 |
| Manteca | 542 | 144 | | | | 686 | | 3,420 |
| Subtotal Northern California | 5,686 | 60 | 2,000 | (37) | | 7,709 | 30% | 36,203 |
| Total in California | 16,165 | (167) | 2,000 | (3,051) | (1,646) | 13,301 | 51% | 76,179 |
| Illinois | | | | | | | | |
| Woodridge | 976 | | | | | 976 | | 7,678 |
| Glenview | 680 | | | (243) | | 437 ⁽³⁾ | | (2,451) |
| Romeoville | 448 | | | | (346) | 102 | | (596) |
| Minooka | 1,710 | | 588 | | | 2,298 ⁽⁴⁾ | | 5,595 |
| Joliet | 370 | | | | | 370 | | 85 |
| Subtotal Illinois | 4,184 | | 588 | (243) | (346) | 4,183 | 16% | 10,311 |
| Texas | | | | | | | | |
| Coppell | 1,120 | | | | | 1,120 | | 12,914 |
| Garland | 983 | | | (220) | | 763 | | 2,312 |
| Grand Prairie | 814 | | | | | 814 | | 2,599 |
| Houston | 1,969 | | | | | 1,969 | | 1,254 |
| Ft. Worth | | | 356 | | (252) | 104 | | 1,425 |

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| | | | | | | | | |
|---|---------------|--------------|--------------|----------------|----------------|---------------|---------------|-------------------|
| Plano | 368 | | 35 | | | 403 | | 1,171 |
| Subtotal Texas | 5,254 | | 391 | (220) | (252) | 5,173 | 20% | 21,675 |
| Other | | | | | | | | |
| Denver, CO | 925 | | | (145) | (171) | 609 | | 23,690 |
| Westminster, CO | 685 | | | | | 685 | | 21,649 |
| Oklahoma, OK | 300 | | | | | 300 | | 46 |
| Louisville, KY | 545 | | | | | 545 | | 1,633 |
| Gresham/Portland, OR | 1,459 | | | (148) | (200) | 1,111 | | 7,554 |
| Subtotal Other | 3,914 | | | (293) | (371) | 3,250 | 13% | 54,572 |
| Total Outside of California | 13,352 | | 979 | (756) | (969) | 12,606 | 49% | 86,559 |
| Total Entitlements | 29,517 | (167) | 2,979 | (3,807) | (2,615) | 25,907 | 100.0% | 162,737 |
| Approvals in progress (included in total entitlements) | | | | | | | | |
| | 1,327 | | | | | 1,327 | | |
| Other | | | | | | | | 9,187 |
| Total | | | | | | | | \$ 171,924 |

- (1) Includes revisions to estimates of potential development or transfers of property between commercial development and other categories of property.
- (2) See summary of Alameda, California, project following this section.
- (3) Included in this balance is 425,000 square feet that is under option.
- (4) Excluded from this balance is approximately 4.8 million square feet that is under option.

The following is a brief summary of some of the significant suburban commercial development projects and development activities.

Pacific Commons, Fremont, California. Pacific Commons is one of our largest development projects and also one of the largest planned business parks in Silicon Valley. The project, which is adjacent to Interstate 880 sixteen miles north of San Jose, consists of 900 acres, of which approximately 375 acres are planned and an additional 8.3 million square feet have been designated for development. Since inception, we have developed, constructed, sold, or leased approximately 4.7 million square feet of R&D, light industrial, and warehouse properties at Pacific Commons. In 2002, we sold approximately 37,000 square feet, leaving 3.6 million square feet or 118.4 net acres available for future development.

Kaiser Commerce Center, Fontana, California. In 2000, one of our wholly owned subsidiaries acquired this former steel mill site in Fontana, California, located in the heart of one of the nation's most active distribution centers near the intersection of Interstates 15 and 10. The property is served by both Union Pacific and Burlington Northern Santa Fe railroads and is six miles from the Ontario International Airport. Plans for the development include a 9 million-square-foot industrial park. At, or as of, December 31, 2002, approximately 1.4 million square feet had been completed, 1.2 million square feet are under construction, and 2.9 million square feet had been sold, leaving approximately 3.2 million square feet, or 191.9 net acres, available for development.

Alameda, California. In 1998, we were selected by the City of Alameda, California, as the master developer for the former 145-acre U.S. Navy Fleet Industrial Supply Center, Alameda Annex, and the adjacent 70-acre portion of the former Alameda Naval Air Station. In June 2000, we were granted entitlements to develop up to 1.3 million square feet of office commercial space and approximately 500 single-family homes.

The commercial portion of the Alameda development is divided into six land purchase phases of approximately 14 acres each. Under the agreement, the City of Alameda must deliver the land with environmental remediation and demolition of existing structures completed, and the City of Alameda must build all backbone infrastructures. Until Alameda satisfies all of these obligations, Catellus is not obligated to purchase the land. Purchases are staged every two years, but can be delayed by poor market conditions like the ones we are currently experiencing. Catellus has not purchased any of the lots as of the end of 2002.

Robert Mueller Municipal Airport, Austin, Texas. In April 2002, we were selected by the City Council of Austin, Texas, as the master developer for the redevelopment of the Robert Mueller Municipal Airport in Austin. The 709-acre former airport site is located adjacent to Interstate 35 near the campus of the University of Texas and is less than three miles from the state capitol in downtown Austin. The site was decommissioned as Austin's primary passenger airport in May of 1999.

The Redevelopment and Reuse Plan for the Mueller Airport includes plans for 5 million square feet of commercial development and 4,000 residential units. Catellus is now engaged in exclusive negotiations with the city of Austin over a Development Agreement for the project.

Suburban Residential Group

The Suburban Residential Group develops large-scale suburban residential communities and sells finished lots to homebuilders. Property is either acquired directly or through a joint venture with a third party.

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From 1996 through mid-2000, the Suburban Residential Group was actively involved in the merchant housing (homebuilding) business. Because of competitive forces and the high-volume, low-margin nature of the homebuilding industry, we determined that the homebuilding business was not part of our ongoing corporate strategy. As a result, we sold a majority of our merchant housing assets in July 2000, to a newly formed joint venture. In 2001, we sold our residual interest in the joint venture that bought the merchant housing assets.

The description of the business of Suburban Residential Group below is as of December 31, 2002. *See* Recent Developments above for a discussion of the effect of the proposed REIT conversion on the business of the Suburban Residential Group.

Sales

The following table summarizes the sale of residential development property, which includes lots and housing units. The sales shown below are for properties that we own, as well as consolidated joint ventures for the periods presented:

| | Year Ended December 31, | | |
|---------------|-------------------------|-----------|------------|
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Sales | \$ 59,107 | \$ 48,507 | \$ 292,822 |
| Cost of sales | (28,862) | (30,202) | (238,930) |
| Gain | \$ 30,245 | \$ 18,305 | \$ 53,892 |

Unconsolidated Joint Venture Sales

We also participate in development joint venture projects in which we do not own a controlling interest and for which we recognize income using the equity method. For the year ending December 31, 2002, our interests in these development joint ventures provided us with cash distributions of \$80.1 million and earnings of \$29.2 million. The following table summarizes sales of our residential development property in these unconsolidated joint venture projects:

| | Year Ended December 31, | | |
|---|-------------------------|------------|------------|
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Sales | \$ 278,226 | \$ 215,402 | \$ 316,523 |
| Cost of sales | (197,178) | (184,122) | (260,975) |
| Gain | 81,048 | 31,280 | 55,548 |
| Venture partners' interest | (47,985) | (3,610) | (27,781) |
| Equity in earnings of unconsolidated joint ventures | \$ 33,063 | \$ 27,670 | \$ 27,767 |

Suburban Residential Land Inventory

The following table summarizes our residential land inventory activity as of, or for, the year ending December 31, 2002:

| | Total Lots/ | | | Lot | Transfers & Adjustments | 12/31/02 | Ownership | |
|---|--------------|--------------|--------------|----------------|-------------------------|--------------|---------------|------------------|
| | Homes | Controlled/ | Home | | | | or Controlled | Book |
| | 1/1/02 | Acquired | Closings | | | | Closings | Interest |
| (000 s) | | | | | | | | |
| Land Development (lots) | | | | | | | | |
| Colorado | | | | | | | | |
| Commerce City | | 2,149 | | | | 2,149 | 100% | \$ 10,430 |
| Northern California | | | | | | | | |
| Alameda | 492 | | | (7) | | 485 | 100% | 2,260 |
| Hercules | 415 | | | (456) | 63 | 22 | 100% | 1,997 |
| Serrano Sacramento | 2,182 | | | (940) | (52) | 1,190 | 50% | 15,619 |
| Parkway Sacramento | 1,437 | | | (822) | (77) | 538 | 50% | 11,570 |
| Southern California | | | | | | | | |
| Talega San Clemente | 2,144 | | | (772) | (146) | 1,226 | 30% | 6,896 |
| West Bluffs Playa del Rey ⁽¹⁾ | 114 | | | | | 114 | 100% | 34,973 |
| Other ⁽²⁾ | | | | | | | | 3,190 |
| Subtotal Land Development | 6,784 | 2,149 | | (2,990) | (219) | 5,724 | | 86,935 |
| Home Building (units) | | | | | | | | |
| Southern California | | | | | | | | |
| Talega Village San Clemente | 183 | | | (118) | | 65 | 50% | 3,833 |
| Subtotal Home Building Housing | 183 | | | (118) | | 65 | | 3,833 |
| Total Entitlements | 6,967 | 2,149 | (118) | (2,990) | (219) | 5,789 | | \$ 90,768 |
| Approvals in progress (included in total entitlements)⁽¹⁾ | 114 | | | | | 114 | | |

(1) We have entitlements for this project; however, the entitlements are being challenged under the California Environmental Quality Act and the California Coastal Act.

(2) Included in Other is a 5-block parcel of land, which has not been subdivided.

The following is a brief summary of our most significant residential projects:

Talega, San Clemente, California. In 1997, we acquired an approximately one-third interest (later decreased to thirty percent) in a joint venture project that owns a 3,470-acre, 4,000-lot residential land development site in the Talega Valley in San Clemente, California. This master-planned project includes a variety of attached and detached homes; an 18-hole championship golf course; a seniors community; an elementary/middle school; community parks; and an 82-acre, 1.5 million-square-foot mixed-use commercial area. The partnership closed on the sale of 772 lots during 2002 leaving 1,226 lots to be developed and sold.

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Serrano, El Dorado Hills, California. In 1998, we acquired a two-thirds interest (later decreased to 50 percent) in a 3,500-acre, 4,000-lot master-planned community in El Dorado Hills, California, which is located 30 miles east of Sacramento, California. A significant amount of infrastructure was in place and approximately 800 lots were sold or developed prior to the acquisition of our interest in the project. The project includes a variety of attached and detached homes; an 18-hole executive golf course; a private 18-hole Championship Golf Course and Country Club; elementary, intermediate, and high schools; and a retail commercial area. The partnership closed on the sale of 940 lots during 2002 leaving 1,190 lots to be developed and sold.

Victoria by the Bay, Hercules, California. In 1997, Catellus participated in a joint venture that acquired the Pacific Refinery at Hercules, California. We entered into an agreement to provide entitlement services to the joint venture; in return for an option to buy the property after defined environmental remediation work was completed. The development has received approval for up to 880 residential units, a school, commercial space,

and public parks. In 2001, we received a "no further action" letter from the Regional Water Quality Control Board (RWQCB), clearing the last significant hurdle prior to the sale of the remaining lots of this project. During 2002, the partnership closed on the sale of 456 lots leaving 22 residential lots and one commercial space to be sold.

The Parkway, Folsom, California. In June 2001, we acquired a 50% interest in the Parkway Venture, a 600-acre, master-planned community in Folsom, California, which is located 20 miles east of Sacramento, California. The development has received approvals for 1,600 units that will include a variety of single and multi-unit homes, a neighborhood retail commercial area, and wetlands. The partnership sold 822 lots during 2002 leaving approximately 538 multi-unit home lots to be developed and sold.

Alameda, California. In 1998, we were selected by the City of Alameda, California, as the master developer for the former 145-acre U.S. Navy Fleet Industrial Supply Center, Alameda Annex, and the adjacent 70-acre portion (East Housing) of the former Alameda Naval Air Station. In June of 2000, we were granted entitlements to develop up to approximately 500 single-family homes and up to 1.3 million square feet of office and research and development space on the site.

The residential development acreage will be purchased in phases commencing in the second quarter of 2003. A minimum of 75 single-family lots must be purchased annually. Under the agreement, the City of Alameda must deliver the land with environmental remediation and demolition of existing structures completed, and must build all backbone infrastructure. Under a separate agreement with the City of Alameda, we are performing these required duties for a fee.

Demolition of the East Housing structures commenced in February 2002. Construction of the first phase of backbone infrastructure improvements is planned to begin in April 2003. We anticipate the start of construction of the homes and associated site improvements in the third quarter of 2003.

Urban Group

The Urban Group focuses exclusively on three large, urban mixed-use projects that include development potential for residential, office, biotech, retail, and hotel product types.

As of December 31, 2002, we had 773,000 square feet of development under construction at Mission Bay in San Francisco, California, including a 695,000-square-foot mixed-use project, through an agreement with an unconsolidated joint venture, containing 595 residential units that comprise 568,000 square feet, and 127,000 square feet of retail/office space. In addition, we have under construction at Mission Bay a 78,000-square-foot mixed-use building containing 34 condominium units that comprise 45,000 square feet, and 33,000 square feet of office/retail space.

The description of the business of the Urban Group below is as of December 31, 2002. *See* Recent Developments above for a discussion of the effect of the proposed REIT conversion on the business of the Urban Group.

Sales

During 2002, we sold a 1.6-acre, 275-unit condominium site in San Diego, California, for \$14.5 million.

The following table summarizes our sales of property in the periods presented:

| | Year Ended December 31, | | |
|---------------|-------------------------|-----------|------|
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Sales | \$ 14,500 | \$ 49,793 | \$ |
| Cost of sales | (11,154) | (37,337) | |
| Gain | \$ 3,346 | \$ 12,456 | \$ |

Urban Land Inventory

Our existing entitled Urban Group land inventory can support an estimated 12.2 million square feet of new development, more than 3,500 residential units, and a 500-room hotel. The chart below summarizes the estimated development potential of our current Urban Group development land inventory as of December 31, 2002:

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| | Office | Retail | Residential | Hotel | Book Value |
|---|------------------------|------------------|--------------|------------|-------------------|
| | (Net Rentable Sq. Ft.) | | (Units) | (Rooms) | (000 s) |
| Mission Bay (San Francisco, California) | 4,537,000 | 548,000 | 3,263 | 500 | \$ 213,979 |
| Union Station (Los Angeles, California) | 5,175,000 | 675,000 | | | 55,344 |
| Santa Fe Depot (San Diego, California) | 1,021,000 | 270,000 | 285 | | 10,172 |
| Total | 10,733,000 | 1,493,000 | 3,548 | 500 | \$ 279,495 |

Following is a summary of our Urban Group projects:

Mission Bay, San Francisco, California. This project encompasses approximately 300 acres adjacent to downtown San Francisco. Catellus is the primary owner of developable land in the project; other owners include the City and County of San Francisco (the City), the Port of San Francisco, and the Regents of the University of California for the benefit of the University of California, San Francisco (UCSF).

In the years leading up to 1999, we obtained entitlement and redevelopment plans for Mission Bay, and in 1999, we closed land transfers among the City, the Port of San Francisco, the California State Lands Commission, UCSF, and Catellus which resulted in the ownership described above. We also received regulatory approvals from the U.S. Army Corps of Engineers and the California Regional Water Quality Control Board in 2000. Additional permits and approvals are required for the development of individual projects at Mission Bay,

including, for office projects, allocation (Proposition M Allocation) of square footage from a limited allowance of office space that the City permits to be developed at any given time.

The following table summarizes total development entitlements at Mission Bay. We retain ownership of a large portion of these entitlements, but portions of the entitlements belong to the City, a Catellus joint venture, or other third parties.

Total Mission Bay Entitlements

As of December 31, 2002

| | Completed Construction | | 100% Catellus Owned | JV/Owned by Others | Total |
|--|------------------------|---------------|---------------------------|-----------------------|------------------|
| | Catellus | Others | | | |
| Residential (units): | | | | | |
| Market Rate | | 229 | 3,110 | 961 | 4,300 |
| Affordable | | 121 | 187 | 1,392 | 1,700 |
| Total Residential | | 350 | 3,297 | 2,353 | 6,000 |
| Commercial (rentable square feet): | | | | | |
| R&D, Biotech, and Office | 283,000 | | 4,537,000 | 180,000 | 5,000,000 |
| Retail and Entertainment | | 22,000 | 581,000 | 167,000 | 770,000 |
| Total Commercial | 283,000 | 22,000 | 5,118,000 | 347,000 | 5,770,000 |
| Other: | | | | | |
| UCSF Campus (gross square feet) ⁽¹⁾ | | 434,000 | | 2,216,000 | 2,650,000 |
| Hotel (rooms) | | | 500 | | 500 |

Notes:

⁽¹⁾ Total entitlements for UCSF Campus are stated in gross square feet.

Mission Bay North, the 65-acre portion of Mission Bay north of Mission Creek, is being developed adjacent to Pacific Bell Park (home of the San Francisco Giants baseball team). The San Francisco Redevelopment Agency completed construction of a 100-unit affordable housing project in September 2002, and AvalonBay Communities, Inc., commenced phased occupancy of a 250-unit apartment project in November 2002. We are proceeding with construction of a mixed-use project directly across from Pacific Bell Park, which was started in December 2001 and includes approximately 33,000 square feet of office/retail space and 34 condominium units. The Signature/Riding Group started construction of a 100-unit condominium project in June 2002 on a 1.0-acre site, which we sold to Signature/Riding in April 2001. Third & King Investors, LLC (a joint venture between Catellus Development Corporation and Federal Street Operating, LLC) is proceeding with the construction of a mixed-use project, that broke ground in September 2001 and includes 595 apartments, 127,000 square feet of office/retail space, and approximately 945 parking stalls.

Mission Bay South, the 238-acre portion of Mission Bay south of Mission Creek, will be developed around UCSF's new 2.7 million-gross-square-foot biotech/research expansion campus. In accordance with agreements among Catellus, the Regents of the University of California, and the City, UCSF is locating its expansion campus on a portion of Mission Bay South. We donated approximately 18 acres and

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agreed to donate approximately 11 additional acres in the future for the campus, and the City has contributed or has agreed to contribute an additional 13.3 acres. Contractors selected by UCSF will build the UCSF campus. UCSF completed its first building, a 434,000-gross-square-foot research facility, in October 2002 and took occupancy of the building in January 2003. UCSF is proceeding on the construction of its second and third buildings, 172,000-gross-square-foot and 153,000-gross-square-foot biomedical research facilities, which broke ground in August 2001 and July 2002, respectively. Pile-driving activities for UCSF's fourth building, a 167,000-gross-square-foot community center, began in September 2002. In October 2002, we completed construction of a 283,000-square-foot office building, which is fully leased to Gap, Inc. In addition, construction of a 180,000-square-foot research facility by the Gladstone Institutes on a 1.37-acre site, which Catellus sold to Gladstone in March 2001, started in February 2003.

Approximately \$63 million in Community Facility District bonds was issued in 2002 to finance the initial phases of public infrastructure at Mission Bay, and approximately \$71 million of Community Facility District bonds were issued in 2001. Upon completion of the infrastructure improvements, the improvements will be transferred to the City. (See Note 15 of the accompanying notes to Consolidated Financial Statements in this Form 10-K.)

The following table summarizes commercial and residential development activities at Mission Bay. Because these activities require participation of a number of private parties and public agencies, scheduled development activities are subject to change.

Mission Bay Project

Schedule of Activity

As of December 31, 2002

| Project | Commercial Development | | | | Residential Development | | | |
|-------------------------------------|---------------------------|--------------------|----------------|------------------|-------------------------|--------------------|-------------|--------------|
| | (in rentable square feet) | | | | (in units) | | | |
| | Completed | Under Construction | In Planning | Total | Completed | Under Construction | In Planning | Total |
| Catellus 100% Owned | | | | | | | | |
| Office | 283,000 | | | 283,000 | | | | |
| Condominiums/Retail | | 33,000 | | 33,000 | | 34 | | 34 |
| Total Catellus 100% Owned | 283,000 | 33,000 | | 316,000 | | 34 | | 34 |
| Catellus Joint Venture | | | | | | | | |
| Apartments/Retail | | 127,000 | | 127,000 | | 568 | | 568 |
| Affordable Housing | | | | | | 27 | | 27 |
| Total Catellus Joint Venture | | 127,000 | | 127,000 | | 595 | | 595 |
| Development by Others | | | | | | | | |
| UCSF: | | | | | | | | |
| Biotech | 434,000 | 325,000 | | 759,000 | | | | |
| Campus Center | | 167,000 | | 167,000 | | | | |
| Total UCSF⁽¹⁾ | 434,000 | 492,000 | | 926,000 | | | | |
| Apartments/Retail | 12,000 | | 10,000 | 22,000 | 229 | | 293 | 522 |
| Condominiums | | | | | | 100 | | 100 |
| Affordable Housing/Retail | 10,000 | | | 10,000 | 121 | | 160 | 281 |
| Biotech | | | 180,000 | 180,000 | | | | |
| Total Development by Others | 456,000 | 492,000 | 190,000 | 1,138,000 | 350 | 100 | 453 | 903 |
| Total Project | 739,000 | 652,000 | 190,000 | 1,581,000 | 350 | 729 | 453 | 1,532 |

Notes:

⁽¹⁾ UCSF development activity square footage amounts reflect gross square feet.

Union Station, Los Angeles, California. We own approximately 43 acres surrounding and including the historic Los Angeles Union Station. Located in downtown Los Angeles, Union Station is a transportation hub with commuter rail lines (Metrolink) serving the surrounding five-county region, Amtrak rail service, and Los Angeles' subway and surface light rail systems operated by the Metropolitan Transportation Authority. In 1999, we completed a development plan intended to maximize the potential of the site given current and projected market conditions.

Santa Fe Depot, San Diego, California. This project encompasses approximately 15 acres near the waterfront in downtown San Diego, California, including the Santa Fe Depot train station. Amtrak, a commuter rail line (Coaster), and San Diego's expanding trolley system serve the site daily. In accordance with a Development Agreement executed with the City of San Diego, the site is currently entitled for a mixture of office, hotel, retail, and housing development. During 1999 we revised the plan to respond better to recovering markets in San Diego. In addition to two development sites (each 1.4 acres in size) that were sold in 2001, a 1.6-acre, 275-unit condominium site was sold in November 2002 for \$14.5 million.

Other Items

Environmental Matters

For information about environmental matters, *see* Management's Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K.

Competition

The real estate industry is generally fragmented and characterized by significant competition. Numerous developers, owners of industrial, office, and retail properties, and managers compete with us in seeking properties for acquisition, development, and management opportunities, tenants, and purchasers for homes, and for non-strategic assets. There are competitors in each area in which we operate that have greater capital resources than we. There can be no assurance that the existence of such competition will not have a material adverse effect on our business, operations, and cash flow.

Employees, Contractors, and Consultants

At December 31, 2002, we had 296 employees in our consolidated company. We engage third parties to manage multi-tenant properties and properties in locations that are not in close proximity to our regional or field offices. The Company's employees are not represented by a collective bargaining agreement, and management considers its relations with employees to be good. In addition, we engage outside consultants such as architects and design firms in connection with our pre-development activities. We also employ third-party contractors on development projects for infrastructure and building construction, and retain consultants to assist us in a variety of areas at the project and corporate levels.

Working with organized labor is a critical component of many of our projects. With the high volume of construction activity in many of our markets, labor shortages and costs could significantly influence the success of projects. In addition, organized labor often plays a key role in community organizations and discretionary land use decisions concerning entitlements.

Segments

For information about the Company's reportable segments, *see* Note 13 to the Notes to Consolidated Financial Statements attached to this Form 10-K.

Item 2. Properties

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Our real estate projects are generally described in Item 1 above, which descriptions are incorporated in this Item by reference. Our principal executive office is located in San Francisco, California, and we have regional or field offices in eleven other locations in the United States. We believe that our property and equipment are generally well maintained, in good condition, and adequate for our present needs.

Item 3. Legal Proceedings

On March 12, 2002, the Department of Toxic Substances Control of the State of California (DTSC) notified the Company of an investigation of the Company, its general contractors, and subcontractors working for such general contractors, concerning the Mission Bay project. The investigation, which is ongoing, focuses on whether individuals and companies hauling soil within and from Mission Bay satisfied certain hazardous waste license/certification hauling requirements. The DTSC issued notices of violation, without fines or penalties, to the Company and one subcontractor on May 23, 2002, citing the subcontractor's failure to qualify as a registered hazardous waste hauler. The Company, including its subsidiaries, is cooperating fully with the investigation, which is still continuing. The Company does not anticipate that this investigation or any proceeding that may result from this investigation will have a material adverse impact on the Mission Bay project.

The Company owns approximately 47 acres located in the Westchester-Playa Del Rey area of Los Angeles, California, adjacent to the Pacific Ocean and Ballona Wetlands (West Bluffs), which are entitled for the development of 114 single-family homes but subject to two legal actions. On October 6, 2000, a lawsuit (the Coastal Act Lawsuit) was filed by the Sierra Club et al. against the California Coastal Commission and the Company as a real party in interest in San Francisco Superior Court challenging approvals issued by the California Coastal Commission for the development of the project. This suit was subsequently consolidated with an additional suit filed on February 9, 2001. On December 13, 2000, the trial court denied petitioner's request for a preliminary injunction. On January 11, 2001, petitioners appealed the trial court's ruling, which resulted in the Court of Appeal enjoining any construction activity in the portion of the project within the coastal zone. This stay was dissolved on October 10, 2001, when the case was remanded to the trial court. On June 7, 2002, the trial court ruled in favor of the Company on the merits denying the petitioner's request for writ of mandate and for injunction. The petitioners subsequently filed a motion to stay construction in the coastal zone pending petitioner's filing of an appeal of the trial court's decision, which was granted on August 13, 2002. The petitioners filed an appeal and have obtained a stay from the Court of Appeal pending resolution of the appeal. The appeal is fully briefed and a hearing is scheduled for March 26, 2003.

On October 26, 2000, the Coalition for Concerned Communities, Inc. et al. (Appellants) filed a lawsuit (CEQA Lawsuit) against the Company and The City of Los Angeles in the Los Angeles Superior Court alleging land use and California Environmental Quality Act violations. On January 18, 2001, the Los Angeles Superior Court denied Appellant's petition. On March 23, 2001, Appellants filed a notice of appeal in the Second District Court of Appeal. On July 15, 2002, the petitioners filed a motion in the Second District Court of Appeal to stop the development of the West Bluffs project until the final decision, which was denied by the Court on July 30, 2002. The Second District Court of Appeal held the hearing on the merits on September 17, 2002. The Second District Court of Appeal recently decided to postpone rendering its decision until the Court of Appeal in San Francisco rendered its decision regarding challenges to the approvals for development issued by the California Coastal Commission. A decision may be rendered by the Second District Court of Appeal in late 2003 or early 2004.

The litigation process will delay the previously planned start of infrastructure construction, and the Company is unable to predict the length of such delay at this time. The Company does not believe that the litigation process will permanently prevent the Company from completing the West Bluffs project; however, there can be no assurance in that regard or that further delays will not result.

See Note 15, Commitments and Contingencies of the accompanying Consolidated Financial Statements.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the quarter ended December 31, 2002.

PART II
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common stock commenced trading on December 5, 1990, and is listed on the New York Stock Exchange, the Pacific Exchange, and the Chicago Stock Exchange under the symbol "CDX". The following table sets forth for the periods indicated the high and low sale prices of the Company's common stock as reported by Bloomberg Financial Markets:

| | Common Stock | |
|------------------------------|--------------|----------|
| | Price | |
| | High | Low |
| Year ended December 31, 2001 | | |
| First Quarter | \$ 18.17 | \$ 15.63 |
| Second Quarter | \$ 18.35 | \$ 16.00 |
| Third Quarter | \$ 18.80 | \$ 16.11 |
| Fourth Quarter | \$ 18.50 | \$ 16.73 |
| Year ended December 31, 2002 | | |
| First Quarter | \$ 19.67 | \$ 18.02 |
| Second Quarter | \$ 21.10 | \$ 19.67 |
| Third Quarter | \$ 20.79 | \$ 17.12 |
| Fourth Quarter | \$ 19.85 | \$ 16.85 |

The Company has never declared or paid any cash dividends on its common stock. If the REIT conversion is approved at the annual meeting of shareholders, we expect to commence the payment of dividends beginning the third quarter of 2003. *See* Item. 1 Business, Recent Developments.

On March 10, 2003, there were approximately 21,242 holders of record of the Company's common stock.

Item 6. Selected Financial Data

The following income statement and selected balance sheet data with respect to each of the years in the five-year period ended December 31, 2002, have been derived from our annual Consolidated Financial Statements. The operating data have been derived from our underlying financial and management records and are unaudited. This information should be read in conjunction with the Consolidated Financial Statements and related Notes. See Management's Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K for a discussion of results of operations for 2002, 2001, and 2000.

| | Year Ended December 31, | | | | |
|---|---------------------------------------|------------------|------------------|------------------|------------------|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| | (In thousands, except per share data) | | | | |
| Statement of Operations Data: | | | | | |
| Revenues | | | | | |
| Rental revenue | \$ 266,951 | \$ 232,106 | \$ 203,691 | \$ 169,286 | \$ 146,011 |
| Sales revenue | 139,604 | 245,804 | 451,096 | 347,005 | 206,441 |
| Management, development and other fees | 7,088 | 6,000 | 15,460 | 14,968 | 16,792 |
| | <u>413,643</u> | <u>483,910</u> | <u>670,247</u> | <u>531,259</u> | <u>369,244</u> |
| Costs and expenses | | | | | |
| Property operating costs | (71,559) | (61,704) | (54,468) | (46,054) | (41,071) |
| Cost of sales | (89,661) | (149,698) | (337,755) | (259,157) | (154,903) |
| Selling, general and administrative expenses | (25,990) | (26,570) | (45,801) | (31,727) | (22,232) |
| Corporate administrative costs | (17,705) | (19,256) | (15,675) | (14,760) | (15,303) |
| Depreciation and amortization | (63,149) | (51,891) | (45,939) | (38,639) | (33,464) |
| | <u>(268,064)</u> | <u>(309,119)</u> | <u>(499,638)</u> | <u>(390,337)</u> | <u>(266,973)</u> |
| Operating Income | <u>145,579</u> | <u>174,791</u> | <u>170,609</u> | <u>140,922</u> | <u>102,271</u> |
| Other income | | | | | |
| Equity in earnings of operating joint ventures, net | 8,277 | 8,833 | 9,809 | 10,668 | 9,368 |
| Equity in earnings of development joint ventures, net | 29,232 | 25,978 | 27,780 | 10,152 | 6,627 |
| Gain on non-strategic asset sales | 7,264 | 3,909 | 46,279 | 6,803 | 18,929 |
| Interest income | 9,871 | 23,608 | 11,203 | 5,087 | 1,200 |
| Other | 9,196 | 5,740 | 235 | 329 | 2,158 |
| | <u>63,840</u> | <u>68,068</u> | <u>95,306</u> | <u>33,039</u> | <u>38,282</u> |
| Other expenses | | | | | |
| Interest expense | (60,188) | (56,753) | (49,975) | (38,246) | (36,109) |
| Other | (2,023) | (17,477) | (19,849) | (15,164) | (4,204) |
| | <u>(62,211)</u> | <u>(74,230)</u> | <u>(69,824)</u> | <u>(53,410)</u> | <u>(40,313)</u> |
| Income before minority interests, income taxes, discontinued operations, and extraordinary items. | <u>147,208</u> | <u>168,629</u> | <u>196,091</u> | <u>120,551</u> | <u>100,240</u> |
| Minority interests | (6,106) | (6,142) | (10,701) | (3,247) | (674) |
| Income before income taxes, discontinued operations, and extraordinary items | <u>141,102</u> | <u>162,487</u> | <u>185,390</u> | <u>117,304</u> | <u>99,566</u> |
| Income tax expense | | | | | |

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| | | | | | |
|--|-------------------|------------------|-------------------|------------------|------------------|
| Current | (32,567) | (16,367) | (12,254) | (17,097) | (11,739) |
| Deferred | (21,385) | (49,499) | (62,556) | (30,351) | (28,366) |
| | <u>(53,952)</u> | <u>(65,866)</u> | <u>(74,810)</u> | <u>(47,448)</u> | <u>(40,105)</u> |
| Income from continuing operations | 87,150 | 96,621 | 110,580 | 69,856 | 59,461 |
| Discontinued operations, net of tax | | | | | |
| Gain from disposal of discontinued operations | 13,748 | | | | |
| Loss (gain) from discontinued operations | (242) | (100) | 427 | 364 | 442 |
| Gain (loss) from discontinued operations | <u>13,506</u> | <u>(100)</u> | <u>427</u> | <u>364</u> | <u>442</u> |
| Income before extraordinary items | 100,656 | 96,521 | 111,007 | 70,220 | 59,903 |
| Extraordinary items | | | | 26,652 | (25,165) |
| Net income | <u>\$ 100,656</u> | <u>\$ 96,521</u> | <u>\$ 111,007</u> | <u>\$ 96,872</u> | <u>\$ 34,738</u> |
| Net income per share assuming dilution: | | | | | |
| Income from continuing operations | \$ 0.97 | \$ 0.94 | \$ 1.02 | \$ 0.64 | \$ 0.55 |
| Income from discontinued operations | 0.16 | | | | |
| Before extraordinary items | <u>1.13</u> | <u>0.94</u> | <u>1.02</u> | <u>0.64</u> | <u>0.55</u> |
| Extraordinary items | | | | 0.25 | (0.23) |
| Net income per share after extraordinary items assuming dilution | <u>\$ 1.13</u> | <u>\$ 0.94</u> | <u>\$ 1.02</u> | <u>\$ 0.89</u> | <u>\$ 0.32</u> |
| Average number of common shares outstanding assuming dilution | <u>89,463</u> | <u>102,685</u> | <u>109,017</u> | <u>109,146</u> | <u>109,420</u> |

Year Ended December 31,

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|--------------|--------------|--------------|--------------|--------------|
| (In thousands, except percentages) | | | | | |
| Balance Sheet Data: | | | | | |
| Total properties, net | \$ 2,048,158 | \$ 1,921,951 | \$ 1,705,538 | \$ 1,649,171 | \$ 1,402,496 |
| Total assets | \$ 2,695,449 | \$ 2,415,515 | \$ 2,274,416 | \$ 1,853,106 | \$ 1,623,719 |
| Mortgage and other debt | \$ 1,500,955 | \$ 1,310,457 | \$ 1,134,563 | \$ 875,564 | \$ 873,207 |
| Total stockholders' equity | \$ 545,969 | \$ 435,257 | \$ 683,245 | \$ 590,972 | \$ 490,229 |
| Cash Flow Data: | | | | | |
| Net cash provided by operating activities | \$ 187,146 | \$ 341,764 | \$ 296,013 | \$ 183,864 | \$ 120,706 |
| Net cash used in investing activities | \$ (333,285) | \$ (267,553) | \$ (224,161) | \$ (238,388) | \$ (275,342) |
| Net cash provided by (used in) financing activities | \$ 198,371 | \$ (188,074) | \$ 229,296 | \$ 36,959 | \$ 190,317 |
| Other Operating Data: | | | | | |
| EBDDT ⁽¹⁾ | \$ 178,599 | \$ 183,141 | \$ 159,270 | \$ 128,628 | \$ 103,394 |
| Buildings owned (square feet) | 36,976 | 30,900 | 28,756 | 24,743 | 19,657 |
| Leased percentage | 94.5% | 94.4% | 95.7% | 93.6% | 94.9% |
| Debt to total market capitalization ⁽²⁾ | 46.5% | 45.1% | 37.9% | 38.9% | 36.4% |
| Capital investments ⁽³⁾ | \$ 391,411 | \$ 448,676 | \$ 450,040 | \$ 540,024 | \$ 459,783 |
| Other Data: | | | | | |
| Total market capitalization ⁽⁴⁾ | \$ 3,231,000 | \$ 2,903,000 | \$ 2,991,000 | \$ 2,249,000 | \$ 2,402,000 |

(1) We have historically used a supplemental performance measure called Earnings Before Depreciation and Deferred Taxes (EBDDT), along with net income, to report our 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. EBDDT provides relevant information about our operations and is useful, along with net income, for an understanding of our 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.

Commencing with the first quarter of 2002, we no longer use EBDDT as a supplemental earnings measure; however, for comparative purposes, we continue to provide EBDDT data in 2002.

(2) Represents the ratio of total debt to equity market capitalization (based on the number of common shares outstanding at the end of the period indicated multiplied by the closing stock price for each respective period) plus total debt.

(3) Represents expenditures for commercial and residential development for projects to be developed and sold or held for rental. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Cash Flows From Investing Activities in this Form 10-K.

(4) Represents the number of common shares outstanding multiplied by the closing stock price at the end of the period indicated plus mortgage and other debt.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company:

Catellus Development Corporation is a publicly traded real estate operating company with a significant portfolio of rental properties and developable land. Catellus specializes in developing, managing, and investing in a broad range of product types including industrial, office, residential, retail, and major urban development projects. It owns a portfolio of rental properties totaling 37.0 million square feet and one of the largest supplies of developable land in the western United States, capable of supporting more than 38 million square feet of new commercial development and an estimated 9,300 residential lots and units.

On March 3, 2003, we announced that our Board of Directors (Board) has authorized us to restructure our business operations in order to qualify as a real estate investment trust (REIT), effective January 1, 2004. The REIT conversion is subject to a shareholder approval process, which is expected to conclude in the third quarter of 2003, as well as final Board approval. This announcement has no material effect on the financial statements as of, or for, the year ended December 31, 2002; however, it will likely have an impact on future operating results in the following areas, if approved by the shareholder vote:

- A one-time distribution of pre-REIT earnings and profits, currently projected to be approximately \$100 million in cash and \$200 million in common stock, will be declared in the fourth quarter and be paid in the first quarter of 2004, this distribution is subject to approval by the Internal Revenue Service.
- Commencing as of the third quarter of 2003, a quarterly dividend of approximately \$0.30 per existing share of common stock will be paid.
- Conversion and related restructure costs are currently estimated to be \$15 million.
- Certain deferred tax liabilities associated with assets in the REIT would be reversed through income and result in a one-time increase in income currently estimated in the \$200 to \$250 million range.

We will soon file a preliminary proxy statement/prospectus with the Securities and Exchange Commission that will provide important information, including detailed risk factors, regarding the proposed transaction.

General

Our reportable segments are based on our method of internal reporting, which disaggregates our business by type and before the adjustments for discontinued operations. We have five reportable segments: Asset Management; Suburban, which includes two reportable segments, Commercial and Residential; Urban; and Corporate.

Business Segment Descriptions:

Asset Management:

The Asset Management segment consists of the rental activities of our assets, our share of income from operating joint ventures, and activity related to our desert portfolio. Growth in this segment is attributed primarily to the transfer of property developed by the Suburban Commercial and Urban segments that we intend to hold and operate. Revenue consists of rental property operations and gains from the sale of rental properties (*see* Note 17 of the accompanying Consolidated Financial Statements for a discussion of discontinued operations).

| | Year Ended December 31, | | | Difference 2002/2001 | Difference 2001/2000 |
|----------------------------------|--|--------|--------|-------------------------|-------------------------|
| | 2002 | 2001 | 2000 | | |
| Rental building occupancy | (In thousands of square feet, except percentages) | | | | |
| Owned ⁽¹⁾ | 36,976 | 30,900 | 28,756 | 6,076 | 2,144 |
| Occupied ⁽¹⁾ | 34,957 | 29,183 | 27,512 | 5,774 | 1,671 |
| Occupancy percentage | 94.5% | 94.4% | 95.7% | 0.1% | (1.3%) |

⁽¹⁾ New buildings are added to our rental portfolio at the earlier of twelve months after completion of the shell, or commencement of rent on 50% of the space. Space is considered Occupied upon commencement of rent.

The table below provides the rental portfolio rental revenue less property operating costs for the year ended December 31, 2002, and square feet by state at December 31, 2002:

Rental Revenue less Property Operating Costs by State

| | Industrial | | Office | | Retail | | Total | |
|--|---|------------|---|------------|---|------------|---|------------|
| | Rental Revenue less Property Operating Expenses | % of Total | Rental Revenue less Property Operating Expenses | % of Total | Rental Revenue less Property Operating Expenses | % of Total | Rental Revenue less Property Operating Expenses | % of Total |
| (In thousands, except percentages) | | | | | | | | |
| Southern California | \$ 51,468 | 25.2% | \$ 4,977 | 2.5% | \$ 2,851 | 1.3% | \$ 59,296 | 29.0% |
| Northern California | 27,635 | 13.5% | 11,301 | 5.5% | 6,198 | 3.0% | 45,134 | 22.0% |
| Illinois | 18,926 | 9.3% | 6,510 | 3.2% | | | 25,436 | 12.5% |
| Texas | 9,123 | 4.5% | 5,816 | 2.8% | | | 14,939 | 7.3% |
| Colorado | 7,505 | 3.7% | 2,626 | 1.3% | 996 | 0.5% | 11,127 | 5.5% |
| Maryland | 3,106 | 1.5% | | | | | 3,106 | 1.5% |
| Oregon | 2,369 | 1.1% | 420 | 0.2% | 318 | 0.2% | 3,107 | 1.5% |
| Arizona | 2,141 | 1.0% | | | 362 | 0.2% | 2,503 | 1.2% |
| Ohio | 2,393 | 1.2% | | | | | 2,393 | 1.2% |
| Kentucky | 972 | 0.5% | | | | | 972 | 0.5% |
| Oklahoma | 110 | 0.1% | | | | | 110 | 0.1% |
| Kansas | (4) | | | | | | (4) | |
| Subtotal | \$ 125,744 | 61.6% | \$ 31,650 | 15.5% | \$ 10,725 | 5.2% | 168,119 | 82.3% |
| Ground Leases | | | | | | | 21,271 | 10.4% |
| Other Properties | | | | | | | 6,488 | 3.2% |
| | | | | | | | 195,878 | |
| Equity in Earnings of Operating Joint Ventures | | | | | | | 8,277 | 4.1% |
| Total ⁽¹⁾ | | | | | | | \$ 204,155 | 100% |

(1) Includes discontinued operations

Square Feet by State

| | Industrial | | Office | | Retail | | Total | |
|------------------------------------|-------------|------------|-------------|------------|-------------|------------|-------------|------------|
| | Square Feet | % of Total | Square Feet | % of Total | Square Feet | % of Total | Square Feet | % of Total |
| (In thousands, except percentages) | | | | | | | | |

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| | | | | | | | | |
|---------------------|---------------|--------------|--------------|-------------|------------|-------------|---------------|-------------|
| Southern California | 12,200 | 33.0% | 574 | 1.5% | 176 | 0.5% | 12,950 | 35.0% |
| Northern California | 5,773 | 15.6% | 808 | 2.2% | 481 | 1.3% | 7,062 | 19.1% |
| Illinois | 5,921 | 16.0% | 584 | 1.6% | | | 6,505 | 17.6% |
| Texas | 3,264 | 8.8% | 868 | 2.4% | | | 4,132 | 11.2% |
| Colorado | 2,033 | 5.6% | 273 | 0.7% | 100 | 0.2% | 2,406 | 6.5% |
| Arizona | 1,123 | 3.0% | | | 74 | 0.2% | 1,197 | 3.2% |
| Ohio | 966 | 2.6% | | | | | 966 | 2.6% |
| Kentucky | 549 | 1.5% | | | | | 549 | 1.5% |
| Oregon | 449 | 1.2% | 57 | 0.2% | 37 | 0.1% | 543 | 1.5% |
| Maryland | 471 | 1.3% | | | | | 471 | 1.3% |
| Oklahoma | 125 | 0.3% | | | | | 125 | 0.3% |
| Kansas | 70 | 0.2% | | | | | 70 | 0.2% |
| Total | 32,944 | 89.0% | 3,164 | 8.6% | 868 | 2.3% | 36,976 | 100% |

Suburban Commercial:

The Suburban Commercial segment acquires and develops suburban commercial business parks for our own account and the account of others. Net income consists primarily of sales gains from development properties sold and construction management, developer, and loan guarantee fees.

The table below provides the development potential, by square feet, of our Suburban Commercial land portfolio:

| <u>Project Name</u> | <u>City</u> | <u>December 31, 2002</u> |
|------------------------------------|------------------|---------------------------------------|
| | | <u>Square feet (In thousands)</u> |
| <u>Southern California</u> | | |
| Kaiser Commerce Center | Fontana | 3,214 |
| Crossroads Business Park | Ontario | 2,016 |
| Rancho Pacific Distribution Centre | Rancho Cucamonga | 318 |
| Pacific Center | Anaheim | 44 |
| Subtotal Southern Calif. | | <u>5,592</u> |
| <u>Northern California</u> | | |
| Pacific Commons | Fremont | 3,634 |
| Duck Creek | Stockton | 2,000 |
| Alameda FISC (controlled) | Alameda | 1,300 ⁽¹⁾ |
| Spreckels Business Park | Manteca | 686 |
| Regatta Business Park | Richmond | 89 |
| Subtotal Northern Calif. | | <u>7,709</u> |
| Total California | | <u>13,301</u> |
| <u>Illinois</u> | | |
| Minooka | Minooka | 2,298 ⁽²⁾ |
| Internationale Centre | Woodridge | 976 |
| Prairie Glen Corporate Campus | Glenview | 437 ⁽³⁾ |
| Joliet | Joliet | 370 |
| International Centre West | Romeoville | 102 |
| Subtotal Illinois | | <u>4,183</u> |
| <u>Texas</u> | | |
| Hobby Business Park | Houston | 1,969 |
| Gateway Corporate Center | Coppell | 1,120 |
| Stellar Way Business Park | Grand Prairie | 814 |
| Gateway East Business Park | Garland | 763 |
| Plano | Plano | 403 |
| Ft. Worth | Ft. Worth | 104 |
| Subtotal Texas | | <u>5,173</u> |

| Other | | |
|--|----------------------|---------------|
| South Shore Corp. Park | Gresham/Portland, OR | 1,111 |
| Circle Point Corporate Center | Westminster, CO | 685 |
| Stapleton Business Park | Denver, CO | 609 |
| Cedar Grove Business Park | Louisville, KY | 545 |
| Santa Fe Industrial Center | Oklahoma, OK | 300 |
| Subtotal Other | | 3,250 |
| Total Outside California | | 12,606 |
| Total Suburban Commercial Inventory | | 25,907 |

- (1) See summary of Alameda, California project under Item 1. Business, Suburban Commercial Group.
- (2) Excluded from this balance is approximately 4.8 million square feet that is under option.
- (3) Included in this balance is 425,000 square feet that is under option.

Suburban Residential:

The Suburban Residential segment acquires and develops land primarily for single-family residential property, via direct investment or through joint ventures, and sells finished lots to homebuilders. This segment also owns an interest in a joint venture that develops senior housing.

The table below provides the development potential, by lots/homes, of our Suburban Residential land portfolio:

| | <u>Ownership Interest</u> | <u>Lots/Units at December 31, 2002</u> |
|---|-------------------------------|--|
| Colorado | | |
| Vista Range, Commerce City | 100% | 2,149 |
| Northern California | | |
| Alameda (controlled) | 100% | 485 |
| Hercules | 100% | 22 |
| Serrano, Sacramento | 50% | 1,190 |
| Parkway, Sacramento (multi-family) | 50% | 538 |
| | | <u>2,235</u> |
| Southern California | | |
| Talega Seniors, San Clemente | 50% | 65 |
| Talega, San Clemente | 30% | 1,226 |
| West Bluffs, Playa del Rey ⁽¹⁾ | 100% | 114 |
| | | <u>1,405</u> |
| Total | | <u><u>5,789</u></u> |

⁽¹⁾ We have entitlements for this project; however, the entitlements are being challenged under the California Environmental Quality Act and the California Coastal Act (*see* Legal Proceedings section).

Urban:

The Urban 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.

The table below provides the development potential of our Urban land portfolio:

| R&D, Biotech & | CBD Office | Retail/ Entertainment | Residential | Hotel |
|-------------------|------------|--------------------------|-------------|-------|
|-------------------|------------|--------------------------|-------------|-------|

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| | Office | | | | |
|-------------------------|----------------------------|------------------|------------------|--------------|------------|
| | (Net rentable square feet) | | (units) | (rooms) | |
| Mission Bay (SF, CA) | 4,537,000 | | 548,000 | 3,263 | 500 |
| Union Station (LA, CA) | | 5,175,000 | 675,000 | | |
| Santa Fe Depot (SD, CA) | | 1,021,000 | 270,000 | 285 | |
| Total | 4,537,000 | 6,196,000 | 1,493,000 | 3,548 | 500 |

Corporate:

Corporate consists primarily of administrative costs and interest contra-expense. Corporate interest (contra-expense) represents required capitalized interest on qualifying assets in the Suburban and Urban segments in excess of interest directly incurred by these segments. As these qualifying assets are sold, the corresponding capitalized interest is reflected as cost of sales in the Corporate segment or, for those assets transferred to Asset Management, as the assets are placed in service, the corresponding interest capitalized is added to the cost basis of the asset and depreciated over the life of the building.

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, impairment of real estate assets, capitalization of costs, allowances for doubtful accounts, environmental and legal reserves, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies reflect our more significant judgments and estimates used in the preparation of the consolidated financial statements.

Revenue recognition

Our revenue is primarily derived from two sources: rental revenue from our rental portfolio and property sales.

Rental revenue is recognized when due from tenants. Revenue from leases with rent concessions or fixed escalations is recognized on a straight-line basis over the initial term of the related lease. The financial terms of leases are contractually defined. Rental revenue is not accrued when a tenant vacates the premises and ceases to make rent payments or files for bankruptcy.

Revenue from sales of properties is recognized using the accrual method. If a sale does not qualify for the accrual method of recognition, other deferral methods are used as appropriate including the percentage-of-completion method. In certain cases, we retain the right to repurchase property from the buyer at a specified price. These sales are not recognized until our right to repurchase expires. In other instances, when we receive an inadequate cash down payment and take a promissory note for the balance of the sale price, sale is deferred until such time as sufficient cash is received to meet minimum down payment requirements. Also, in general, specific identification and relative sales value methods are used to determine the cost of sales. A change in circumstances that causes the estimate of future costs to increase or decrease significantly would affect the gain or loss recognized on future sales.

Impairment of real estate assets

We assess the impairment of a real estate asset when events or changes in circumstances indicate that the net book value may not be recoverable. Indicators we consider important which could trigger an impairment review include the following:

- significant negative industry or economic trend;
- a significant underperformance relative to historical or projected future operating results;

- a significant change in the manner in which an asset is used; and
- an accumulation of costs significantly in excess of the amount originally expected to construct an asset.

Real estate is stated at the lower of cost or estimated fair value using the methodology described as follows: (a) for operating properties and properties held for investment, a write-down to estimated fair value is recognized when a property's estimated undiscounted future cash flow is less than its net book value; and (b) for properties held for sale, a write-down to estimated fair value is recorded when we determine that the net book value exceeds the estimated selling price less cost to sell. These evaluations are made on a property-by-property basis. When

we determine that the net book value of an asset may not be recoverable based upon the estimated undiscounted cash flow, we measure any impairment write-down based on a projected discounted cash flow method using an estimated market discount rate. When performing impairment review, we consider capitalized interest and other expenses as costs of development in costs projections; value from comparable property sales will also be considered. The evaluation of future cash flows, discount rates, and fair value of individual properties requires significant judgment and assumptions, including estimates of market value, lease terms, development absorption, development costs, lease up costs, and financings. Significant adverse changes in circumstances affecting these judgments and assumptions in future periods could cause a significant impairment adjustment to be recorded.

Capitalization of costs

We capitalize direct construction and development costs, including predevelopment costs, property taxes, insurance, and certain indirect project costs, including a portion of our general and administrative costs that are associated with the acquisition, development, or construction of a project. Interest is capitalized in accordance with FAS 34. Costs previously capitalized related to any abandoned development opportunities are written off, if we determine such costs will not provide any future benefits. Should development activity decrease, a portion of interest, property taxes, insurance, and certain general and administrative costs would no longer be eligible for capitalization and would be expensed as incurred.

Allowance for doubtful accounts

We make estimates with respect to the collectability of our receivables and provide for doubtful accounts based on several factors, including our estimate of collectability and the age of the outstanding balances. Our estimate of collectability is based on our contacts with the debtors, collection agencies, our knowledge of the debtors' credit and financial condition, debtors' payment terms, and current economic trends. If a debtor becomes insolvent or files for bankruptcy, we provide an allowance for the entire outstanding amount of the debtors' receivable. Significant judgments and estimates must be made and used in connection with establishing allowances in any accounting period. Material differences may result in the amount and timing of our allowances for any period if adverse general economic conditions cause widespread financial difficulties among our tenants.

Environmental and legal reserves

We incur ongoing environmental remediation costs, including cleanup costs, consulting fees for environmental studies and investigations, monitoring costs, and legal costs relating to cleanup, litigation defense, and the pursuit of responsible third parties. We maintain a reserve for estimated costs of environmental remediation to be incurred in connection with operating properties and properties previously sold; these reserves, when established, are expensed. Costs relating to undeveloped land are capitalized as part of development costs, and costs incurred for properties to be sold are deferred and charged to cost of sales when the properties are sold; these costs are anticipated to be incurred over a period of twenty years. Our estimates are developed based on reviews that took place over many years based upon then-prevailing law and identified site conditions. Because of the breadth of our portfolio, and past sales, we are 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. Should a previously undetected, substantial environmental hazard be found on our properties, significant liquidity could be consumed by the resulting cleanup requirements, and a material expense may be recorded.

We are a party to a number of legal actions arising in the ordinary course of business. We cannot predict with certainty the final outcome of the proceedings. Where appropriate, we have established reserves for potential liabilities related to legal actions or threatened legal actions. Environmental and legal reserves are established based on estimates and probabilities of the occurrence of events and therefore are subject to revision from time to time. Should the circumstances affecting these estimates change significantly, a material expense would be recognized.

Income taxes

As part of the process of preparing our consolidated financial statements, significant management judgment is required to estimate our income taxes. Our estimates are based on interpretation of tax laws. We estimate our actual current tax due and assess temporary differences resulting from differing treatment of items for tax and accounting purposes. The temporary differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. Adjustments may be required by a change in assessment of our deferred tax assets and liabilities, changes due to audit adjustments by Federal and State tax authorities, and changes in tax laws. To the extent adjustments are required in any given period we would include the adjustments within the tax provision in the statement of operations and/or balance sheet. Any applicable interest charges would be recorded as an expense. These adjustments could materially impact our statement of operations and liquidity.

Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and related Notes appearing elsewhere in this Form 10-K. This discussion and analysis covers our five business segments: Asset Management; Suburban, which includes a Commercial and Residential division; Urban; and Corporate.

In addition to net income, we have historically analyzed and discussed our financial condition and results of operations, before the adjustments for discontinued operations, based on a supplemental performance measure, Earnings Before Depreciation and Deferred Taxes (EBDDT). Commencing with the first quarter of 2002, we no longer use EBDDT as a supplemental earnings measure; however, for comparative purposes, we continue to provide EBDDT data in 2002. For comparative purposes only, a reconciliation between net income and EBDDT is provided for the years ended December 31, 2002, 2001, and 2000.

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Below is a summary of Net income by segment and EBDĐT for the Year Ended December 31, 2002:

| | Asset Management | Suburban | | | Corporate | Total ⁽²⁾ |
|---|---------------------|-----------------|------------------|-------------------|-------------------|----------------------|
| | | Commercial | Residential | Urban | | |
| (In thousands) | | | | | | |
| Revenue | | | | | | |
| Rental revenue | \$ 267,807 | \$ | \$ | \$ | \$ | \$ 267,807 |
| Sales revenue | 43,184 | 52,966 | 59,107 | 14,500 | | 169,757 |
| Management, development and other fees | 42 | 2,973 | 1,516 | 2,557 | | 7,088 |
| | <u>311,033</u> | <u>55,939</u> | <u>60,623</u> | <u>17,057</u> | | <u>444,652</u> |
| Costs and expenses | | | | | | |
| Property operating costs | (71,929) | | | | | (71,929) |
| Cost of sales | (14,256) | (42,689) | (28,862) | (11,154) | (601) | (97,562) |
| Selling, general and administrative expenses | (1,185) | (9,576) | (8,316) | (6,913) | | (25,990) |
| Corporate administrative costs | | | | | (17,705) | (17,705) |
| Depreciation and amortization | (59,170) | (673) | (182) | (1,065) | (2,349) | (63,439) |
| | <u>(146,540)</u> | <u>(52,938)</u> | <u>(37,360)</u> | <u>(19,132)</u> | <u>(20,655)</u> | <u>(276,625)</u> |
| Operating Income | <u>164,493</u> | <u>3,001</u> | <u>23,263</u> | <u>(2,075)</u> | <u>(20,655)</u> | <u>168,027</u> |
| Other income | | | | | | |
| Equity in earnings of operating joint ventures, net | 8,277 | | | | | 8,277 |
| Equity in earnings of development joint ventures, net | | | 33,063 | | (3,831) | 29,232 |
| Gain on non-strategic asset sales | 7,264 | | | | | 7,264 |
| Interest income | 2,498 | 980 | 5,941 | 10 | 442 | 9,871 |
| Other | 8,304 | 633 | 259 | | | 9,196 |
| | <u>26,343</u> | <u>1,613</u> | <u>39,263</u> | <u>10</u> | <u>(3,389)</u> | <u>63,840</u> |
| Other expenses | | | | | | |
| Interest expense | (78,831) | | | | 18,055 | (60,776) |
| Other | (111) | (2,163) | (125) | (139) | 515 | (2,023) |
| | <u>(78,942)</u> | <u>(2,163)</u> | <u>(125)</u> | <u>(139)</u> | <u>18,570</u> | <u>(62,799)</u> |
| Minority interests | (6,106) | | | | | (6,106) |
| Income taxes | (40,455) | (937) | (23,848) | 842 | 2,092 | (62,306) |
| Net income (loss) | <u>\$ 65,333</u> | <u>\$ 1,514</u> | <u>\$ 38,553</u> | <u>\$ (1,362)</u> | <u>\$ (3,382)</u> | <u>100,656</u> |
| Depreciation and amortization | | | | | | 63,439 |
| Depreciation recapture | | | | | | (8,121) |
| Deferred income taxes | | | | | | 29,889 |
| Gain on non-strategic asset sales | | | | | | (7,264) |
| | | | | | | <u>\$ 178,599</u> |

**Earnings before depreciation and
deferred taxes⁽¹⁾**

- (1) 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.
- (2) As discussed in the General section of this MD&A, these amounts do not consider the effect of discontinued operations. See Note 13 to Consolidated Financial Statements for reconciliation to Statement of Operations format.

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Below is a summary of Net income by segment and EBDĐT for the Year Ended December 31, 2001:

| | Asset Management | Suburban | | | Corporate | Total ⁽²⁾ |
|--|---------------------|------------------|------------------|-----------------|-----------------|----------------------|
| | | Commercial | Residential | Urban | | |
| (In thousands) | | | | | | |
| Revenue | | | | | | |
| Rental revenue | \$ 234,881 | \$ | \$ | \$ | \$ | \$ 234,881 |
| Sales revenue | 71,818 | 75,686 | 48,507 | 49,793 | | 245,804 |
| Management, development and other fees | 145 | 3,679 | 1,394 | 782 | | 6,000 |
| | <u>306,844</u> | <u>79,365</u> | <u>49,901</u> | <u>50,575</u> | | <u>486,685</u> |
| Costs and expenses | | | | | | |
| Property operating costs | (62,663) | | | | | (62,663) |
| Cost of sales | (30,744) | (50,896) | (30,202) | (37,337) | (519) | (149,698) |
| Selling, general and administrative expenses | (1,235) | (9,607) | (11,379) | (4,349) | | (26,570) |
| Corporate administrative costs | | | | | (19,256) | (19,256) |
| Depreciation and amortization | (47,925) | (514) | (311) | (1,853) | (1,855) | (52,458) |
| | <u>(142,567)</u> | <u>(61,017)</u> | <u>(41,892)</u> | <u>(43,539)</u> | <u>(21,630)</u> | <u>(310,645)</u> |
| Operating Income | <u>164,277</u> | <u>18,348</u> | <u>8,009</u> | <u>7,036</u> | <u>(21,630)</u> | <u>176,040</u> |
| Other income | | | | | | |
| Equity in earnings of operating joint ventures, net | 8,833 | | | | | 8,833 |
| Equity in earnings of development joint ventures, net | | 9 | 27,670 | | (1,701) | 25,978 |
| Gain on non-strategic asset sales | 3,909 | | | | | 3,909 |
| Interest income | 5,058 | 2,275 | 1,924 | 1,138 | 13,213 | 23,608 |
| Other | 1,547 | 505 | | 3,398 | 290 | 5,740 |
| | <u>19,347</u> | <u>2,789</u> | <u>29,594</u> | <u>4,536</u> | <u>11,802</u> | <u>68,068</u> |
| Other expenses | | | | | | |
| Interest expense | (75,110) | (7) | | (684) | 17,656 | (58,145) |
| Other | (1,087) | (2,959) | (5,792) | 180 | (7,843) | (17,501) |
| | <u>(76,197)</u> | <u>(2,966)</u> | <u>(5,792)</u> | <u>(504)</u> | <u>9,813</u> | <u>(75,646)</u> |
| Minority interests | (6,059) | | (83) | | | (6,142) |
| Income taxes | (41,091) | (7,366) | (12,861) | (4,487) | 6 | (65,799) |
| Net income (loss) | <u>\$ 60,277</u> | <u>\$ 10,805</u> | <u>\$ 18,867</u> | <u>\$ 6,581</u> | <u>\$ (9)</u> | <u>96,521</u> |
| Depreciation and amortization | | | | | | 52,458 |
| Depreciation recapture | | | | | | (11,428) |
| Deferred income taxes | | | | | | 49,499 |
| Gain on non-strategic asset sales | | | | | | (3,909) |
| Earnings before depreciation and deferred taxes⁽¹⁾ | | | | | | <u>\$ 183,141</u> |

-
- (1) 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.
- (2) As discussed in the General section of this MD&A, these amounts do not consider the effect of discontinued operations. *See* Note 13 to Consolidated Financial Statements for reconciliation to Statement of Operations format.

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Below is a summary of Net income by segment and EBDĐT for the Year Ended December 31, 2000:

| | Asset Management | Suburban | | | Corporate | Total ⁽²⁾ |
|--|---------------------|-----------------|------------------|-------------------|-------------------|----------------------|
| | | Commercial | Residential | Urban | | |
| (In thousands) | | | | | | |
| Revenue | | | | | | |
| Rental revenue | \$ 206,762 | \$ | \$ | \$ | \$ | \$ 206,762 |
| Sales revenue | 89,323 | 68,951 | 292,822 | | | 451,096 |
| Management, development and other fees | 11,814 | 999 | 1,498 | 1,149 | | 15,460 |
| | <u>307,899</u> | <u>69,950</u> | <u>294,320</u> | <u>1,149</u> | | <u>673,318</u> |
| Costs and expenses | | | | | | |
| Property operating costs | (55,272) | | | | | (55,272) |
| Cost of sales | (46,410) | (52,415) | (238,930) | | | (337,755) |
| Selling, general and administrative expenses | (8,903) | (9,643) | (25,007) | (2,248) | | (45,801) |
| Corporate administrative costs | | | | | (15,675) | (15,675) |
| Depreciation and amortization | (42,090) | (747) | (108) | (1,684) | (1,876) | (46,505) |
| | <u>(152,675)</u> | <u>(62,805)</u> | <u>(264,045)</u> | <u>(3,932)</u> | <u>(17,551)</u> | <u>(501,008)</u> |
| Operating Income | <u>155,224</u> | <u>7,145</u> | <u>30,275</u> | <u>(2,783)</u> | <u>(17,551)</u> | <u>172,310</u> |
| Other income | | | | | | |
| Equity in earnings of operating joint ventures, net | 9,809 | | | | | 9,809 |
| Equity in earnings of development joint ventures, net | | 13 | 27,767 | | | 27,780 |
| Gain on non-strategic asset sales | 46,279 | | | | | 46,279 |
| Interest income | 3,021 | 2,724 | 802 | 4 | 4,652 | 11,203 |
| Other | (136) | 142 | 504 | (63) | (212) | 235 |
| | <u>58,973</u> | <u>2,879</u> | <u>29,073</u> | <u>(59)</u> | <u>4,440</u> | <u>95,306</u> |
| Other expenses | | | | | | |
| Interest expense | (57,832) | (4) | (546) | (1,153) | 8,571 | (50,964) |
| Other | (532) | (2,342) | (13,515) | 40 | (3,500) | (19,849) |
| | <u>(58,364)</u> | <u>(2,346)</u> | <u>(14,061)</u> | <u>(1,113)</u> | <u>5,071</u> | <u>(70,813)</u> |
| Minority interests | (6,347) | | (4,354) | | | (10,701) |
| Income taxes | (60,320) | (3,098) | (16,517) | 1,596 | 3,244 | (75,095) |
| Net income (loss) | <u>\$ 89,166</u> | <u>\$ 4,580</u> | <u>\$ 24,416</u> | <u>\$ (2,359)</u> | <u>\$ (4,796)</u> | <u>111,007</u> |
| Depreciation and amortization | | | | | | 46,505 |
| Depreciation recapture | | | | | | (14,519) |
| Deferred income taxes | | | | | | 62,556 |
| Gain on non-strategic asset sales | | | | | | (46,279) |
| Earnings before depreciation and deferred taxes⁽¹⁾ | | | | | | <u>\$ 159,270</u> |

-
- (1) 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.
- (2) As discussed in the General section of this MD&A, these amounts do not consider the effect of discontinued operations. *See* Note 13 to Consolidated Financial Statements for reconciliation to Statement of Operations format.

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Variance Year Ended December 31, 2002 vs Year Ended December 31, 2001:

| | Asset Management | Suburban | | | Corporate | Total |
|--|---------------------|-------------------|------------------|-------------------|-------------------|-------------------|
| | | Commercial | Residential | Urban | | |
| (In thousands) | | | | | | |
| Revenue | | | | | | |
| Rental revenue | \$ 32,926 | \$ | \$ | \$ | \$ | \$ 32,926 |
| Sales revenue | (28,634) | (22,720) | 10,600 | (35,293) | | (76,047) |
| Management, development and other fees | (103) | (706) | 122 | 1,775 | | 1,088 |
| | <u>4,189</u> | <u>(23,426)</u> | <u>10,722</u> | <u>(33,518)</u> | | <u>(42,033)</u> |
| Costs and expenses | | | | | | |
| Property operating costs | (9,266) | | | | | (9,266) |
| Cost of sales | 16,488 | 8,207 | 1,340 | 26,183 | (82) | 52,136 |
| Selling, general and administrative expenses | 50 | 31 | 3,063 | (2,564) | | 580 |
| Corporate administrative costs | | | | | 1,551 | 1,551 |
| Depreciation and amortization | (11,245) | (159) | 129 | 788 | (494) | (10,981) |
| | <u>(3,973)</u> | <u>8,079</u> | <u>4,532</u> | <u>24,407</u> | <u>975</u> | <u>34,020</u> |
| Operating Income | <u>216</u> | <u>(15,347)</u> | <u>15,254</u> | <u>(9,111)</u> | <u>975</u> | <u>(8,013)</u> |
| Other income | | | | | | |
| Equity in earnings of operating joint ventures, net | (556) | | | | | (556) |
| Equity in earnings of development joint ventures, net | | (9) | 5,393 | | (2,130) | 3,254 |
| Gain on non-strategic asset sales | 3,355 | | | | | 3,355 |
| Interest income | (2,560) | (1,295) | 4,017 | (1,128) | (12,771) | (13,737) |
| Other | 6,757 | 128 | 259 | (3,398) | (290) | 3,456 |
| | <u>6,996</u> | <u>(1,176)</u> | <u>9,669</u> | <u>(4,526)</u> | <u>(15,191)</u> | <u>(4,228)</u> |
| Other expenses | | | | | | |
| Interest expense | (3,721) | 7 | | 684 | 399 | (2,631) |
| Other | 976 | 796 | 5,667 | (319) | 8,358 | 15,478 |
| | <u>(2,745)</u> | <u>803</u> | <u>5,667</u> | <u>365</u> | <u>8,757</u> | <u>12,847</u> |
| Minority interests | (47) | | 83 | | | 36 |
| Income taxes | 636 | 6,429 | (10,987) | 5,329 | 2,086 | 3,493 |
| Net income (loss) | <u>\$ 5,056</u> | <u>\$ (9,291)</u> | <u>\$ 19,686</u> | <u>\$ (7,943)</u> | <u>\$ (3,373)</u> | <u>4,135</u> |
| Depreciation and amortization | | | | | | 10,981 |
| Depreciation recapture | | | | | | 3,307 |
| Deferred income taxes | | | | | | (19,610) |
| Gain on non-strategic asset sales | | | | | | (3,355) |
| Earnings before depreciation and deferred taxes | | | | | | <u>\$ (4,542)</u> |



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Variance Year Ended December 31, 2001 vs Year Ended December 31, 2000:

| | Asset Management | Suburban | | Urban | Corporate | Total |
|---|---------------------|-----------------|-------------------|-----------------|-----------------|------------------|
| | | Commercial | Residential | | | |
| (In thousands) | | | | | | |
| Revenue | | | | | | |
| Rental revenue | \$ 28,119 | \$ | \$ | \$ | \$ | \$ 28,119 |
| Sales revenue | (17,505) | 6,735 | (244,315) | 49,793 | | (205,292) |
| Management, development and other fees | (11,669) | 2,680 | (104) | (367) | | (9,460) |
| | <u>(1,055)</u> | <u>9,415</u> | <u>(244,419)</u> | <u>49,426</u> | | <u>(186,633)</u> |
| Costs and expenses | | | | | | |
| Property operating costs | (7,391) | | | | | (7,391) |
| Cost of sales | 15,666 | 1,519 | 208,728 | (37,337) | (519) | 188,057 |
| Selling, general and administrative expenses | 7,668 | 36 | 13,628 | (2,101) | | 19,231 |
| Corporate administrative costs | | | | | (3,581) | (3,581) |
| Depreciation and amortization | (5,835) | 233 | (203) | (169) | 21 | (5,953) |
| | <u>10,108</u> | <u>1,788</u> | <u>222,153</u> | <u>(39,607)</u> | <u>(4,079)</u> | <u>190,363</u> |
| Operating Income | <u>9,053</u> | <u>11,203</u> | <u>(22,266)</u> | <u>9,819</u> | <u>(4,079)</u> | <u>3,730</u> |
| Other income | | | | | | |
| Equity in earnings of operating joint ventures, net | (976) | | | | | (976) |
| Equity in earnings of development joint ventures, net | | (4) | (97) | | (1,701) | (1,802) |
| Gain on non-strategic asset sales | (42,370) | | | | | (42,370) |
| Interest income | 2,037 | (449) | 1,122 | 1,134 | 8,561 | 12,405 |
| Other | 1,683 | 363 | (504) | 3,461 | 502 | 5,505 |
| | <u>(39,626)</u> | <u>(90)</u> | <u>521</u> | <u>4,595</u> | <u>7,362</u> | <u>(27,238)</u> |
| Other expenses | | | | | | |
| Interest expense | (17,278) | (3) | 546 | 469 | 9,085 | (7,181) |
| Other | (555) | (617) | 7,723 | 140 | (4,343) | 2,348 |
| | <u>(17,833)</u> | <u>(620)</u> | <u>8,269</u> | <u>609</u> | <u>4,742</u> | <u>(4,833)</u> |
| Minority interests | 288 | | 4,271 | | | 4,559 |
| Income taxes | 19,229 | (4,268) | 3,656 | (6,083) | (3,238) | 9,296 |
| Net income (loss) | <u>\$ (28,889)</u> | <u>\$ 6,225</u> | <u>\$ (5,549)</u> | <u>\$ 8,940</u> | <u>\$ 4,787</u> | <u>(14,486)</u> |
| Depreciation and amortization | | | | | | 5,953 |
| Depreciation recapture | | | | | | 3,091 |
| Deferred income taxes | | | | | | (13,057) |
| Gain on non-strategic asset sales | | | | | | 42,370 |

Earnings before depreciation and
deferred taxes

\$ 23,871

The following is a schedule of the largest ten tenants of our rental portfolio, based on GAAP rents:

| Customer Name | State | Type of Product | % of Total Base Rent as |
|---------------------------------------|----------------------------|----------------------|-------------------------|
| | | Leased | of December 31, 2002 |
| The Gap | CA | Office | 6.8% |
| APL Logistics, Inc | CA, IL, KY, TX | Industrial | 4.7% |
| Ford Motor Company | CA, CO, TX | Industrial | 2.2% |
| Kellogg's USA, Inc. | CA, IL, CO | Industrial | 2.0% |
| J.C. Penney Company | TX | Office | 2.0% |
| Exel Corporation | CA | Industrial | 1.9% |
| Home Depot USA, Inc. | CA | Industrial/Retail | 1.6% |
| Gillette Company | CA, IL | Industrial | 1.4% |
| MCI Telecommunications ⁽¹⁾ | CA, WA, IL, MN, TX, OK, OR | Office/Ground Leases | 1.4% |
| Office Depot, Inc. | CA | Industrial/Retail | 1.3% |

⁽¹⁾ The Company has ten leases with MCI WORLDCOM Communications, Inc., or its affiliates (MCI). On July 21, 2002, a group of MCI Companies filed for Chapter 11 reorganization. Pursuant to an order of the United States Bankruptcy Court, the MCI Companies have until September 22, 2003, to assume or reject the leases, but they remain obligated under the Bankruptcy Code to continue to perform their obligations under each lease in a timely manner pending the assumption or rejection of that lease. MCI has stated its intention to file a Chapter 11 plan by April 15, 2003, and will reduce some of the leased space.

Rental Revenue less Property Operating Costs

Rental revenue less property operating costs has increased since 2000 primarily because of additions of buildings, new ground leases, and rental increases from renewals on Same Space (as defined below), partially offset by properties sold. We added a net 6.1 million square feet in 2002, 2.1 million square feet in 2001, and 4.0 million square feet in 2000 to our rental portfolio. Rental revenue less operating costs for 2002, 2001, and 2000, are summarized as follows:

| | Year Ended | | Difference | Year Ended | | Difference |
|---|-------------------|-------------------|------------------|-------------------|-------------------|------------------|
| | December 31, | | | December 31, | | |
| | 2002 | 2001 | | 2001 | 2000 | |
| (In thousands) | | | | | | |
| Rental revenue less operating costs: | | | | | | |
| Same space ⁽¹⁾ | \$ 136,494 | \$ 132,212 | \$ 4,282 | \$ 110,760 | \$ 110,007 | \$ 753 |
| Properties added to portfolio | 31,768 | 13,458 | 18,310 | 34,084 | 14,144 | 19,940 |
| Properties sold from portfolio | 591 | 3,852 | (3,261) | 1,784 | 6,599 | (4,815) |
| Ground leases | 27,025 | 22,696 | 4,329 | 25,590 | 20,740 | 4,850 |
| Total⁽²⁾⁽³⁾ | \$ 195,878 | \$ 172,218 | \$ 23,660 | \$ 172,218 | \$ 151,490 | \$ 20,728 |

⁽¹⁾ Same Space properties were owned and operated for the entire current year and the entire immediate preceding year.

⁽²⁾ As discussed in the General section of this MD&A, these amounts do not consider the effect of discontinued operations. See Note 13 to Consolidated Financial Statements for reconciliation to Statement of Operations format.

⁽³⁾

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Generally accepted accounting principles require rental revenue to be recognized in a straight-line basis over the initial term of the related lease. Revenue recognized may differ from cash collected from the related lease.

We do not expect substantial changes in rental income from our Same Space rental portfolio; rather, we expect that growth in overall portfolio rental income will result primarily from new properties we will add to our rental portfolio over time.

The increase in rental revenue less operating costs of \$23.7 million in 2002 is primarily attributable to \$22.6 million from the additions of buildings and new ground leases and \$4.3 million from Same Space, due to higher average rental rates from renewals, partially offset by a \$3.3 million decrease from properties sold.

The increase in rental revenue less operating costs of \$20.7 million in 2001 is primarily attributable to \$24.8 million from the additions of buildings and new ground leases and \$0.8 million from Same Space, due to higher average rental rates from renewals, partially offset by a \$4.8 million decrease from properties sold.

Gain on Property Sales:

Year Ended December 31, 2002

| | Asset Management | Suburban | | | Corporate | Total ⁽¹⁾ |
|--|---------------------|------------------|------------------|-----------------|-----------------|----------------------|
| | | Commercial | Residential | Urban | | |
| (In thousands) | | | | | | |
| Building Sales | | | | | | |
| Sales Proceeds | \$ 34,211 | \$ | \$ | \$ | \$ | \$ 34,211 |
| Cost of Sales | (12,534) | | | | | (12,534) |
| Gain | 21,677 | | | | | 21,677 |
| Land/Lot Sales | | | | | | |
| Sales Proceeds | | 52,563 | 57,054 | 14,500 | | 124,117 |
| Cost of Sales | | (42,932) | (28,113) | (11,154) | | (82,199) |
| Gain | | 9,631 | 28,941 | 3,346 | | 41,918 |
| Ground Lease and Other Sales | | | | | | |
| Sales Proceeds | 8,973 | 403 | 2,053 | | | 11,429 |
| Cost of Sales | (1,722) | 243 | (749) | | (601) | (2,829) |
| Gain (loss) | 7,251 | 646 | 1,304 | | (601) | 8,600 |
| Total sales proceeds | 43,184 | 52,966 | 59,107 | 14,500 | | 169,757 |
| Total cost of sales | (14,256) | (42,689) | (28,862) | (11,154) | (601) | (97,562) |
| Total gain (loss) on property sales | \$ 28,928 | \$ 10,277 | \$ 30,245 | \$ 3,346 | \$ (601) | \$ 72,195 |

Year Ended December 31, 2001

| | Asset Management | Suburban | | | Corporate | Total ⁽¹⁾ |
|--|---------------------|------------------|------------------|------------------|-----------------|----------------------|
| | | Commercial | Residential | Urban | | |
| (In thousands) | | | | | | |
| Building/Home Sales | | | | | | |
| Sales Proceeds | \$ 37,898 | \$ 40,697 | \$ 9,621 | \$ | \$ | \$ 88,216 |
| Cost of Sales | (13,388) | (29,846) | (8,078) | | | (51,312) |
| Gain | 24,510 | 10,851 | 1,543 | | | 36,904 |
| Land/Lot Sales | | | | | | |
| Sales Proceeds | | 34,989 | 38,886 | 49,793 | | 123,668 |
| Cost of Sales | | (21,050) | (22,297) | (37,337) | | (80,684) |
| Gain | | 13,939 | 16,589 | 12,456 | | 42,984 |
| Ground Lease and Other sales | | | | | | |
| Sales Proceeds | 33,920 | | | | | 33,920 |
| Cost of Sales | (17,356) | | 173 | | (519) | (17,702) |
| Gain (loss) | 16,564 | | 173 | | (519) | 16,218 |
| Total sales proceeds | 71,818 | 75,686 | 48,507 | 49,793 | | 245,804 |
| Total cost of sales | (30,744) | (50,896) | (30,202) | (37,337) | (519) | (149,698) |
| Total gain (loss) on property sales | \$ 41,074 | \$ 24,790 | \$ 18,305 | \$ 12,456 | \$ (519) | \$ 96,106 |

⁽¹⁾ As discussed in the General section of this MD&A, these amounts do not consider the effect of discontinued operations. See Note 13 to Consolidated Financial Statements for reconciliation to Statement of Operations format.

Year Ended December 31, 2000

| | Asset Management | Suburban | | | Corporate | Total ⁽¹⁾ |
|----------------------------|---------------------|--------------|---------------|-------|-----------|----------------------|
| | | Commercial | Residential | Urban | | |
| (In thousands) | | | | | | |
| Building/Home Sales | | | | | | |
| Sales Proceeds | \$ 72,057 | \$ 33,741 | \$ 254,864 | \$ | \$ | \$ 360,662 |
| Cost of Sales | (35,743) | (31,546) | (217,171) | | | (284,460) |
| Gain | 36,314 | 2,195 | 37,693 | | | 76,202 |
| Land/Lot Sales | | | | | | |
| Sales Proceeds | | 35,210 | 37,958 | | | 73,168 |

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| | | | | | | |
|-------------------------------------|------------------|------------------|------------------|-----------|-----------|-------------------|
| Cost of Sales | | (20,869) | (21,759) | | | (42,628) |
| Gain | | 14,341 | 16,199 | | | 30,540 |
| Ground Lease and Other Sales | | | | | | |
| Sales Proceeds | 17,266 | | | | | 17,266 |
| Cost of Sales | (10,667) | | | | | (10,667) |
| Gain | 6,599 | | | | | 6,599 |
| Total sales proceeds | 89,323 | 68,951 | 292,822 | | | 451,096 |
| Total cost of sales | (46,410) | (52,415) | (238,930) | | | (337,755) |
| Total gain on property sales | \$ 42,913 | \$ 16,536 | \$ 53,892 | \$ | \$ | \$ 113,341 |

(1) As discussed in the General section of this MD&A, these amounts do not consider the effect of discontinued operations. See Note 13 to Consolidated Financial Statements for reconciliation to Statement of Operations format.

Variance Year Ended December 31, 2002 vs Year Ended December 31, 2001

| | Asset Management | Suburban | | | Corporate | Total |
|--|---------------------|--------------------|------------------|-------------------|----------------|--------------------|
| | | Commercial | Residential | Urban | | |
| (In thousands) | | | | | | |
| Building/Home Sales | | | | | | |
| Sales Proceeds | \$ (3,687) | \$ (40,697) | \$ (9,621) | \$ | \$ | \$ (54,005) |
| Cost of Sales | 854 | 29,846 | 8,078 | | | 38,778 |
| (Loss) | (2,833) | (10,851) | (1,543) | | | (15,227) |
| Land/Lot Sales | | | | | | |
| Sales Proceeds | | 17,574 | 18,168 | (35,293) | | 449 |
| Cost of Sales | | (21,882) | (5,816) | 26,183 | | (1,515) |
| Gain (loss) | | (4,308) | 12,352 | (9,110) | | (1,066) |
| Ground Lease and Other Sales | | | | | | |
| Sales Proceeds | (24,947) | 403 | 2,053 | | | (22,491) |
| Cost of Sales | 15,634 | 243 | (922) | | (82) | 14,873 |
| Gain (loss) | (9,313) | 646 | 1,131 | | (82) | (7,618) |
| Total sales proceeds | (28,634) | (22,720) | 10,600 | (35,293) | | (76,047) |
| Total cost of sales | 16,488 | 8,207 | 1,340 | 26,183 | (82) | 52,136 |
| Total gain (loss) on property sales | \$ (12,146) | \$ (14,513) | \$ 11,940 | \$ (9,110) | \$ (82) | \$ (23,911) |

Variance Year Ended December 31, 2001 vs Year Ended December 31, 2000

| | Asset Management | Suburban | | | Corporate | Total |
|----------------------------|---------------------|------------|--------------|----------|-----------|--------------|
| | | Commercial | Residential | Urban | | |
| (In thousands) | | | | | | |
| Building/Home Sales | | | | | | |
| Sales Proceeds | \$ (34,159) | \$ 6,956 | \$ (245,243) | \$ | \$ | \$ (272,446) |
| Cost of Sales | 22,355 | 1,700 | 209,093 | | | 233,148 |
| Gain (loss) | (11,804) | 8,656 | (36,150) | | | (39,298) |
| Land/Lot Sales | | | | | | |
| Sales Proceeds | | (221) | 928 | 49,793 | | 50,500 |
| Cost of Sales | | (181) | (538) | (37,337) | | (38,056) |
| Gain (loss) | | (402) | 390 | 12,456 | | 12,444 |

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| Ground Lease and Other Sales | | | | | |
|--|------------|----------|-------------|-----------|-------------|
| Sales Proceeds | 16,654 | | | | 16,654 |
| Cost of Sales | (6,689) | | 173 | (519) | (7,035) |
| Gain (loss) | 9,965 | | 173 | (519) | 9,619 |
| Total sales proceeds | (17,505) | 6,735 | (244,315) | 49,793 | (205,292) |
| Total cost of sales | 15,666 | 1,519 | 208,728 | (37,337) | 188,057 |
| Total gain (loss) on property sales | \$ (1,839) | \$ 8,254 | \$ (35,587) | \$ 12,456 | \$ (17,235) |

During 2002, we sold six operating properties totaling 769,000 square feet of building space, closed on the sale of improved land capable of supporting 3.8 million square feet of commercial development, and sold 1,038.7 acres of ground leases. During 2001, we sold seven existing operating properties and four newly completed commercial buildings totaling 1.1 million square feet, sold improved land capable of supporting 6.8 million square feet of commercial development, sold 1,108.2 acres of ground leases, and sold 5.1 acres of Urban land. During 2000, we sold eleven existing operating properties and three newly completed commercial buildings totaling 2.1 million square feet, closed on the sale of improved land capable of supporting 8.5 million square feet of commercial development, and sold 1,035 acres of ground leases (*see* Variability in Results section).

For the year ended December 31, 2002, we also closed on the sales of 456 residential lots, compared to 396 residential lots and 55 homes during the same period in 2001. For the year ended December 31, 2000, the gain from Suburban Residential segment included \$13.4 million from the sale of our homebuilding assets to a limited liability company formed in 2000 managed by Brookfield Homes of California, Inc. (BHC, LLC), \$10.2 million from the closing of an 80-lot site in San Francisco, and \$30.3 million resulting primarily from the closings of 512 lots and 347 homes (*see* Variability in Results section).

In addition, the gain for 2002 and 2001 from Suburban Residential segment included \$2.1 million and \$1.1 million, respectively, of our portion of profit participation related to certain properties that were sold in the prior year (*see* Variability in Results section).

Management, Development and Other Fees

Management, development and other fees primarily consist of fees earned related to development and construction management services provided to third parties as well as our joint venture projects. The increase in 2002 was primarily because of new fees included in 2002 from development management activities commenced in September 30, 2001, related to a new joint venture development at the Mission Bay project of \$2.6 million, management fees related to two build-to-suit construction management contracts of \$1.4 million, construction management fees related to investments in three unconsolidated joint ventures in Colorado of \$1 million, and management fees from a joint venture project of \$0.7 million. The decrease in management fees of \$9.5 million in 2001, compared to 2000, was primarily due to the expiration of the contract to manage and sell the non-railroad real estate assets of a major railroad company, partially offset by an increase in development and management fees related to a construction management contract with a ground lease lessee.

Selling, General and Administrative Expenses

To better understand the results of our operations and provide a meaningful commentary on the matters which impact our business, we have separated these expenses into two categories. Expenses incurred related to our property sales and fee services business are reflected as selling, general and administrative expenses, while the general and administrative expenses related to corporate management activities are reflected as corporate administrative costs.

Selling, general and administrative expenses decreased \$0.6 million in 2002 primarily due to employee-related expenses and legal expenses. Selling, general and administrative expenses decreased \$19.2 million in 2001 primarily due to the decreased number of employees related to the sale of our homebuilding assets to BHC, LLC, in 2000.

Corporate Administrative Costs

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To better understand the results of our operations and provide a meaningful commentary on the matters which impact our business, we have separated these expenses into two categories. Expenses incurred related to our property sales and fee services business are reflected as selling, general and administrative expenses, while the general and administrative expenses related to corporate management activities are reflected as corporate administrative costs.

Corporate administrative costs consist primarily of general and administrative expenses. General and administrative expenses decreased by \$1.6 million in 2002 but increased \$3.6 million in 2001. The decrease in 2002 was primarily because of decreases in employee-related expenses and marketing expenses. The increase in 2001 was primarily because of increases in employee-related expenses.

Depreciation and Amortization Expense

The increases in depreciation and amortization expense of \$11 million and \$6 million in 2002 and 2001, respectively, are primarily attributable to the new buildings added to the portfolio. In 2002 and 2001, we added 6.1 million net square feet and 2.1 million net square feet of building space, respectively, to our portfolio. The added buildings resulted in incremental depreciation expense of \$8.1 million and \$4.1 million in 2002 and 2001, respectively. In addition, in 2002 we recorded a charge of \$2.1 million related to assets placed in service in prior periods but not depreciated.

Other Income

Equity in Earnings of Operating Joint Ventures

Equity in earnings of operating joint ventures, net, decreased by \$0.6 million and \$1 million in 2002, and 2001, respectively. The decrease in 2002 was primarily because of lower occupancies in hotels owned by two joint ventures. The decrease in 2001 was primarily because of higher interest expense due to a refinancing at a joint venture in 2000 and lower occupancies in hotels owned by two joint ventures in 2001 (*see* Variability in Results section).

Equity in Earnings of Development Joint Ventures, Net

Our equity in earnings of development joint ventures, net is generated from our Suburban Residential investments. The tables below summarize our share of the activities of joint ventures for the years ended December 31, 2002, 2001, and 2000. The increase in 2002, compared to 2001, in our gain from sales is primarily because of an increase in sales volume, partially offset by the sale of our investment interest in the Brookfield joint venture during 2001. The decrease in our gain from sales in 2001, compared to 2000, is primarily because of lower sales volumes from Serrano and Talega, partially offset by gain from new joint ventures Parkway and Talega Village (*see* Variability in Results section). As we have not entered into any significant new joint ventures in 2002, the equity in earnings of development joint ventures, net will likely decline beyond 2003.

| | Year ended December 31, 2002 | | | | Year ended December 31, 2001 | | | | Year ended December 31, 2000 | | | |
|--|------------------------------|---------------------|----------------|----|------------------------------|---------------------|----------------|-----------|------------------------------|---------------------|----------------|-----------|
| | Lots/ Homes Sold | Cost of Sales | Gain (loss) | | Lots/ Homes Sold | Cost of Sales | Gain (loss) | | Lots/ Homes Sold | Cost of Sales | Gain (loss) | |
| | | \$ | \$ | \$ | 524 | \$ 77,013 | \$ (62,611) | \$ 14,402 | 306 | \$ 130,383 | \$ (120,253) | \$ 10,130 |

(In thousands, except lots/homes)

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| | | | | | | | | | | | | |
|----------------|--------------|-------------------|---------------------|------------------|------------|-------------------|---------------------|------------------|--------------|-------------------|---------------------|------------------|
| Talega Village | 118 | 64,973 | (60,538) | 4,435 | 100 | 51,359 | (48,566) | 2,793 | | | | |
| Serrano | 940 | 73,852 | (66,955) | 6,897 | 53 | 35,915 | (34,389) | 1,526 | 874 | 87,297 | (74,969) | 12,328 |
| Talega | 772 | 78,143 | (73,111) | 5,032 | 109 | 34,855 | (30,945) | 3,910 | 867 | 98,843 | (93,534) | 5,309 |
| Parkway | 822 | 61,259 | (48,391) | 12,868 | 190 | 16,260 | (12,922) | 3,338 | | | | |
| Other | | | | | | 9 | | 9 | | 13 | | 13 |
| | | | | | | | | | | | | |
| Total | 2,652 | \$ 278,227 | \$ (248,995) | \$ 29,232 | 976 | \$ 215,411 | \$ (189,433) | \$ 25,978 | 2,047 | \$ 316,536 | \$ (288,756) | \$ 27,780 |

Gain on Non-Strategic Asset Sales

Gain on sales of non-strategic assets increased \$3.4 million in 2002 but decreased \$42.4 million in 2001. The increase in 2002, compared to 2001, was primarily because of higher sales of remaining desert property in 2002. The decrease in 2001, compared to 2000, was primarily because of a significant sale of desert land that was ultimately transferred to the federal government in 2000. We estimate the gain on non-strategic asset sales in

Other

Other expenses consist primarily of expenses of previously capitalized costs and other miscellaneous expenses. The decrease in other expenses from \$17.5 million for the year ended December 31, 2001, to \$2.0 million for the same period of 2002, was because in 2001 we incurred \$6.5 million of consulting fees, \$5.1 million of expenses related to costs overruns on a fixed-price construction contract, and a \$2.5 million expense for certain predevelopment costs previously capitalized. The decrease in other expenses of \$2.4 million for the year ended December 31, 2001, as compared to 2000, was primarily because of lower expenses related to cost overruns on the fixed-price construction contract of \$6.7 million in 2001, offset by \$3.0 million higher consulting fees.

Minority Interests

In 1999, we formed a subsidiary real estate investment trust for financing purposes and sold 10% of this subsidiary's stock to minority investors. This subsidiary is consolidated for financial reporting purposes. Subsequently to December 31, 2002, the REIT acquired the 10% interest of the minority investors, and accordingly the REIT became a wholly-owned subsidiary.

Income taxes

Income taxes decreased \$3.5 million and \$9.3 million in 2002 and 2001, respectively. These changes are the results of property donations at fair market value in 2002, changes in pre-tax income primarily attributed to rental income, gains from property sales, and gains on non-strategic asset sales in 2001. Property donation at fair value reflects property conveyances that qualify as charitable contributions for tax purposes. The difference between the fair value and book basis of the properties conveyed represents a tax deduction that results in a permanent reduction in income tax. The effect of deducting the excess of fair value of property over the book basis was a reduction in the effective tax rate of approximately 2% for the year ended December 31, 2002.

| | Year Ended December 31, | | | Difference 2002/2001 | Difference 2001/2000 |
|--|-------------------------|------------|------------|-------------------------|-------------------------|
| | 2002 | 2001 | 2000 | | |
| | (In thousands) | | | | |
| Income before income taxes and discontinued operations | \$ 162,962 | \$ 162,320 | \$ 186,102 | \$ 642 | \$ (23,782) |
| Income taxes: | | | | | |
| Current taxes | \$ 32,417 | \$ 16,300 | \$ 12,539 | \$ 16,117 | \$ 3,761 |
| Deferred taxes | 29,889 | 49,499 | 62,556 | (19,610) | (13,057) |
| Income tax expense | \$ 62,306 | \$ 65,799 | \$ 75,095 | \$ (3,493) | \$ (9,296) |
| Total tax: | | | | | |
| Current tax rate | 19.9% | 10.0% | 6.7% | 9.9% | 3.3% |
| Deferred tax rate | 18.3% | 30.5% | 33.6% | (12.2)% | (3.1)% |
| Tax rate | 38.2% | 40.5% | 40.3% | (2.3)% | 0.2% |

Current tax rates increased in 2002, as compared to 2001, primarily due to fewer tax-deferred property exchanges, a decrease in the amount of stock options exercised, and lower interest rates. Current tax rates increased in 2001, as compared to 2000, primarily due to fewer tax-deferred property exchanges and fewer tax credits in 2001. Gains from tax-deferred exchange property sales are recognized for financial reporting purposes, but the associated tax liability is not incurred for tax purposes until the replacement property is sold. All of our net operating loss carryforwards have been used. We estimate current tax rates to be above 2002 levels; however, we anticipate that the overall tax rate in 2003 will be lower than the overall tax rate in 2002.

Accordingly, deferred taxes decreased in 2002, compared to 2001, and in 2001, compared to 2000, primarily due to decreases in the number of tax-deferred property exchanges. The decrease in 2002 also reflects fewer stock options exercised in 2002 compared to 2001.

The calculation of current taxes due involves the use of many estimates that are not finalized and adjusted until our final tax returns are filed, usually in September of the following year. Consequently, actual taxes paid in regard to any given year will differ from the amounts shown above; however, the differences have historically not been material and are not expected to be material in the future.

Variability in Results

Although our rental properties provide 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 given fluctuating economic conditions 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

Off-balance sheet arrangements, contractual obligations, and commitments

We have the following off-balance sheet arrangements, contractual obligations, and commitments, which are disclosed in various sections of the Consolidated Financial Statements, Notes to Consolidated Financial Statements, and elsewhere in this Management's Discussion and Analysis of Financial Condition and Results of Operations. They exist in the following areas:

- Unconsolidated real estate joint ventures:

Capital contribution requirements

Debt and debt service guarantees

- Surety bonds, standby letters of credit and commitments
- Executed contracts for construction and development activity

Generally any funding of off-balance sheet guarantees would result in the increase of Catellus' ownership interest in a project or entity similar to the treatment of a unilateral additional capital contribution to an investee.

Unconsolidated real estate joint ventures' capital contribution requirements

We have investments in twelve unconsolidated real estate joint ventures. Four of the joint ventures are involved in the operation of rental real estate properties, and the remaining eight are involved in real estate development for investment or sale. We use the equity method of accounting for all of our investments in unconsolidated joint ventures.

We are required to make additional capital contributions to two of the unconsolidated joint ventures should additional capital contributions be necessary to fund excess costs or operating shortfall. One of the joint ventures requires capital contributions if actual development costs exceed the approved project development budget. The development budget is approximately \$252.5 million and will be funded as follows: \$165 million from a construction loan, which was closed in September 2002, \$62.5 million from our partners, and the remaining \$25 million from us. As of December 31, 2002, we had contributed \$19.4 million of the \$25 million. Subsequent to December 31, 2002, we contributed an additional \$2.6 million, but we do not expect to fund any additional capital contributions beyond the \$25 million. The second joint venture requires capital contributions to fund operating shortfall upon written notice from the joint venture's management committee. As of December 31, 2002, no such notice has been received.

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We have also agreed with another of our unconsolidated joint ventures to fund up to \$5.7 million for certain construction costs, if necessary. As of December 31, 2002, no additional funding is required.

Unconsolidated real estate joint ventures debt and debt service guarantees

We have made certain debt service guarantees for six of our unconsolidated joint ventures. At December 31, 2002, based on the joint ventures outstanding debt balance, these debt service guarantees totaled \$44.6 million. Of the total guarantees, \$14.5 million relates to three unconsolidated residential development joint ventures, \$22.3 million relates to two unconsolidated commercial development joint ventures, and the remaining \$7.8 million relates to an unconsolidated urban development joint venture. These debt service guarantees are typical business arrangements commonly required of developers in real estate development. Examples of events that would require us to provide a cash payment pursuant to a guarantee include a loan default, which would result from failure of the primary borrower to service the debt when due, or non-compliance of the primary borrower with financial covenants and inadequacy of asset collateral. Our guarantee exposure is generally limited

to situations in which the value of the collateral is not sufficient to satisfy the outstanding indebtedness. At December 31, 2002, we have not been required to satisfy any amounts pursuant to these debt and debt service guarantees.

Surety bonds, standby letters of credit and commitments

As of December 31, 2002, we have \$379.6 million in surety bonds, outstanding standby letters of credit in favor of local municipalities or financial institutions, and commitments to guarantee leases, the construction of real property improvements or financial obligations. Surety bonds and commitments are to guarantee the construction of public improvements and infrastructure such as sewer, streets, traffic signals, grading, and wildlife preservations, in connection with our various development projects. Surety bonds are often required by public agencies from developers in real estate development. The surety bonds and standby letters of credit are renewable and expire upon completion of the required improvements. Standby letters of credit are a form of credit enhancement commonly required in real estate development when bonds are issued to finance public improvements.

Executed contracts for construction and development activity

At December 31, 2002, we have open construction and development contracts with vendors totaling \$224.6 million related to our various projects, as compared to \$273.3 million at December 31, 2001.

The following table summarizes our outstanding contractual obligations as of December 31, 2002 and the effect such obligations are expected to have on liquidity and cash flow in future periods:

| <u>Contractual Obligations</u> | <u>Payments Due by Period</u> | | | | |
|--------------------------------------|-------------------------------|----------------------------|-----------------------------|-----------------------------|---------------------------|
| | <u>Total</u> | <u>Due within 2003</u> | <u>Due in 2004-2006</u> | <u>Due in 2007-2008</u> | <u>Due Thereafter</u> |
| | (In thousands) | | | | |
| Mortgage and Other Debt | \$ 1,504,102 ⁽¹⁾ | \$ 154,152 | \$ 389,176 | \$ 381,918 | \$ 578,856 |
| Operating Leases | 6,954 | 2,510 | 4,204 | 30 | 210 |
| Contracts | 224,610 ⁽²⁾ | 181,429 | 19,736 | 13,874 | 9,571 |
| Total Contractual Obligations | \$ 1,735,666 | \$ 338,091 | \$ 413,116 | \$ 395,822 | \$ 588,637 |

⁽¹⁾ Includes approximately \$3.1 million of mortgage notes associated with assets held for sale that is presented as Liabilities associated with assets held for sale on our consolidated balance sheet.

⁽²⁾ A portion of these obligations is expected to be reimbursed by third parties, including bond proceeds.

The following table summarizes our outstanding commitments as of December 31, 2002, and the effect such commitments may have on liquidity and cash flow in future periods:

Amount of Commitment Expiration

| Commitments | Total Amounts Committed | Per Period | | | |
|--|----------------------------|-----------------------|------------------------|-------------------------------|----------------------|
| | | Expire within 2003 | Expire in 2004-2006 | Expire in 2007- 2008 | Expire Thereafter |
| (In thousands) | | | | | |
| Standby Letters of Credit, Surety Bonds and Commitments | \$ 379,628 ⁽³⁾ | \$ 304,032 | \$ 75,596 | \$ | \$ |
| Debt Guarantees of Unconsolidated JVs | 44,624 | 5,000 | 39,624 | | |
| Total Commitments | \$ 424,252 | \$ 309,032 | \$ 115,220 | \$ | \$ |

⁽³⁾ Includes approximately \$42.4 million of commitments that have no specific expiration dates, which we have assumed to expire within one year for purposes of this table.

Note: The above tables do not include certain obligations made in the ordinary course of business (receivables, payables, etc.)

Cash flows from operating activities

Cash provided by operating activities reflected in the statement of cash flows for the years ended December 31, 2002, 2001, and 2000, was \$187.1 million, \$341.8 million, and \$296.0 million, respectively.

The decrease of \$154.7 million in 2002 was primarily attributable to the following: (1) a decrease due to the receipt of a \$104.8 million prepayment of rent associated with a 34-year ground lease in 2001; (2) a decrease of \$37.2 million resulting from payments made in 2002 for accrued construction costs; (3) \$26.4 million due to an increase in prepayments for various expenses; (4) a decrease of \$24.3 million due to higher income taxes paid in 2002; and (5) a decrease of \$22.5 million in cash received from sales proceeds, partially offset by (6) an increase of \$42.4 million from operating distributions, primarily from four of our unconsolidated residential joint ventures due to more lots sold; (7) \$37 million due to an increase in payments received for our notes receivable; and (8) \$25.4 million due to lower capital expenditures on our development property. The remaining decrease of \$44.3 million was primarily due to the timing of receipts and payments from our ordinary course of business (accounts receivable, accounts payable, etc.).

The increase of \$45.8 million in 2001 was primarily attributable to the following: (1) the receipt of \$106.8 million prepayment of rent, of which approximately \$104.8 million was associated with a 34-year ground lease; (2) an increase of \$84.5 million due to lower capital expenditures on our development property; (3) an increase of \$17.1 million due to higher distributions from our joint ventures, primarily from our unconsolidated residential joint ventures in which more homes were sold; (4) an increase of \$12.6 million due to lower income taxes paid in 2001 as compared to 2000; and (5) an increase of \$9.4 million due to an increase in payments received for our notes receivable, partially offset by (6) a decrease of \$223.2 million in cash received from sales proceeds. The remaining increase of \$38.6 million was primarily due to the timing of receipts and payments from our ordinary course of business (accounts receivable, accounts payable, etc.).

Cash flows from investing activities

Net cash used in investing activities reflected in the statement of cash flows for the years ended December 31, 2002, 2001, and 2000, was \$333.3 million, \$267.6 million, and \$224.2 million, respectively.

The increase in use of \$65.7 million in 2002 was attributed to the following: (1) \$66.9 million in increased short-term investments and restricted cash at December 31, 2002; (2) \$38.3 million due to higher reimbursable predevelopment and infrastructure costs incurred in 2002; (3) \$20.7 million due to lower proceeds from the sale of investment properties; (4) \$15.3 million due to higher capital contributions made to our unconsolidated joint ventures in 2002; and (5) \$7 million due to higher costs incurred for tenant improvements partially offset by (6) \$55.3 million due to lower property acquisitions and (7) \$27.2 million due to lower capital expenditures for investment properties in 2002.

The increase in use of \$43.4 million between 2001 and 2000 was attributed to the following: (1) \$44.3 million due to higher property acquisitions; (2) \$28.4 million due to higher capital expenditures for investment properties; (3) \$16.8 million due to lower proceeds from the sale of investment properties; (4) \$15.6 million of distributions in 2000 from the refinancing of one of our joint ventures; (5) \$2.9 million due to higher reimbursable predevelopment and infrastructure costs incurred; and (6) \$2 million due to the contributions made in 2001 to our joint ventures offset by (7) \$63.8 million in reduced short-term investments and restricted cash and (8) \$2.8 million due to lower tenant improvements.

Capital Expenditures

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

| | Year Ended December 31, | | |
|---|-------------------------|------------|------------|
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Capital Expenditures from Operating Activities⁽¹⁾ | | | |
| Capital expenditures for development properties | \$ 21,693 | \$ 32,246 | \$ 46,356 |
| Predevelopment | 4,641 | 1,047 | 98 |
| Infrastructure and other | 22,814 | 31,135 | 86,864 |
| Residential property acquisitions | 7,139 | | 26,464 |
| Capitalized interest and property tax | 668 | 1,849 | 7,738 |
| Capital expenditures in cash flows for operating activities | 56,955 | 66,277 | 167,520 |
| Other property acquisitions | 738 | 16,785 | |
| Seller-financed acquisitions | | 10,000 | |
| Total capital expenditures in operating activities | 57,693 | 93,062 | 167,520 |
| Capital Expenditures from Investing Activities⁽²⁾ | | | |
| Construction and building improvements | 148,508 | 156,566 | 149,895 |
| Predevelopment | 16,149 | 6,326 | 21,698 |
| Infrastructure and other | 25,635 | 62,591 | 37,657 |
| Other property acquisitions | 9,649 | 1,788 | 2,748 |
| Capitalized interest and property tax | 27,592 | 27,536 | 14,426 |
| Capital expenditures for investment properties | 227,533 | 254,807 | 226,424 |
| Commercial property acquisitions | 24,449 | 79,782 | 35,471 |
| Tenant improvements | 9,945 | 2,893 | 5,767 |
| Reimbursable construction costs | 54,426 | 16,097 | 13,156 |
| Contribution to joint ventures | 17,365 | 2,035 | |
| Capital expenditures in cash flows for investing activities | 333,718 | 355,614 | 280,818 |
| Seller-financed acquisitions | | | 1,702 |
| Total capital expenditures in investing activities | 333,718 | 355,614 | 282,520 |
| Total capital expenditures ⁽³⁾ | \$ 391,411 | \$ 448,676 | \$ 450,040 |

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

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

(3) Total capital expenditures include capitalized general and administrative expenses of \$14.7 million, \$21.6 million, and \$17.2 million for the years ended December 31, 2002, 2001, and 2000, respectively.

Capital expenditures for development properties This item relates to the development of residential, urban, and commercial for-sale development properties. The decrease in 2002 and 2001 was primarily because of the decrease in commercial and urban development activities for properties that we intend to build and sell.

Construction and building improvements This item relates primarily to development of new properties held for lease. This development activity is summarized below (in square feet):

| | Year Ended | |
|--|----------------|--------------|
| | December 31, | |
| | 2002 | 2001 |
| | (In thousands) | |
| Commercial Development | | |
| Wholly owned: | | |
| Under construction, beginning of period | 6,143 | 3,474 |
| Construction starts | 2,945 | 4,735 |
| Completed - retained in portfolio | (6,066) | (1,465) |
| Completed - design/build or sold | | (601) |
| | <u>3,022</u> | <u>6,143</u> |
| Subtotal under construction, end of period | | |
| Joint Venture Projects: | | |
| Under construction, beginning of period | | |
| Construction starts | 305 | |
| | <u>305</u> | |
| Subtotal under construction, end of period | | |
| | <u>3,327</u> | <u>6,143</u> |
| Total commercial development under construction, end of period | | |
| Urban Development | | |
| Wholly owned: | | |
| Under construction, beginning of period | 361 | 283 |
| Construction starts | | 78 |
| Completed - retained in portfolio | (283) | |
| | <u>78</u> | <u>361</u> |
| Subtotal under construction, end of period ⁽¹⁾ | | |
| Joint Venture Projects: | | |
| Under construction, beginning of period | 695 | |
| Construction starts | | 695 |
| | <u>695</u> | <u>695</u> |
| Subtotal under construction, end of period | | |
| | <u>773</u> | <u>1,056</u> |
| Total urban development under construction, end of period | | |
| | <u>4,100</u> | <u>7,199</u> |
| Total under construction, end of period | | |

⁽¹⁾ Includes approximately 45,000 square feet of residential units, which we intend to sell; excludes approximately 280,000 square feet of commercial space on which construction was started but stopped during 2001.

Predevelopment This item relates to amounts incurred for our commercial, urban, and residential development projects, primarily the Mission Bay project in San Francisco, California, the Santa Fe Depot project in San Diego, California, the Vista Range residential project in Commerce City, Colorado, and the Westbluffs residential project in Playa Del Rey, California. The increase in 2002 primarily resulted from the activity for the projects in San Francisco, California; Commerce City, Colorado; and Playa Del Rey, California. For the years ended December 31, 2002,

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2001, and 2000, approximately \$2 million, \$8.7 million, and \$4.9 million, respectively, of predevelopment costs incurred at Mission Bay are reimbursable, as discussed in *Reimbursable construction costs* below.

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

In 2002, approximately \$54.2 million, \$25.1 million, \$1.2 million, and \$14.5 million of infrastructure and other costs incurred at Mission Bay, Pacific Commons, Denver, and Ontario, respectively, are reimbursable, as discussed in *Reimbursable construction costs* below. In 2001, approximately \$22 million, \$4.4 million, and \$0.5 million of infrastructure and other costs incurred at Mission Bay, Ontario, and Denver, respectively, are reimbursable. In 2000, approximately \$7.3 million, \$0.3 million, and \$0.7 million of infrastructure and other costs incurred at Mission Bay, Ontario, and Denver, respectively, are reimbursable.

Operating property acquisitions For the year ended December 31, 2002, we invested approximately \$7.8 million in operating property acquisitions, of which \$7.1 million was for the acquisition of land capable of supporting an estimated 2,149 residential units and \$0.7 million for land to be sold.

In 2001, we invested approximately \$26.8 million in property and other acquisitions: \$3.8 million for the acquisition of commercial land with the intent to sell and \$23 million, including a \$10 million seller-financed note, for the acquisition of an ownership interest in a joint venture in Folsom, California.

In 2000, we invested approximately \$26.5 million for the acquisitions of residential development property in California, directly or through joint ventures; these acquisitions would support up to 479 homes/lots.

Investing property acquisitions For the year ended December 31, 2002, we invested approximately \$34.1 million in investing property acquisitions: \$16.4 million for the acquisition of commercial buildings, which added approximately 488,000 square feet to our rental portfolio; \$8 million for the acquisition of commercial land, which added 3 million square feet of potential development; and \$9.7 million for the acquisition of furniture, fixtures, and equipment, primarily consisting of a corporate aircraft.

In 2001, we invested approximately \$81.6 million in property and other acquisitions; \$66.6 million for the acquisition of commercial buildings, which added approximately 1.2 million square feet to our rental portfolio; \$13.2 million for the acquisition of commercial land, which added about 4.2 million square feet of potential development; and \$1.7 million for the acquisition of furniture, fixtures, and equipment.

In 2000, we invested approximately \$39.9 million in property acquisitions, including a \$1.7 million seller-financed note, for the acquisition of commercial and mixed-used development land, which added approximately 10.2 million square feet of potential development and \$2.7 million for the acquisition of furniture, fixtures, and equipment.

Reimbursable construction costs For the years ended December 31, 2002, 2001, and 2000, approximately \$97 million, \$35.6 million, and \$13.2 million, respectively, of total predevelopment and infrastructure costs incurred are reimbursable, pursuant to various Community Facility District (CFD) bonds issued in 2002 and 2001, various assessment district bonds, and third parties.

During 2002, approximately \$44.7 million was reimbursed, of which approximately \$42.8 million was from CFD bonds and approximately \$1.9 million was from third parties. During 2001, approximately \$17.4 million was reimbursed, of which \$13.3 million was from CFD bonds and \$4.1 million was from third parties. During 2000, we did not receive any reimbursements for reimbursable costs incurred.

Subsequent to December 31, 2002, an additional \$5.7 million was reimbursed, of which approximately \$1.7 million was from CFD bonds, approximately \$2.6 million from assessment district bonds, and approximately \$1.4 million from third parties.

Cash flows from financing activities

Net cash provided by (used in) financing activities reflected in the statement of cash flows for the years ended December 31, 2002, 2001, and 2000, was \$198.4 million, (\$188.1) million, and \$229.3 million, respectively.

The increase of \$386.5 million in 2002 was attributed to the following: (1) an increase of \$372.4 million due to no treasury stock purchases in 2002, as compared to \$372.4 million expended for the purchase of 21,649,797 shares of our treasury stock under the share repurchase program during the same period in 2001; (2) an increase of \$24.4 million primarily attributable to higher net borrowings; and (3) an increase of \$0.6 million due to a decrease in distributions to minority partners offset by (4) a decrease of \$10.9 million due to lower proceeds from the issuance of common stock primarily attributable to exercise of stock options.

The decrease of \$417.4 million between 2001 and 2000 was primarily due to the following: (1) a decrease of \$343.7 million due to \$372.4 million expended for the purchase of 21,649,797 shares of our treasury stock in 2001 as compared to \$28.7 million expended for the purchase of 1,997,300 shares in 2000 and (2) a decrease of \$87.6 million due to lower net borrowings, offset by (3) an increase of \$11.9 million due to higher proceeds from the issuance of common stock attributable to exercise of stock options and (4) an increase of \$2.0 million due to lower distributions to minority partners.

Capital commitments

As of December 31, 2002, we had outstanding standby letters of credit, surety bonds, and commitments in the amount of \$379.6 million to guarantee performance on real property improvements or financial obligations.

As of December 31, 2002, we had approximately \$224.6 million in total contractual obligations for capital expenditures to vendors. These commitments are primarily contracts to construct commercial, residential, and urban development projects, predevelopment costs, and re-leasing costs.

As a partner in certain joint ventures, we have made certain debt guarantees totaling \$44.6 million at December 31, 2002 (*see* Note 15 of the accompanying Consolidated Financial Statements).

REIT-related Distribution and Quarterly Dividends

As part of the proposed REIT conversion and in order to be eligible to elect REIT status (*see* Item 1. Business Recent Developments), we expect to provide to stockholders a one-time distribution of pre-REIT earnings and profits (E&P). The distribution will be in the form of, at the election of each stockholder, cash, shares of common stock in the REIT, or a combination of both. We currently expect that the E&P distribution will be comprised of approximately \$100 million cash and \$200 million in stock of the REIT. In the event we receive a favorable determination from the Internal Revenue Service in connection with a ruling we are currently seeking, we will limit the amount of cash payable in the E&P distribution to \$100 million. We presently do not expect to limit the total amount of cash available for distribution if we do not receive a favorable ruling. Absent such a limit, the total amount of cash distributed will depend upon the extent to which our stockholders elect to receive cash rather than shares of common stock in the REIT. If we do not receive the private letter ruling and a sufficient number of shareholders elect to receive cash, we may have to borrow funds to fulfill the requirements of the special E&P distribution.

Also, we anticipate that we will begin to pay a quarterly dividend commencing in the third quarter of 2003 in an amount equal to \$0.30 per existing share of our common stock. Following the REIT conversion, if approved, we anticipate that we will continue to pay a quarterly dividend of approximately \$0.30 per existing share of our common stock. The actual amount of the dividends, however, will be as determined and declared by the board of directors and will depend on our financial condition, earnings, and other factors, many of which are beyond our control. In order to maintain its qualification as a REIT under the Internal Revenue Code, we will be required, as a REIT, to distribute at least 90% of our REIT taxable income for such year.

There is no assurance the proposed REIT conversion and related transactions, including the E&P distribution and the quarterly dividends, will be consummated or that the terms, the time or effects thereof will not differ materially from those described here.

Cash balances, available borrowings, and capital resources

As of December 31, 2002, we had total cash of \$311.5 million, of which \$36.6 million is restricted cash. In addition to the \$311.5 million cash balance, we had \$46.6 million in borrowing capacity under our commercial construction facilities, available upon satisfaction of certain conditions.

Our short-term and long-term liquidity and capital resources requirements will be provided primarily from four sources: (1) cash on hand, (2) ongoing income from our rental portfolio, (3) proceeds from sales of developed properties, land and non-strategic assets, and (4) additional debt. As noted above, existing construction loan facilities are available for meeting certain short-term liquidity requirements. Our ability to meet our mid- and long-term capital requirements is, in part, 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 Repurchases From October 1999 through July 2001, our Board of Directors authorized five separate stock repurchase programs; each had a limit of \$50 million. Share purchases under these programs were made on the open market. We purchased a total of 13,047,097 shares at a total cost of \$218 million under these programs. The remaining \$32 million authorized expired or was terminated.

In December 2001, we purchased 10.6 million shares of our common stock from the California Public Employees Retirement System (CalPERS) for \$183.1 million in a privately negotiated transaction. An independent third party provided our Board of Directors with a written opinion confirming that the terms and conditions of this transaction were fair, from a financial point of view, to our stockholders other than CalPERS. Immediately prior to the transaction, CalPERS was the beneficial owner of 18.8 million shares, or approximately 19.3% of our issued and outstanding common stock. As a result of the transaction, CalPERS' beneficial ownership was reduced to 8.2 million shares, or approximately 9.5% of our issued and outstanding common stock.

Debt covenants Three of our credit agreements, totaling \$135 million, contain corporate financial covenants including a minimum debt service coverage ratio of 1.6 to 1, a maximum leverage ratio of 60%, and a minimum tangible net worth of \$435.2 million (subject to adjustment for stock buybacks), all terms as defined in those credit agreements. As of or for the period ending December 31, 2002, the actual results were 1.97, 54.1%, and \$546 million, respectively. Our partial guarantee of one of our joint venture's construction loans of \$165 million has the same debt service and tangible net worth covenants, but a different maximum leverage covenant definition. Under this definition our leverage ratio is 57.3% versus a covenant of 65% at a maximum. Our performance against these covenants is measured on a quarterly basis, with debt service coverage being measured on a four-quarter trailing basis. In the event we were to breach any of these covenants and were unable to negotiate satisfactory waivers or amendments, our lenders in these credit facilities could declare amounts outstanding due and payable.

Bonds At December 31, 2002, we have \$103.9 million of assessment district bonds recorded as part of Mortgage and other debt in the accompanying Consolidated Balance Sheet. Approximately \$35.6 million of bonds with an estimated weighted average variable interest rate of 3.5% were issued by Traer Creek Metropolitan District to fund one of our unconsolidated joint venture investments in Avon, Colorado; \$23.1 million with an estimated weighted average variable interest rate of 4.0% were issued by Stapleton Business Center Metropolitan District to fund our development project in Denver, Colorado; \$15.8 million with an estimated weighted average variable interest rate of 5.3% were issued by the County of San Bernardino to fund our development project in Ontario, California; \$8.6 million with an estimated weighted average variable interest rate of 6.42% were issued by Northwestern Business Center Metropolitan District to fund our development project in Westminster, Colorado; \$6.8 million with an estimated weighted average variable interest rate of 6.1% were issued by the City of Rancho Cucamonga to fund our development project in Rancho Cucamonga, California; and the remaining \$14 million with estimated weighted average variable interest rates ranging from 5.44% to 8.7% were issued by various districts to fund other development projects (*see* Note 3 of the accompanying Consolidated Financial Statements for details).

In addition to the above bonds, \$163.3 million of Community Facility District bonds were issued as of December 31, 2002, to finance public infrastructure improvements at Mission Bay in San Francisco and Pacific Commons in Fremont, California. The bonds related to the Mission Bay and Pacific Commons were not required to be recorded in our accompanying Consolidated Balance Sheet. These bonds have a series of maturities up to thirty years. Bonds totaling \$133.3 million were issued for Mission Bay, of which \$16.6 million have a floating rate of interest initially set at 2.85% and at December 31, 2002, 1.35%; \$23.4 million have a floating interest rate initially set at 1.85% and at December 31, 2002, 1.4%; \$54 million at a fixed rate of 6.02%; and \$39.3 million at an average coupon rate of 6.28%. We provided a letter of credit totaling \$40 million in support of the floating rate bonds issued for Mission Bay. At Pacific Commons, \$30 million of bonds were issued and have a weighted average fixed interest rate of 6.2%. Upon completion of the infrastructure improvements at Mission Bay and Pacific Commons, for which the \$133.3 million and \$30 million CFD bonds were issued, respectively, the improvements will be transferred to the respective cities. The expected reimbursement of the infrastructure costs from the bonds is reflected in Other Assets (*see* Note 15 of the accompanying Consolidated Financial Statements for details).

At December 31, 2002, for Mission Bay, \$6.6 million of the \$16.6 million floating rate bonds and \$40.4 million of the \$54 million fixed rate bonds were used to reimburse costs we incurred on behalf of the district. For Pacific Commons, approximately \$9.1 million of the bonds were used to reimburse costs we incurred on the district's behalf as of December 31, 2002. As of December 31, 2002, we have incurred costs of \$46.1 million for Mission Bay, \$16 million for Pacific Commons, \$2.4 million for Denver, and \$19.2 million for Ontario that have not been reimbursed from bond proceeds nor from other third parties. These costs are recorded as Other Assets in the accompanying Consolidated Balance Sheet. Subsequent to December 31, 2002, we received reimbursements of approximately \$1.7 million from CFD bonds, approximately \$2.6 million from assessment district bonds, and approximately \$1.4 million from third parties.

At Mission Bay, the landowners must satisfy any shortfall in annual debt service obligations for the CFD bonds, if incremental tax revenues generated by the projects are insufficient. At Pacific Commons, developed and designated developed property is taxed first, and any shortfall in annual debt service is paid by a tax on vacant land.

Insurance Changes in the insurance industry over the last year have caused the availability of certain types of coverage to decrease and the cost of available coverage to increase. In renewing our policies, we were able to essentially obtain all of our historical levels and types of insurance (although at a higher cost and, in certain instances, a higher deductible level and/or more restrictive conditions), except (1) liability coverage for our residential business, which now has a higher deductible and a much lower policy limit and (2) terrorism insurance, which was initially excluded from our property coverage placed on October 1, 2002. However, under the United States Terrorism Risk Insurance Act of 2002, carriers are now required to offer us terrorism coverage and are allowed to charge an incremental premium for such coverage. We have elected to obtain coverage that matches the risk profile for our portfolio of properties, primarily consisting of distribution/warehouse and suburban office and retail that we consider to be relatively low risk. It is estimated that this coverage will be in place sometime in the second quarter of 2003. We have placed a stand-alone terrorism policy for a single asset located near downtown San Francisco and expect that we may place additional, similar stand-alone policies if circumstances warrant. There can be no assurance that significant losses in excess of insurance proceeds will not occur.

The Company has entered into various loan documents containing customary covenants requiring the Company to maintain insurance. One or more of our lenders may take the position that the levels of terrorism coverage obtained are not adequate and is a breach of these loans and require the Company to obtain additional terrorism insurance. We do not believe such a demand would be reasonable because of the inability to obtain coverage at economically justifiable prices, and we would vigorously defend our position. If any of our lenders insist on coverage for these risks, the Company could be required to obtain additional terrorism insurance on certain assets or it could adversely affect the Company's ability to refinance certain loans.

Tax Audit In 2002, the State of California Franchise Tax Board (FTB) began auditing two of our joint ventures for the years 1999 and 2000. Both audits are in process, and no audit adjustments have yet been proposed. In early July of 2002, the FTB notified us that it would audit the Company s tax returns for the years 1999 and 2000. The audit has commenced, and no audit adjustments have been proposed.

On March 24, 2003, we received notice from the Internal Revenue Service that it intends to audit the 1999 income tax return of Catellus. The Internal Revenue Service also advised us that it intends to audit the 1999 income tax return of a mortgage REIT subsidiary of Catellus.

At this time, we do not know whether any audit will result in adjustments to the income tax returns that would require us to pay additional taxes, interest and/or penalties. If required, any such adjustments could adversely impact our liquidity, statement of operations, and/or balance sheet.

Related party transactions

The entities below are considered related parties because the listed transactions are with entities in which we have an ownership interest. There are no affiliated persons involved with these entities.

In 2001, we formed Third and King Investors, LLC, an unconsolidated joint venture. The joint venture is building a large mixed-use project at Mission Bay in San Francisco, California, consisting of approximately 595 apartments, 127,000 square feet of commercial space, and 945 parking stalls. As part of the transaction, a subsidiary entered into a 99-year ground lease with the venture, and we recognized \$3.7 million and \$1.8 million in rental income from this ground lease for the years ended December 31, 2002 and 2001, respectively. In September 2002, the joint venture closed and secured a \$165 million construction loan for the project. We have also agreed with the venture to fund, on a pro-rata basis, the balance of equity capital required and certain excess costs, if actual development costs exceed the approved development budget as set forth in the joint venture agreement. As of December 31, 2002, we had contributed \$19.4 million of the \$25 million to be funded from us. Subsequent to December 31, 2002, we contributed an additional \$2.6 million, and we do not expect to fund any additional capital contribution beyond the \$25 million.

We also provide development and management services and loan guarantees to several of our unconsolidated joint venture investments. Fees earned were \$4.2 million, \$1.2 million, and \$0.6 million in 2002, 2001, and 2000, respectively, primarily from Third and King Investors, LLC, Traer Creek LLC, Talega Village, LLC, and Serrano Associates, LLC. The increase in 2002 was primarily due to management service fees from Traer Creek and development fees from Third and King Investors, LLC. The increase in 2001 was primarily attributed to development fees from Third and King Investors, LLC.

We have a \$4.7 million note receivable from an unconsolidated joint venture, East Baybridge Partners, LP, for project costs plus accrued interest at 9.0%. This note is collateralized by property owned by the venture and matures in October 2028. We also have entered into various lease agreements with this unconsolidated joint venture. As lessee, we incurred rent expense of \$0.1 million in each of the years 2002, 2001, and 2000; this lease will expire in November 2011. As lessor, we also entered into a ground lease, which will expire in August 2054, with this unconsolidated joint venture. We recognized rental income of \$0.2 million in each of the three years 2002, 2001, and 2000, and recorded a \$1.8 million receivable associated with this lease. The venture s current projection reflects approximately \$0.6 million available funds, per year, from its operations to pay down our receivables.

New accounting standards

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Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, which addresses financial accounting and reporting for the impairment and disposal of long-lived assets. In general, sales of rental property

(a) not sold subject to an initial tenant purchase option, or (b) explicitly built with the intention of selling, but not sold within two years of completion, are referred to as Investment Properties and classified as discontinued operations. Therefore, as required, gain or loss attributed to the operations and sale of Investment Properties sold or held for sale is presented in the statement of operations as discontinued operations, net of applicable income tax. Prior period statements of operations have been reclassified to reflect as discontinued operations the gain or loss related to Investment Properties that were sold or held for sale and presented as discontinued operations during the year ended December 31, 2002. Additionally, all periods presented will likely require further reclassification in future periods as additional, similar sales of Investment Properties occur.

In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (see Note 15, Commitments and Contingencies, for required disclosure).

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure An Amendment of Statement of Financial Accounting Standards No. 123*. As of December 31, 2002, the Company has not elected the fair value recognition provisions of SFAS No. 123 (see Note 2, Summary of Significant Accounting Policies, for required disclosure).

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (FIN 46)*. FIN 46 requires that any entity meeting certain rules relating to a company s equity investment risk and level of financial control be consolidated as a variable interest entity. The statement is applicable to all variable interest entities created or acquired after January 31, 2003, and the first interim period beginning after June 15, 2003, for variable interest entities in which the Company holds a variable interest that is acquired before February 1, 2003. The Company plans on adopting FIN 46 in the time frames as required by the statement. Management expects no significant effect on the financial position, results of operations or cash flows of the Company as a result of the initial adoption of this standard in regard to existing variable interest entities; however, newly formed entities in 2003 could meet these requirements and will be recorded as appropriate.

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 executive, provided that the plan satisfies the legal requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 as amended.

Environmental Matters

Many of our properties and our subsidiaries properties are in urban and industrial areas and may have been leased to or previously owned by commercial and industrial companies that discharged hazardous materials. We and our subsidiaries incur ongoing environmental remediation and disposal costs and 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 us or our subsidiaries are capitalized and will be charged to cost of sales when the properties are sold (see Notes 2 and 15 of the accompanying Consolidated Financial Statements, for further discussion).

In recent years, certain of our subsidiaries have acquired properties with known environmental problems 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 development warrant. When our subsidiaries acquire such properties, they undertake due diligence to determine the nature of the

environmental problems and the likely cost of remediation, and they manage the risk with undertakings from third parties, including the sellers and their affiliates, remediation contractors, third party sureties, or insurers. The costs associated with environmental remediation are included in the costs estimates for properties to be developed.

Forward-Looking Information and Risk Factors

Except for historical matters, the matters discussed in this annual 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 (including, without limitation, return on costs), 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:

- Catellus or Catellus REIT's ability to obtain required consents of stockholders, lenders, debt holders, and joint venture partners of Catellus and its affiliates and of other third parties in connection with the REIT conversion and to consummate all of the transaction constituting part of the REIT conversion
- The timing of Catellus REIT's election to be taxed as a REIT and the ability of Catellus REIT to satisfy complex rules in order to qualify for taxation as a REIT for federal income tax purposes and to operate effectively within the limitations imposed by these rules
- 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, including the increased cost or unavailability of particular insurance products and the financial health of insurance companies

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- Exposure of our assets to damage from natural occurrences such as earthquakes, and weather conditions that affect the progress of construction
- 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
- Changes in income taxes due because of audit adjustments required by federal and state income tax authorities, and changes in tax laws and other circumstances that affect our ability to control the timing and recognition of deferred tax liabilities

- Liability 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
- Availability of properties for future development
- Increases in the cost of land, infrastructure, 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, such as the need to satisfy debt service guaranties upon a default by one of our co-owners
- 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
- Acts of war, other geopolitical events, and terrorist activities that could adversely affect any of the above factors

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposure is interest rate risk as our financial instruments are not subject to foreign exchange rate risk or commodity price risk. We continuously and actively monitor and manage interest costs on our debt and may enter into interest rate protection contracts based on changing market conditions. At December 31, 2002, we did not have any interest rate protection contracts outstanding.

As of December 31, 2002, approximately 80% of our debt bore interest at fixed rates and had a weighted average maturity of 7.9 years and a weighted average coupon rate of 6.56%. The interest rate risk for fixed rate debt does not have a significant impact on the Company until such debt matures and may need to be refinanced. The remainder of our debt bears interest at variable rates with a weighted average maturity of 2 years and a weighted average coupon rate of 3.49%. To the extent that we incur additional variable rate indebtedness, we increase our exposure to increases in interest rates. Since our \$307.5 million of floating rate debt is largely offset by \$311.5 million of cash and restricted cash balances, which are invested in floating rate money market investments, our exposure to short-term interest rate movements is not considered significant. We believe that moderate increases in interest expense as a result of inflation will not materially affect our financial position, results of operations, or cash flow.

Item 8. Financial Statements and Supplementary Data

The financial statements and schedules required under Regulation S-X promulgated under the Securities Act of 1933 are identified in Item 15 and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III
Item 10. Directors and Executive Officers of the Registrant**Board of Directors of the Company**

Each director is elected to serve annually until our next annual stockholders meeting and until his or her successor is elected and qualified.

| <u>Name of Director</u> | <u>Business Experience</u> | <u>Age</u> | <u>Year First Elected a Director</u> |
|-------------------------|--|------------|--------------------------------------|
| Joseph F. Alibrandi | Mr. Alibrandi has served as Chairman and Chief Executive Officer of Alibrandi Associates, L.L.C., a money management firm, since 2001. From 1985 until his retirement in 1999, Mr. Alibrandi served as Chairman of Whittaker Corporation, a diversified company with business activities in the aerospace and communications fields. From 1974 to 1994 and from 1996 to 1999, he also served as Chief Executive Officer of Whittaker Corporation. Mr. Alibrandi is currently a director of AeroVironment, Inc. | 74 | 1989 |
| Stephen F. Bollenbach | Mr. Bollenbach has served as President and Chief Executive Officer of Hilton Hotels Corporation since 1996. From 1995 to 1996, Mr. Bollenbach was Executive Vice President and Chief Financial Officer of The Walt Disney Company. From 1993 to 1995, he was President and Chief Executive Officer of Host Marriott Corporation. Mr. Bollenbach is currently Chairman of Park Place Entertainment Corporation, a gaming spin-off from Hilton, and a director of Hilton Group PLC and AOL/Time Warner, Inc. | 60 | 1999 |
| Daryl J. Carter | Mr. Carter has served as Co-Chairman of Capri Capital, L.P., a real estate investment company, since 1992. | 47 | 1995 |
| Richard D. Farman | Mr. Farman has served as Chairman Emeritus of Sempra Energy, an energy services holding company, since September 2000. From 1998 to 1999, he served as Chairman and CEO of Sempra Energy. From 1993 to 1998, he served as President, Chief Operating Officer, and Director of Pacific Enterprises, an energy services company. From 1993 to 1995, he was Chief Executive Officer of Southern California Gas Company, a subsidiary of Pacific Enterprises. Mr. Farman is currently a director of UnionBanCal; KCET, a nonprofit public service television station; and Executive Service Corps of Southern California, a nonprofit organization that provides management consulting to the nonprofit community. | 67 | 1997 |
| Christine Garvey | Ms. Garvey has served as Global Head of Corporate Real Estate Services at Deutsche Bank AG London since May 2001. From December 1999 until April 2001, Ms. Garvey served as Vice President, Worldwide Real Estate and Workplace Resources at Cisco Systems, Inc. From 1997 to 1998, Ms. Garvey served as Group Executive Vice President, Commercial Real Estate Services Group of Bank of America | 57 | 1995 |

| Name of Director | Business Experience | Age | Year First Elected a Director |
|-----------------------|--|-----|-------------------------------|
| William M. Kahane | <p>NT&SA. From 1992 to 1997, Ms. Garvey served as Executive Vice President, Corporate Real Estate, Other Real Estate Owned, Sales and Property Management of Bank of America NT&SA.</p> <p>Mr. Kahane served as Non-Executive Chairman of our board of directors from May 1998 until May 2000. Since April 2000, he has served as Chief Executive Officer and as a director of Peracon, Inc., an Internet platform that facilitates the purchase and sale of commercial real estate. Mr. Kahane also serves as managing director of GF Capital Management, a financial advisory, real estate and wealth management firm providing services to entrepreneurial-oriented clients worldwide. From 1981 until 1992, Mr. Kahane was in the investment banking department of Morgan Stanley & Co. Mr. Kahane has also served as Chairman of Milestone Partners Limited, a real estate investment banking company, since 1992.</p> | 54 | 1997 |
| Leslie D. Michelson | <p>Mr. Michelson has served as Vice Chairman and Chief Executive Officer of CaP CURE, the world's largest private source of prostate cancer research funding, since December 2002. From May 2002 until December 2002, he served as President and Chief Executive Officer of CaP CURE. From August 2001 to May 2002, Mr. Michelson served as an investor, advisor and/or director for a portfolio of entrepreneurial health care, technology and real estate companies. From March 2000 to August 2001, Mr. Michelson served as Chief Executive Officer and as a director of Acurian, Inc., an Internet company that accelerates clinical trials for new prescription drugs. From 1999 to March 2000, Mr. Michelson served as Managing Director of Saybrook Capital, LLC, an investment bank specializing in the real estate and health care industries. From June 1998 to February 1999, Mr. Michelson served as Chairman and Co-Chief Executive Officer of Protocare, a manager of clinical trials for the pharmaceutical industry and disease management firm. From 1988 to 1998, Mr. Michelson served as Chairman and Chief Executive Officer of Value Health Sciences, Inc., an applied health services research firm.</p> | 52 | 1997 |
| Deanna W. Oppenheimer | <p>Ms. Oppenheimer has served as President, Banking and Financial Services of Washington Mutual, Inc., a financial services company, since December 1999. Prior to that time, she served as President, Consumer Banking of the company from July 1999 to December 1999 and Executive Vice President, Consumer Banking from 1995 to July 1999. Ms. Oppenheimer is also a trustee and Chair-Elect of the Board of Trustees of the University of Puget Sound.</p> | 44 | 2001 |

| Name of Director | Business Experience | Age | Year First Elected a Director |
|---------------------|--|-----|-------------------------------|
| Nelson C. Rising | Mr. Rising has served as our Chairman of Board of Directors and Chief Executive Officer since May 2000. From 1994 through May 2000, Mr. Rising served as our President and Chief Executive Officer and as a Director. Mr. Rising is also currently Chairman of the Board of Directors of the Federal Reserve Bank of San Francisco, Chairman of The Real Estate Roundtable, a federal public policy advocacy group for the real estate industry, and a member of the Executive Committee of the Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT). | 61 | 1994 |
| Thomas M. Steinberg | Mr. Steinberg has served as President of Tisch Family Interests since 1997. In this capacity, he manages and supervises investments for members of the Laurence A. Tisch and Preston R. Tisch families. From 1991 until 1997, he served as Managing Director of Tisch Family Interests. Formerly, he was a Vice President of Goldman Sachs & Co. Mr. Steinberg is currently Chairman of the Board of Directors of Gunther International, Ltd., and a director of Infonxx, Inc. and Ableco. | 46 | 1994 |
| Cora M. Tellez | Ms. Tellez served as President of the Health Plans Division of Health Net, Inc., a managed health care company from January 2001 to April 2002. In 2000, she served as President of the Western Division of Health Net, Inc., and from 1998 to 1999, she served as President and Chief Executive Officer of Health Net of California, a division of Health Net, Inc. From 1997 to 1998, Ms. Tellez served as President and Chairman of Prudential HealthCare Plan of California, Inc. and from 1994 to 1997, she served as Senior Vice President and Regional Chief Executive of the Bay Region for Blue Shield of California. Ms. Tellez is currently Chair of the Asian Pacific Fund, a non-profit organization, and a director of the S.H. Cowell Foundation and Mills College. She is also a director of the Institute for the Future, Holy Names College, and Philippine International Aid. | 53 | 2001 |

Executive Officers of the Company

Our executive officers are listed below. There were no family relationships between any executive officers and directors. All executive officers serve at the pleasure of the Board of Directors, subject to compliance with various employment agreements to which the Company and the officers are parties.

| <u>Name and Position</u> | <u>Business Experience</u> | <u>Age</u> |
|---|---|------------|
| Nelson C. Rising Chairman of the Board and Chief Executive Officer | See description under Board of Directors for Mr. Rising's business experience. | 61 |
| Timothy J. Beaudin Executive Vice President | Mr. Beaudin was elected as Executive Vice President in September 2001. Before this election, Mr. Beaudin served as President of our Commercial Group, where he was responsible for managing our commercial development activities, asset management, property sales, and the property tax group. From January 1996 to early 1999, Mr. Beaudin served as our Senior Vice President, Property Operations. | 44 |
| C. William Hosler Senior Vice President and Chief Financial Officer | Mr. Hosler joined us as Senior Vice President and Chief Financial Officer in July 1999. From January 1998 to March 1999, Mr. Hosler served as the Chief Financial Officer for Capital Company of America, LLC. From 1995 to 1998, Mr. Hosler served as the Chief Financial Officer for Morgan Stanley & Co. Morgan Stanley Real Estate Funds. | 39 |
| Vanessa L. Washington Senior Vice President and General Counsel | Ms. Washington joined the Company in December 2001 and has served as Senior Vice President and General Counsel since January 2002. Before joining the Company, Ms. Washington was associated with California Federal Bank from 1992 to 2001, and served as Senior Vice President, Corporate Secretary and Counsel from 1996 to 2001. | 43 |
| Paul A. Lockie Vice President and Controller | Mr. Lockie has served as Vice President and Controller since he joined us in February 1996. | 44 |
| Jaime L. Gertmenian Vice President, Human Resources and Administration | Ms. Gertmenian has been with us since October 1995 as Vice President of Human Resources and Administration. | 36 |

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the 1934 Securities Exchange Act requires our executive officers, directors, and stockholders who own more than 10% of our stock to file reports of ownership and any changes in ownership with the Securities and Exchange Commission. Due to a courier error, a Form 5 for Christine Garvey was filed one day after the required deadline. In addition, a Form 4 for Jaime Gertmenian was filed after the required deadline, and an amended Form 5 and Form 3 was filed for Paul Lockie and Vanessa Washington, respectively, each to reflect one previously unreported option grant. Based solely on our review of copies of the Section 16(a) reports, and on written statements from our executive officers and directors, we believe that all other required reports of executive officers and directors were filed on time in 2002.

Item 11. Executive Compensation

Directors Compensation

Each director who is not an employee of Catellus receives an annual retainer of \$30,000, except Mr. Farman, our lead independent director, who receives \$100,000. The chair of each committee also receives an annual retainer of \$3,000. In addition, each non-employee director receives fees of: (i) \$1,250 for attendance at each meeting of the board of directors, (ii) \$1,200 for attendance by members of the Audit Committee at each meeting of the Audit Committee, and (iii) \$1,000 for attendance at each meeting of any other board committee of which that director is a member, and, in Mr. Farman's case, an *ex officio* member. Directors are also reimbursed for their out-of-pocket expenses for each board or committee meeting attended.

Each non-employee director also receives an automatic grant of an option to purchase 5,000 shares of common stock following each annual meeting of stockholders. The exercise price of each option is the closing stock price on the date of grant. Each option has a ten-year term and becomes exercisable in four equal installments on each of the first four anniversaries of the date of grant.

In addition, each non-employee director may irrevocably elect each year to defer any retainers or meeting fees for the following year and instead receive director stock units (Director Stock Units) in lieu of cash compensation. An election to defer must be made before the beginning of the calendar year in which the retainer or fee would otherwise be earned. The number of Director Stock Units to be credited to a director is calculated by dividing the amount of the deferred compensation by 90% of the closing price of our common stock on the date of the credit. We credit Director Stock Units on January 1 of each year for any deferred retainers, and they vest on a per diem basis over the course of that year. We credit Director Stock Units on December 31 of each year for any deferred meeting fees earned during that calendar year, and such units vest immediately. If a director dies, becomes disabled, or a change in control occurs and the director's service as a director terminates thereafter, any unvested Director Stock Units vest immediately and all Director Stock Units are immediately distributed. Each director receives a distribution of common stock pursuant to vested Director Stock Units on the earlier of a date previously selected by the director (which may not be less than three years after the election is made) or January 1 following the director's termination of service, except as described in the preceding sentence. We distribute common stock pursuant to Director Stock Units by issuing to the director an equivalent number of shares of our common stock, either in a lump sum or in a specified number of annual installments, as previously selected by the director. A Director Stock Unit has no voting rights until distributed as common stock.

COMPENSATION OF EXECUTIVE OFFICERS

Summary Compensation Table

| Name and Principal Position | Year | Annual Salary | Annual Bonus ⁽¹⁾ | Other Annual Compensation ⁽²⁾ | Securities Underlying Option Awards | All Other Compensation ⁽³⁾ |
|---|------|---------------|-----------------------------|--|-------------------------------------|---------------------------------------|
| Nelson C. Rising | 2002 | \$ 716,625 | \$ 1,885,000 | | | \$ 131,485 |
| Chairman and Chief Executive Officer | 2001 | 682,512 | 1,919,530 | | 500,000 | 60,634 |
| | 2000 | 650,000 | 1,491,750 | | 1,000,000 | 60,634 |
| Timothy J. Beaudin | 2002 | 450,000 | 1,094,667 | \$ 16,403 | | 9,515 |
| Executive Vice President | 2001 | 374,554 | 841,500 | 12,930 | | 8,664 |
| | 2000 | 325,000 | 737,754 | 13,972 | 300,000 | 8,264 |
| C. William Hosler | 2002 | 281,190 | 663,000 | | | 9,515 |
| Senior Vice President and Chief Financial Officer | 2001 | 272,999 | 484,575 | | | 8,664 |
| | 2000 | 260,000 | 507,003 | | 240,000 | 8,264 |
| Vanessa L. Washington⁽⁴⁾ | 2002 | 250,000 | 410,000 | 58 | | 9,515 |
| Senior Vice President and General Counsel | 2001 | 13,302 | | | 100,000 | |
| | 2000 | | | | | |
| Paul A. Lockie | 2002 | 179,812 | 93,009 | 336 | 10,000 | 9,107 |
| Vice President and Controller | 2001 | 172,917 | 90,000 | 331 | 10,000 | 8,664 |
| | 2000 | 148,750 | 75,000 | 309 | 40,000 | 8,239 |

(1) Bonus includes (a) performance-based annual awards earned in that year whether or not paid in a subsequent year; (b) a special bonus of \$166,667 paid to Mr. Beaudin in April 2002 pursuant to his memorandum of understanding discussed in Employment Agreements below; and (c) a hiring bonus of \$130,000 paid to Ms. Washington in April 2002.

(2) Perquisites did not, in the aggregate, exceed the lesser of \$50,000 or 10% of the total of salary and bonus for each named executive. The amounts listed represent earnings in 2002 in excess of 120% of the applicable federal rate on amounts deferred by the named executive into a Declared Rate subaccount (as described below) under Catellus Deferred Compensation Program (as described below). Each of the named executives is eligible to participate in a non-qualified deferred compensation program (the Deferred Compensation Program). Under this program, an executive may elect to defer a portion of his or her base salary, and a portion or all of his or her bonus. Amounts deferred are credited to a bookkeeping account for the executive, together with the investment returns or losses (Earnings) that would have accrued to the account if it were invested in various investment options selected by the executive. An executive who retires at age 59½ or who has more than ten years of service will be vested in an additional 25% of positive Earnings. Amounts deferred under the program into the Declared Rate subaccount are credited with a rate (the Declared Rate) based on the 120-month rolling average of ten-year U.S. Treasury Notes as of August 31 of the preceding year (rate is enhanced after age 59½ or ten years of service). Amounts deferred into the other subaccounts in the Deferred Compensation Program are subject to fluctuations in value, depending on the performance of the simulated financial investments selected by the executive.

(3) The amounts listed for 2002 represent (a) our contributions to the executives Profit Sharing & Savings Plan and Trust of \$4,000 for each of the named executives, except Mr. Lockie who received \$3,592; (b) a \$5,515 matching 401(k) contribution for each named executive; and (c) for Mr. Rising, a life insurance premium of \$51,970 and a one-time payment of \$70,000 awarded by the Compensation and Benefits Committee that was deferred until Mr. Rising's retirement.

(4) Ms. Washington joined Catellus in December 2001 and was elected as Senior Vice President and General Counsel effective as of January 14, 2002.

Option Grants in 2002

| Name | Number of Securities Underlying Options Granted | Percent of Total Options Granted to Employees in 2002 | Per Share Exercise or Base Price | Expiration Date | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term ⁽¹⁾ | |
|-----------------------|---|---|----------------------------------|-----------------|---|------------|
| | | | | | 5% | 10% |
| Nelson C. Rising | | | | | | |
| Timothy J. Beaudin | | | | | | |
| C. William Hosler | | | | | | |
| Vanessa L. Washington | | | | | | |
| Paul A. Lockie | 10,000 | 2.23% | \$ 18.05 | 11/24/2012 | \$ 113,515 | \$ 287,671 |

⁽¹⁾ The assumed 5% and 10% rates of stock price appreciation are provided in accordance with rules of the SEC and do not represent our estimate or projection of the future price of our common stock. We do not endorse the accuracy of this model, or any other model, for valuing options. Actual gains, if any, on stock option exercises are dependent on the future performance of our common stock, overall market conditions, and the option holders' continued employment through the vesting period. The potential realizable value calculation assumes that the option holder waits until the end of the option term to exercise the entire option. This table does not take into account any actual change in the price of our common stock from the date of grant to the current date. If the market price of our common stock does not appreciate over the option term, no value will be realized from the option grants made to the named officers.

Aggregated Option Exercises and

Fiscal Year-End Option Holdings

| Name | Shares Acquired on Exercise | Value Realized | Number of Unexercised Options at December 31, 2002 | | Value of Unexercised In the Money Options at December 31, 2002 | |
|-----------------------|-----------------------------|----------------|--|---------------|--|---------------|
| | | | Exercisable | Unexercisable | Exercisable | Unexercisable |
| Nelson C. Rising | | | 2,250,000 | 900,000 | \$ 22,246,250 | \$ 3,400,000 |
| Timothy J. Beaudin | | | 589,800 | 160,200 | 6,005,230 | 1,017,270 |
| C. William Hosler | | | 336,840 | 203,160 | 1,576,434 | 1,102,566 |
| Vanessa L. Washington | | | 25,000 | 75,000 | 60,000 | 180,000 |
| Paul A. Lockie | | | 22,500 | 37,500 | 133,100 | 163,300 |

The table gives information on the value (stock price less exercise price) of the options held by the named executive officers at year-end using the closing trading price (\$19.85) of our common stock on December 31, 2002. An option is in the money if the market value of the common stock exceeds the exercise price of the options. This value does not reflect the actual value of the options using a Black-Scholes option pricing model.

EMPLOYMENT AGREEMENTS

Summarized below are the employment agreements or memoranda of understanding with our named executive officers. The Compensation and Benefits Committee may award different or additional compensation from that which is described below.

Employment Agreement with Mr. Rising

We have an employment agreement with Mr. Rising that provides that he will serve as Chairman and Chief Executive Officer until December 31, 2006, and that the board of directors will use its best efforts to cause him to continue to be elected as a member of the board throughout the term of his employment. The employment agreement provides for a minimum base salary which will be increased by 5% each year, stock option awards, as well as an annual target bonus that is approved by the Compensation and Benefits Committee.

Mr. Rising's current employment agreement also provides for a retirement benefit comprised of an annual contribution (Annual Credit) to his account in Catellus' Deferred Compensation Plan, to be made after the determination of his bonus for each calendar year, in an amount equal to the present value of an annuity that would (i) pay to Mr. Rising, during his lifetime, an amount equal to 5% of the sum of his average annual salary and bonus earned for the three calendar years completed immediately prior to the date on which the Annual Credit is determined and (ii) pay to Mr. Rising's wife after his death, if she survives him, for her lifetime, one-half of the annual amount payable to Mr. Rising. In the event that Mr. Rising's employment with Catellus terminates by reason of death, disability, constructive discharge (such as reduction in his salary or maximum bonus potential or a failure to elect him as a member of the board) or without cause, Catellus will credit Mr. Rising's Deferred Compensation Plan account with an amount equal to the product of the Annual Credit and the number of years between January 1 of the year in which termination occurs and December 31, 2006. The agreement provides that the Annual Credit in any year will not exceed \$1,000,000 and the total Annual Credits will not exceed \$7,000,000. On January 1, 2002, Catellus credited Mr. Rising's Deferred Compensation Plan account with \$2,000,000 as a replacement for, and in full satisfaction of, Catellus' obligations to provide a retirement benefit under Mr. Rising's prior employment agreement.

Mr. Rising's employment can be terminated by either party at any time, with or without cause. If Mr. Rising's agreement is terminated for any reason other than for cause or his voluntary resignation, he will receive a pro rata share of that year's target bonus payment. In addition, if we terminate his employment for any reason other than for cause, or in the event of his death, disability or constructive discharge, Mr. Rising is entitled to receive, over a period of up to 24 months, payments in the aggregate equal to two times his average annual salary and bonus for the three preceding years, and all of his stock options become immediately exercisable.

If, however, Mr. Rising is constructively discharged or terminated without cause within 12 months after a change of control of Catellus, then he will, instead, receive a lump sum payment of three times his average annual salary and bonus for the three preceding years. In addition, all of his stock options will become immediately exercisable. If Mr. Rising incurs an excise tax under Section 4999 of the Internal Revenue Code (relating to excess parachute payments) with respect to any payments he receives from Catellus and the acceleration of the vesting of his options, and if his excess parachute payments are at least 110% of the amount of the parachute payments that he could have received without being subject to any excise tax under Section 4999, we will make a gross-up payment to Mr. Rising to make him whole for this excise tax and any income and employment taxes which apply to the gross-up payment.

For these purposes, a change of control generally includes:

- Acquisitions of 25% or more of our voting stock by one person or group;
- Changes in membership on our board of directors such that directors who are currently on the board of directors, and those nominated by the then-current directors, are no longer a majority of the board;
- Consummation by our stockholders of any reorganization in which our stockholders before the reorganization do not own at least 50% of the voting stock of Catellus or the surviving entity after the reorganization; or
- Consummation by our stockholders of any complete liquidation or dissolution of Catellus, or of any sale of substantially all of our assets.

Pursuant to the terms of Mr. Rising's prior employment agreement, Catellus provided him with an unsecured loan of \$1,000,000 on December 22, 2000. For more information regarding this loan, see Item 13. Certain Relationships and Related Transactions on this Form 10-K.

Memorandum of Understanding with Mr. Beaudin

We have a Memorandum of Understanding (MOU) with Mr. Beaudin dated February 7, 2001. Mr. Beaudin was elected Executive Vice President of the Company on September 26, 2001. The MOU provides

for a minimum base salary subject to annual review, as well as an annual target bonus that is approved by the Compensation and Benefits Committee. In addition, the MOU provides that Mr. Beaudin is entitled to receive a special bonus of \$166,667 on each April 6th of 2002, 2003, and 2004, if he has (i) remained continuously employed by Catellus throughout the period ending on the date the special bonus payment is otherwise due, and (ii) not sold any common stock of Catellus on or before the date the special bonus payment is otherwise due, unless that stock was acquired pursuant to the exercise of an option that was scheduled to expire by its terms within one year of the date of exercise.

Pursuant to the terms of his prior employment agreement, Mr. Beaudin received an interest-free loan from Catellus of \$500,000 on April 6, 1999. For more information regarding this loan, *see* Item 13. Certain Relationships and Related Transactions on this Form 10-K.

Mr. Beaudin's employment may be terminated by either party at any time, with or without cause. If we terminate his employment for any reason other than for cause, or in the event of his death or disability, or if he resigns for "good reason" (such as reduction in his salary or reduction in his responsibilities), Mr. Beaudin is entitled to receive, over a 24-month period, payments in the aggregate equal to two times his average annual salary and bonus for the three preceding years, and all of his stock options will become immediately exercisable.

If, however, Mr. Beaudin is terminated without cause or resigns for "good reason" within 12 months after a change of control, then he will, instead, receive a lump sum payment of three times his average annual salary and bonus for the three preceding years, and all of his stock options will become immediately exercisable. Mr. Beaudin is entitled to receive a gross-up payment for any excise tax liability he may incur, on the same terms and conditions as Mr. Rising. A change of control here has the same meaning as in Mr. Rising's employment agreement, described above.

Memorandum of Understanding with Mr. Hosler

We have a Memorandum of Understanding with Mr. Hosler that provides that he will serve as Senior Vice President and Chief Financial Officer. The MOU provides for a minimum base salary subject to annual review, as well as an annual target bonus that is approved by the Compensation and Benefits Committee. Mr. Hosler is subject to the same termination provisions as are described with respect to Mr. Beaudin's agreement, above.

Memorandum of Understanding with Ms. Washington

We have a Memorandum of Understanding with Ms. Washington that provides that she will serve as Senior Vice President and General Counsel. The MOU provides for a minimum base salary subject to annual review, as well as an annual target bonus that is approved by the Compensation and Benefits Committee. Ms. Washington's employment may be terminated by either party at any time, with or without cause. If we terminate her employment for any reason other than for cause, or if she resigns for "good reason" (such as reduction in her salary or reduction in her responsibilities), Ms. Washington is entitled to receive payments in the aggregate equal to her then one year base salary and 100% of her targeted annual bonus for the calendar year, prorated for actual months of service during such year, and all of her stock options will become immediately exercisable. If, however, Ms. Washington is terminated without cause or resigns for "good reason" within 12 months after a change of control, then she will, instead, receive a lump sum payment of two times her average annual salary and bonus for the two preceding years (or, in the event of a change in control that occurs prior to December 31, 2003, two times her then annual salary and the then current annual maximum cash bonus potential for the year), and all of her stock options will become immediately exercisable. A change of control here has the same meaning as in Mr. Rising's employment agreement, described above.

Compensation Committee Interlocks and Insider Participation

During 2002, Messrs. Alibrandi, Bollenbach, Farman, Kahane, and Michelson served as members of the Compensation and Benefits Committee. None of the members of the Compensation and Benefits Committee has ever been an employee or officer of Catellus. However, Mr. Bollenbach, a director, is President and Chief Executive Officer of Hilton Hotels Corporation, which has two hotel investments with Catellus. For more information, *see* Item 13. Certain Relationships and Related Transactions on this Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder

Matters

Security Ownership of Certain Beneficial Owners

The following table provides information about stockholders that beneficially own more than 5% of our common stock, based on documents filed under Sections 13(d) and 13(g) of the Securities Exchange Act of 1934.

| Name and Address | Shares of Common Stock Beneficially Owned | Percent of Class ⁽¹⁾ |
|---|---|------------------------------------|
| Harris Associates, L.P. ⁽²⁾ Two North LaSalle Street, Suite 500 Chicago, Illinois 60602 | 8,206,177 | 9.4% |
| California Public Employees Retirement System (CalPERS) ⁽³⁾ Lincoln Plaza, 400 P Street Sacramento, California 95814 | 8,182,276 | 9.4% |
| Wallace R. Weitz & Company ⁽⁴⁾ 1125 South 103 rd Street, Suite 600 Omaha, Nebraska 68124 | 6,289,700 | 7.2% |
| Third Avenue Management LLC ⁽⁵⁾ 707 Third Avenue New York, New York 10017-2023 | 5,683,511 | 6.5% |
| Southeastern Asset Management, Inc. ⁽⁶⁾ 6410 Poplar, Suite 900 Memphis, Tennessee 38119 | 4,989,700 | 5.7% |

(1) Percentage ownership is calculated using Catellus total issued and outstanding common stock as of March 10, 2003.

(2) Based upon information in a Schedule 13G/A filed by Harris Associates, L.P. on February 14, 2003.

(3) Based upon information in a Schedule 13D filed by CalPERS on December 17, 2001.

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- (4) Based upon information in a Schedule 13G/A filed by Wallace R. Weitz & Company on February 4, 2002.
- (5) Based upon information in a Schedule 13G/A filed by Third Avenue Management LLC on January 29, 2003.
- (6) Based upon information in a Schedule 13G/A filed by Southeastern Asset Management, Inc. on January 10, 2003.

Security Ownership of Directors and Executive Officers

The following table shows how much of our common stock each director and named executive officer beneficially owned, and the amount owned by all current directors and executive officers as a group, as of March 11, 2003. Each person has sole voting and investment power over the shares shown unless otherwise indicated.

| <u>Beneficial Owner</u> | <u>Shares of Common Stock Beneficially Owned⁽¹⁾</u> | <u>Percent of Common Stock Owned</u> |
|--|--|--|
| Joseph F. Alibrandi ⁽²⁾ | 36,995 | * |
| Stephen F. Bollenbach ⁽³⁾ | 26,190 | * |
| Daryl J. Carter ⁽⁴⁾ | 40,643 | * |
| Richard D. Farman ⁽⁵⁾ | 33,643 | * |
| Christine Garvey ⁽⁶⁾ | 31,121 | * |
| William M. Kahane ⁽⁷⁾ | 40,758 | * |
| Leslie D. Michelson ⁽⁸⁾ | 21,744 | * |
| Deanna W. Oppenheimer ⁽⁹⁾ | 5,893 | * |
| Nelson C. Rising ⁽¹⁰⁾ | 2,338,673 | 2.7% |
| Thomas M. Steinberg ⁽¹¹⁾ | 37,951 | * |
| Cora M. Tellez ⁽¹²⁾ | 12,384 | * |
| Timothy J. Beaudin ⁽¹³⁾ | 688,433 | * |
| C. William Hosler ⁽¹⁴⁾ | 396,097 | * |
| Vanessa L. Washington ⁽¹⁵⁾ | 25,000 | * |
| Paul A. Lockie ⁽¹⁶⁾ | 32,500 | * |
| All current directors and executive officers as a group (15 persons) | 3,768,025 | 4.3% |

* Less than one percent.

(1) In addition to shares held directly, the number of shares shown as beneficially owned includes (i) shares subject to options that are exercisable within 60 days of March 11, 2003, and (ii) non-voting Director Stock Units which have been credited as described under Directors Compensation. All Director Stock Units have vested, unless otherwise noted below.

(2) *Mr. Alibrandi*. Includes 14,971 Director Stock Units, 1,680 of which were credited on January 1, 2003, and vest on a per diem basis over the course of the year; 384 shares held in a revocable trust of which Mr. Alibrandi is trustor, trustee, and beneficiary; and 17,500 shares subject to options.

(3) *Mr. Bollenbach*. Includes 13,690 Director Stock Units, 1,736 of which were credited on January 1, 2003, and vest on a per diem basis over the course of the year; and 12,500 shares subject to options.

(4) *Mr. Carter*. Includes 18,143 Director Stock Units, 1,736 of which were credited on January 1, 2003, and vest on a per diem basis over the course of the year; and 22,500 shares subject to options.

(5) *Mr. Farman*. Includes 5,704 Director Stock Units and 12,500 shares subject to options.

(6) *Ms. Garvey*. Includes 8,621 Director Stock Units, 420 of which were credited on January 1, 2003, and vest on a per diem basis over the course of the year; and 22,500 shares subject to options.

(7) *Mr. Kahane*. Includes 28,258 Director Stock Units, 1,736 of which were credited on January 1, 2003, and vest on a per diem basis over the course of the year; and 12,500 shares subject to options.

(8) *Mr. Michelson*. Includes 9,244 Director Stock Units, 840 of which were credited on January 1, 2003, and vest on a per diem basis over the course of the year; and 12,500 shares subject to options.

(9) *Ms. Oppenheimer*. Includes 2,143 Director Stock Units, 840 of which were credited on January 1, 2003, and vest on a per diem basis over the course of the year; and 3,750 shares subject to options.

(10) *Mr. Rising*. Includes 2,250,000 shares subject to options. This figure does not include 35,000 shares held by the Rising Family Foundation, a nonprofit charitable foundation of which Mr. Rising and his wife are the sole directors, and 4,375 shares held by a trust of which Mr. Rising's adult son, Christopher Rising, is trustee. Mr. Rising disclaims beneficial ownership of the shares held by the Rising Family Foundation and the shares held in trust by his son.

- (11) *Mr. Steinberg*. Includes 7,312 Director Stock Units, 840 of which were credited on January 1, 2003, and vest on a per diem basis over the course of the year; and 22,500 shares subject to options.
- (12) *Ms. Tellez*. Includes 6,834 Director Stock Units, 1,680 of which were credited on January 1, 2003, and vest on a per diem basis over the course of the year; and 3,750 shares subject to options.
- (13) *Mr. Beaudin*. Includes 659,700 shares subject to options.
- (14) *Mr. Hosler*. Includes 392,760 shares subject to options.
- (15) *Ms. Washington*. All shares are subject to options.
- (16) *Mr. Lockie*. All shares are subject to options.

Equity Compensation Plan Information

The following table provides information as of December 31, 2002, with respect to the shares of the Company's common stock that may be issued under the Company's existing equity compensation plans.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) |
|--|---|---|--|
| Plan Category | (a) | (b) | (c) |
| Equity compensation plans not approved by security holders | | | |
| Equity compensation plans approved by security holders | 8,448,275 | \$ 13.673 | 1,224,744 |
| Total | 8,448,275 | \$ 13.673 | 1,224,744 |

Item 13. Certain Relationships and Related Transactions

Mr. Bollenbach, a director, is President and Chief Executive Officer of Hilton Hotels Corporation (Hilton), which has common investments with Catellus in two hotels: the New Orleans Riverside Hilton Hotel, located in New Orleans, Louisiana, and the Embassy Suites Hotel located in San Diego, California. These investments pre-date both Mr. Bollenbach's tenure as an officer of Hilton Hotels Corporation and his tenure as a member of our board of directors. Our share of the partnership distributions from these properties in 2002 totaled approximately \$6.1 million.

The New Orleans Riverside Hilton Hotel is owned by International Rivercenter, a limited partnership, and managed by Hilton under a management contract with the partnership. Catellus owns a 25.2% general partnership interest in International Rivercenter and Hilton owns a 67.4% general partnership interest. Catellus and Hilton also each own a 38.75% partnership interest in New Orleans Rivercenter, a general partnership that owns an eight-acre parcel of land adjacent to the New Orleans Riverside Hilton Hotel. The remaining 22.5% partnership interest in this land parcel is held by New Orleans International Hotel, a limited partnership, in which Catellus owns a 15.9% limited partnership interest and Hilton owns a 29.5% limited partnership interest. All remaining interests in the foregoing partnerships are held by unrelated parties.

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The Embassy Suites Hotel in San Diego, California is owned by Pacific Market Investment Company, a general partnership, equally owned by Catellus and Embassy Suites, Inc. Embassy Suites, Inc. manages that hotel under a management agreement with the partnership, and Embassy Suites, Inc. has been a subsidiary of Hilton since November 1999.

Ms. Oppenheimer, a director since May 2001, is President of Banking and Financial Services of Washington Mutual, Inc., a financial services company. Washington Mutual Bank, FA, a subsidiary of Washington Mutual, Inc., made a construction loan to us on April 5, 2001, in the principal amount of \$9.9 million and payable at an interest rate of 30-day LIBOR plus 2.0%. The balance outstanding on that loan as of March 11, 2003 was \$6.3 million. In addition, Washington Mutual, Inc. has merged with Bank United Corp., which made a construction loan to us on September 15, 2000, in the principal amount of \$9.75 million, payable at an interest rate of 30-day LIBOR plus 2.5%. That loan was paid in full on July 23, 2002. Catellus believes that the terms of each of the foregoing transactions are no less favorable to Catellus than the terms obtainable in an arm's length transaction with an independent third party.

In the normal course of business, we build buildings for and lease space to businesses similar to those with which some of our directors are affiliated. We have entered into two five-year leases with Washington Mutual Bank for premises of approximately 40,000 square feet and 25,947 square feet, respectively, owned by a subsidiary of Catellus in Northridge, California. In addition, we have entered into a ten-year lease with Washington Mutual Bank for premises of approximately 50,922 square feet located in a building owned by Catellus located in Coppell, Texas. Catellus believes that the proposed terms of each of the foregoing transactions are no less favorable to Catellus than the terms obtainable in an arm's length transaction with an independent third party. We may, in the future, discuss other transactions of these types with businesses with which our directors are affiliated. Any such transactions will be approved by a majority of the disinterested directors.

On December 22, 2000, we made an unsecured loan of \$1,000,000 to Mr. Rising, Chairman of our board of directors and Chief Executive Officer, pursuant to the terms of his employment agreement. Principal is payable in three equal installments on the first three anniversaries of the termination of Mr. Rising's employment. Interest on the unpaid principal at the rate of 5.87% per annum is payable on February 28 of each year until all principal and interest amounts are paid in full.

In April 1999, we made an interest-free loan of \$500,000 to Mr. Beaudin for the purchase or construction of a residence in connection with his relocation to the Denver, Colorado, area, pursuant to the terms of his employment agreement. The loan is secured by a junior deed of trust on the residence. Principal is payable in installments of \$166,666 on each April 6th of 2002 and 2003, and \$166,667 on April 6, 2004. The balance outstanding on this loan as of March 11, 2003, is \$333,333. In conjunction with the loan, Mr. Beaudin agreed to pledge certain of his stock options in Catellus as additional collateral for the loan, and further agreed not to conduct a cashless exercise of such options until the loan is paid in full. On October 26, 2001, we agreed to allow Mr. Beaudin to exercise an option to purchase 50,000 shares of common stock, which, unless exercised, would have expired on February 10, 2002. In consideration for being permitted to exercise the expiring stock options, Mr. Beaudin agreed to sell only as many shares as were necessary to pay the exercise price and applicable taxes. Mr. Beaudin further agreed to hold the remaining shares until such time as the loan is paid in full or he has received advance written clearance from Catellus to sell the shares.

Item 14. Controls and Procedures

Based on their evaluation as of a date within 90 days of the filing date of this Annual Report on Form 10-K, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) and (a)(2) *Financial Statements and Financial Statement Schedules*

See Index to Financial Statements and Financial Statement Schedules at F-1 herein.

All other Schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(a)(3) *Exhibits*

See Index to Exhibits on Pages E-1 and E-2.

(b) *Reports on Form 8-K*

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Richard D. Farman

*

Director

August 11, 2003

Christine Garvey

*

Director

August 11, 2003

William M. Kahane

*

Director

August 11, 2003

Leslie D. Michelson

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|-------------------------|--------------|-----------------|
| * | Director | August 11, 2003 |
| <hr/> | | |
| Deanna W. Oppenheimer | | |
| * | Director | August 11, 2003 |
| <hr/> | | |
| Thomas M. Steinberg | | |
| * | Director | August 11, 2003 |
| <hr/> | | |
| Cora M. Tellez | | |
| <hr/> | | |
| *By: /s/ PAUL A. LOCKIE | | |
| <hr/> | | |
| Paul A. Lockie | | |
| Attorney-in-Fact | | |
| August 11, 2003 | | |

I, Nelson C. Rising, certify that:

1. I have reviewed this amended annual report on Form 10-K/A of Catellus Development Corporation;
2. Based on my knowledge, this amended annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amended annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this amended annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Catellus Development Corporation as of, and for, the periods presented in this amended annual report;
4. Catellus Development Corporation's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 or 15d-14) for Catellus Development Corporation and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to Catellus Development Corporation, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this amended annual report is being prepared;
 - b) evaluated the effectiveness of Catellus Development Corporation's disclosure controls and procedures as of a date within 90 days prior to the filing date of this amended annual report (the Evaluation Date); and
 - c) presented in this amended annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. Catellus Development Corporation's other certifying officers and I have disclosed, based on our most recent evaluation, to Catellus Development Corporation's auditors and the Audit Committee of Catellus Development Corporation's Board of Directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect Catellus Development Corporation's ability to record, process, summarize and report financial data and have identified for Catellus Development Corporation's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in Catellus Development Corporation's internal controls; and
6. Catellus Development Corporation's other certifying officers and I have indicated in this amended annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 11, 2003

/s/ NELSON C. RISING

Nelson C. Rising

Chairman and Chief Executive Officer

I, C. William Hosler, certify that:

1. I have reviewed this amended annual report on Form 10-K/A of Catellus Development Corporation;
2. Based on my knowledge, this amended annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amended annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this amended annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Catellus Development Corporation as of, and for, the periods presented in this amended annual report;
4. Catellus Development Corporation's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 or 15d-14) for Catellus Development Corporation and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to Catellus Development Corporation, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this amended annual report is being prepared;
 - b) evaluated the effectiveness of Catellus Development Corporation's disclosure controls and procedures as of a date within 90 days prior to the filing date of this amended annual report (the Evaluation Date); and
 - c) presented in this amended annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. Catellus Development Corporation's other certifying officers and I have disclosed, based on our most recent evaluation, to Catellus Development Corporation's auditors and the Audit Committee of Catellus Development Corporation's Board of Directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect Catellus Development Corporation's ability to record, process, summarize and report financial data and have identified for Catellus Development Corporation's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in Catellus Development Corporation's internal controls; and
6. Catellus Development Corporation's other certifying officers and I have indicated in this amended annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 11, 2003

/s/ C. WILLIAM HOSLER

C. William Hosler

Senior Vice President

Chief Financial Officer

CATELLUS DEVELOPMENT CORPORATION**INDEX TO FINANCIAL STATEMENTS**

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of

Catellus Development Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of stockholders' equity, and of cash flows present fairly, in all material respects, the financial position of Catellus Development Corporation and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 17 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, effective January 1, 2002.

PRICEWATERHOUSECOOPERS LLP

San Francisco, California

January 29, 2003, except as to Note 18,

for which the date is March 3, 2003

CATELLUS DEVELOPMENT CORPORATION

CONSOLIDATED BALANCE SHEET

(In thousands)

| | December 31, | |
|---|---------------------|---------------------|
| | 2002 | 2001 |
| Assets | | |
| Properties | \$ 2,448,081 | \$ 2,276,508 |
| Less accumulated depreciation | (399,923) | (354,557) |
| | <u>2,048,158</u> | <u>1,921,951</u> |
| Other assets and deferred charges, net | 273,853 | 167,305 |
| Notes receivable, less allowance | 44,947 | 73,335 |
| Accounts receivable, less allowance | 14,211 | 22,663 |
| Assets held for sale | 2,760 | |
| Restricted cash and investments | 36,593 | 7,566 |
| Cash and cash equivalents | 274,927 | 222,695 |
| | <u>2,695,449</u> | <u>\$ 2,415,515</u> |
| Total | <u>\$ 2,695,449</u> | <u>\$ 2,415,515</u> |
| Liabilities and stockholders equity | | |
| Mortgage and other debt | \$ 1,500,955 | \$ 1,310,457 |
| Accounts payable and accrued expenses | 117,493 | 145,688 |
| Deferred credits and other liabilities | 151,466 | 177,656 |
| Liabilities associated with assets held for sale | 3,233 | |
| Deferred income taxes | 318,970 | 290,658 |
| | <u>2,092,117</u> | <u>1,924,459</u> |
| Total liabilities | <u>2,092,117</u> | <u>1,924,459</u> |
| Commitments and contingencies (Note 15) | | |
| Minority interests | 57,363 | 55,799 |
| | <u>57,363</u> | <u>55,799</u> |
| Stockholders equity | | |
| Common stock, 110,817 and 110,209 shares issued, and 87,170 and 86,562 shares outstanding at December 31, 2002 and 2001, respectively | 1,108 | 1,102 |
| Paid-in capital | 531,362 | 521,312 |
| Treasury stock, at cost (23,647 shares at December 31, 2002 and 2001) | (401,082) | (401,082) |
| Accumulated earnings | 414,581 | 313,925 |
| | <u>545,969</u> | <u>435,257</u> |
| Total stockholders equity | <u>545,969</u> | <u>435,257</u> |
| Total | <u>\$ 2,695,449</u> | <u>\$ 2,415,515</u> |

See notes to consolidated financial statements.

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CATELLUS DEVELOPMENT CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands, except per share data)

| | Year Ended December 31, | | |
|--|-------------------------|------------------|------------------|
| | 2002 | 2001 | 2000 |
| Revenues | | | |
| Rental revenue | \$ 266,951 | \$ 232,106 | \$ 203,691 |
| Sales revenue | 139,604 | 245,804 | 451,096 |
| Management, development and other fees | 7,088 | 6,000 | 15,460 |
| | <u>413,643</u> | <u>483,910</u> | <u>670,247</u> |
| Costs and expenses | | | |
| Property operating costs | (71,559) | (61,704) | (54,468) |
| Cost of sales | (89,661) | (149,698) | (337,755) |
| Selling, general and administrative expenses | (25,990) | (26,570) | (45,801) |
| Corporate administrative costs | (17,705) | (19,256) | (15,675) |
| Depreciation and amortization | (63,149) | (51,891) | (45,939) |
| | <u>(268,064)</u> | <u>(309,119)</u> | <u>(499,638)</u> |
| Operating Income | <u>145,579</u> | <u>174,791</u> | <u>170,609</u> |
| Other income | | | |
| Equity in earnings of operating joint ventures, net | 8,277 | 8,833 | 9,809 |
| Equity in earnings of development joint ventures, net | 29,232 | 25,978 | 27,780 |
| Gain on non-strategic asset sales | 7,264 | 3,909 | 46,279 |
| Interest income | 9,871 | 23,608 | 11,203 |
| Other | 9,196 | 5,740 | 235 |
| | <u>63,840</u> | <u>68,068</u> | <u>95,306</u> |
| Other expenses | | | |
| Interest expense | (60,188) | (56,753) | (49,975) |
| Other | (2,023) | (17,477) | (19,849) |
| | <u>(62,211)</u> | <u>(74,230)</u> | <u>(69,824)</u> |
| Income before minority interests, income taxes, and discontinued operations | <u>147,208</u> | <u>168,629</u> | <u>196,091</u> |
| Minority interests | (6,106) | (6,142) | (10,701) |
| Income before income taxes and discontinued operations | <u>141,102</u> | <u>162,487</u> | <u>185,390</u> |
| Income tax expense | | | |
| Current | (32,567) | (16,367) | (12,254) |
| Deferred | (21,385) | (49,499) | (62,556) |
| | <u>(53,952)</u> | <u>(65,866)</u> | <u>(74,810)</u> |

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| | | | |
|--|-------------------|------------------|-------------------|
| Income from continuing operations | 87,150 | 96,621 | 110,580 |
| Discontinued operations, net of income tax: | | | |
| Gain from disposal of discontinued operations | 13,748 | | |
| (Loss) income from discontinued operations | (242) | (100) | 427 |
| Gain (loss) from discontinued operations | 13,506 | (100) | 427 |
| Net income | \$ 100,656 | \$ 96,521 | \$ 111,007 |
| Income per share from continuing operations | | | |
| Basic | \$ 1.00 | \$ 0.97 | \$ 1.04 |
| Assuming dilution | \$ 0.97 | \$ 0.94 | \$ 1.02 |
| Income per share from discontinued operations | | | |
| Basic | \$ 0.16 | \$ | \$ |
| Assuming dilution | \$ 0.16 | \$ | \$ |
| Net income per share | | | |
| Basic | \$ 1.16 | \$ 0.97 | \$ 1.04 |
| Assuming dilution | \$ 1.13 | \$ 0.94 | \$ 1.02 |
| Average number of common shares outstanding basic | 86,987 | 99,958 | 106,561 |
| Average number of common shares outstanding diluted | 89,463 | 102,685 | 109,017 |

See notes to consolidated financial statements.

CATELLUS DEVELOPMENT CORPORATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(In thousands)

| | Common Stock | | Treasury Stock | | Paid-In Capital | Accumulated Earnings | Total |
|-------------------------------------|--------------|----------|----------------|--------------|--------------------|-------------------------|------------|
| | Shares | Amount | Shares | Amount | | | |
| Balance at December 31, 1999 | 107,185 | \$ 1,072 | | \$ | \$ 483,503 | \$ 106,397 | \$ 590,972 |
| Exercise of stock options and other | 903 | 9 | | | 9,917 | | 9,926 |
| Treasury stock purchases | | | (1,997) | (28,660) | | | (28,660) |
| Net income | | | | | | 111,007 | 111,007 |
| Balance at December 31, 2000 | 108,088 | 1,081 | (1,997) | (28,660) | 493,420 | 217,404 | 683,245 |
| Exercise of stock options and other | 2,121 | 21 | | | 27,892 | | 27,913 |
| Treasury stock purchases | | | (21,650) | (372,422) | | | (372,422) |
| Net income | | | | | | 96,521 | 96,521 |
| Balance at December 31, 2001 | 110,209 | 1,102 | (23,647) | (401,082) | 521,312 | 313,925 | 435,257 |
| Exercise of stock options and other | 608 | 6 | | | 10,050 | | 10,056 |
| Net income | | | | | | 100,656 | 100,656 |
| Balance at December 31, 2002 | 110,817 | \$ 1,108 | (23,647) | \$ (401,082) | \$ 531,362 | \$ 414,581 | \$ 545,969 |

See notes to consolidated financial statements.

CATELLUS DEVELOPMENT CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

| | Year Ended December 31, | | |
|---|-------------------------|------------------|----------------|
| | 2002 | 2001 | 2000 |
| Cash flows from operating activities: | | | |
| Net income | \$ 100,656 | \$ 96,521 | \$ 111,007 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 63,149 | 51,891 | 45,939 |
| Deferred income taxes | 21,385 | 49,499 | 62,556 |
| Deferred gain recognized | (14,820) | (4,987) | (22,737) |
| Amortization of deferred loan fees and other costs | 5,993 | 5,775 | 6,400 |
| Equity in earnings of joint ventures | (37,509) | (34,811) | (37,589) |
| Gain on sales of investment property | (22,252) | (33,078) | (38,382) |
| Minority interests in earnings of consolidated entities | 6,106 | 6,142 | 10,701 |
| Operating distributions from joint ventures | 86,222 | 43,786 | 26,714 |
| Cost of development property and non-strategic assets sold | 83,612 | 166,340 | 301,902 |
| Capital expenditures for development property | (56,955) | (66,277) | (167,520) |
| Other property acquisitions | (738) | (16,785) | |
| Other, net | 2,996 | (4,861) | (1,004) |
| Change in assets and liabilities: | | | |
| Accounts and notes receivable | 37,092 | (28,418) | (12,319) |
| Other assets and deferred charges | (78,035) | (37,589) | (4,045) |
| Accounts payable and accrued expenses | (17,144) | 15,306 | (13,283) |
| Deferred credits and other liabilities | 7,388 | 133,310 | 27,673 |
| Net cash provided by operating activities | 187,146 | 341,764 | 296,013 |
| Cash flows from investing activities: | | | |
| Property acquisitions | (24,449) | (79,782) | (35,471) |
| Capital expenditures for investment property | (227,533) | (254,807) | (226,424) |
| Tenant improvements | (9,945) | (2,893) | (5,767) |
| Reimbursable construction costs | (54,426) | (16,097) | (13,156) |
| Net proceeds from sale of investment property | 29,460 | 50,149 | 66,970 |
| Distributions from joint ventures | | | 15,600 |
| Contributions to joint ventures | (17,365) | (2,035) | |
| (Increase) decrease in restricted cash and investments | (29,027) | 37,912 | (25,913) |
| Net cash used in investing activities | (333,285) | (267,553) | (224,161) |
| Cash flows from financing activities: | | | |
| Borrowings | 445,778 | 398,501 | 540,007 |
| Repayment of borrowings | (251,626) | (228,763) | (282,710) |
| Distributions to minority partners | (4,542) | (5,106) | (7,123) |
| Purchase of treasury stock | | (372,422) | (28,660) |
| Proceeds from issuance of common stock | 8,761 | 19,716 | 7,782 |
| Net cash provided by (used in) financing activities | 198,371 | (188,074) | 229,296 |
| Net increase (decrease) in cash and cash equivalents | 52,232 | (113,863) | 301,148 |
| Cash and cash equivalents at beginning of year | 222,695 | 336,558 | 35,410 |

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| | | | |
|---|------------|------------|------------|
| Cash and cash equivalents at end of year | \$ 274,927 | \$ 222,695 | \$ 336,558 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest (net of amount capitalized) | \$ 53,706 | \$ 52,378 | \$ 41,131 |
| Income taxes | \$ 32,386 | \$ 8,110 | \$ 20,669 |
| Non-cash financing activities: | | | |
| Seller-financed acquisitions | \$ | \$ 10,000 | \$ 1,702 |
| Debt forgiveness property reconveyance | \$ (507) | \$ (3,844) | \$ |

See notes to consolidated financial statements.

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 financial statements. The Company's rental portfolio and developable land, consisting of industrial, residential, retail, office, and other projects are located mainly in major markets in California, Illinois, Texas, Colorado, and Oregon.

Note 2. Summary of Significant Accounting Policies

Revenue recognition Rental revenue, in general, is recognized when due from tenants; however, revenue from leases with rent concessions or fixed escalations is recognized on a straight-line basis over the initial term of the lease. Direct costs of negotiating and consummating a lease are deferred and amortized on a straight-line basis over the initial term of the related lease.

The Company recognizes revenue from the sale of properties using the accrual method. Sales not qualifying for full recognition at the time of sale are accounted for under other appropriate deferral methods, including the percentage-of-completion method. In certain cases, the Company retains the right to repurchase property from the buyer at a specified price. Profit on these sales is not recognized until the Company's right to repurchase expires. In other cases, when the Company receives inadequate cash down payment and takes a note for the balance, profit is deferred until such time as sufficient cash is received to meet minimum down payment requirements. In general, specific identification and relative sales value methods are used to determine the cost of sales.

Property and deferred costs Real estate is stated at the lower of cost or estimated fair value using the methodology described as follows: (a) for operating properties and properties held for investment, a write-down to estimated fair value is recognized when a property's estimated undiscounted future cash flow is less than its net book value; (b) for properties held for sale, a write-down to estimated fair value is recorded when the Company determines that the net book value exceeds the estimated selling price, less cost to sell. This evaluation is made by management on a property-by-property basis. The evaluation of future cash flows and fair value of individual properties requires significant judgment; it is reasonably possible that a change in estimate could occur as economic conditions change.

The Company capitalizes direct construction and development costs. Costs associated with financing or leasing projects are also capitalized and amortized over the period benefited by those expenditures.

Depreciation is computed using the straight-line method. Buildings and improvements are depreciated using lives of between 20 and 40 years. Tenant improvements are depreciated over the primary terms of the leases (generally 3-15 years), while furniture and equipment are depreciated using lives ranging between 3 and 10 years.

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Maintenance and repair costs are charged to expense as incurred, while significant improvements, replacements, and major renovations are capitalized.

Allowance for uncollectible accounts Accounts receivable are net of an allowance for uncollectible accounts totaling \$1.6 million and \$1.4 million at December 31, 2002 and 2001, respectively.

Environmental costs The Company incurs ongoing environmental remediation costs, including cleanup costs, consulting fees for environmental studies and investigations, monitoring costs, and legal costs relating to cleanup, litigation defense, and the pursuit of responsible third parties. Costs incurred in connection with operating properties

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CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and properties previously sold are expensed. Costs relating to undeveloped land are capitalized as part of development costs. Costs incurred for properties to be sold are deferred and charged to cost of sales when the properties are sold.

The Company maintains a reserve for estimated costs of environmental remediation to be incurred in connection with operating properties and properties previously sold. For developable land, remediation costs will be capitalized, as incurred, as part of the project costs.

Income taxes Income taxes are recorded based on the future tax effects of the difference between the tax and financial reporting bases of the Company's assets and liabilities. In estimating future tax consequences, potential future events are considered except for potential changes in income tax law or in rates.

Principles of consolidation The accompanying consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, and investees which are controlled by the Company (i.e. ability to exercise control over the operations of an entity, including a board where a majority of the votes can be obtained by employees of the Company). Other investees are accounted for by using the equity method, including investees in which the Company has a majority interest, but the minority venture partner(s) has (have) substantive participating rights in the operations of the investee.

Cash and cash equivalents and restricted cash and investments The Company considers all highly liquid investments with maturity of three months or less at time of purchase to be cash equivalents. Of the restricted cash and investments totaling \$36.6 million and \$7.6 million at December 31, 2002 and 2001, respectively, \$5.1 million and \$0.4 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. Approximately \$24.6 million at December 31, 2002, represents funds held in pledge accounts at a bank until certain loan collateral pool requirements are met. In addition, restricted investments of \$6.9 million and \$7.2 million at December 31, 2002 and 2001, respectively, represent certificates of deposit used to guarantee lease performance. The Company maintains cash balances with investment grade financial institutions to mitigate the risk of loss for amounts on deposit in excess of federally insured limits.

Interest rate protection contracts (Treasury-lock contracts) The Company may enter into interest rate protection agreements from time to time to lock its interest rate when negotiating fixed rate financing agreements. Amounts paid or received would be capitalized and amortized as a component of interest expense using the effective interest method over the term of the associated debt agreement.

Notes receivable Notes receivable are carried at the principal balance, less estimated uncollectible amounts totaling \$1.8 million at December 31, 2002 and 2001. Interest is recognized as earned; however, the Company discontinues accruing interest when collection is considered doubtful. Notes are generally collateralized by real property or a financing agreement.

Financial instruments The historical cost basis of the Company's notes receivable is representative of fair value based on a comparison to year-end interest rates for receivables of comparable risks and maturities. Variable rate debt has carrying values which approximate estimated fair value while fixed rate mortgage loans have an estimated aggregate fair value of \$1.2 billion and remaining principal of \$1.1 billion based on

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a comparison to year-end interest rates for debt with similar terms and remaining maturities.

Bond financings Assessment bonds are usually issued by a municipality district or a tax incremental financing entity to finance costs of public infrastructure improvements. The Company records an obligation within mortgage and other debt if the assessment to be levied by the bond s issuer is fixed and determinable, the assessment has been guaranteed by the Company or the Company controls the municipal board (*see* Notes 3 and

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15). In all other cases, the Company records a receivable for the amount due from the municipality as it is incurred.

Income per share Income from continuing operations per share of common stock applicable to common stockholders is computed by dividing income from continuing operations by the weighted average number of shares of common stock outstanding during the period (see table below for effect of dilutive securities).

| | Year Ended December 31, | | | | | | | | |
|--|-------------------------|--------|-----------|-----------|---------|-----------|------------|---------|-----------|
| | 2002 | | | 2001 | | | 2000 | | |
| | | | Per Share | | | Per Share | | | Per Share |
| | Income | Shares | Amount | Income | Shares | Amount | Income | Shares | Amount |
| (In thousands, except per share data) | | | | | | | | | |
| Income from continuing operations | \$ 87,150 | 86,987 | \$ 1.00 | \$ 96,621 | 99,958 | \$ 0.97 | \$ 110,580 | 106,561 | \$ 1.04 |
| Effect of dilutive securities: stock options | | 2,476 | | | 2,727 | | | 2,456 | |
| Income from continuing operations assuming dilution | \$ 87,150 | 89,463 | \$ 0.97 | \$ 96,621 | 102,685 | \$ 0.94 | \$ 110,580 | 109,017 | \$ 1.02 |
| Gain (loss) from discontinued operations | \$ 13,506 | 86,987 | \$ 0.16 | \$ (100) | 99,958 | \$ | \$ 427 | 106,561 | \$ |
| Effect of dilutive securities: stock options | | 2,476 | | | 2,727 | | | 2,456 | |
| Gain (loss) from discontinued operations assuming dilution | \$ 13,506 | 89,463 | \$ 0.16 | \$ (100) | 102,685 | \$ | \$ 427 | 109,017 | \$ |
| Net income | \$ 100,656 | 86,987 | \$ 1.16 | \$ 96,521 | 99,958 | \$ 0.97 | \$ 111,007 | 106,561 | \$ 1.04 |
| Effect of dilutive securities: stock options | | 2,476 | | | 2,727 | | | 2,456 | |
| Net income assuming dilution | \$ 100,656 | 89,463 | \$ 1.13 | \$ 96,521 | 102,685 | \$ 0.94 | \$ 111,007 | 109,017 | \$ 1.02 |

Use of estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and

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the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Reclassifications Certain prior year amounts have been reclassified to conform with the current year financial statement presentation.

Partnership accounting The Company accounts for unconsolidated partnerships or other investees (collectively referred to as unconsolidated joint ventures) under the equity method including investees in which the Company has a majority interest, but the minority venture partner(s) has (have) substantive participating rights in the operations of the investee. Earnings or losses of unconsolidated joint ventures are recognized to the extent of the Company's ownership or participation interest. The Company does not recognize its share of losses generated by these investments in excess of its investment unless it is legally committed or intends to fund deficits in the future. The Company may provide fee services to joint ventures but will recognize revenues only to the extent of the outside partner's ownership interest and will defer profits on its ownership interest until the joint venture is sold or liquidated (*see* Note 5, Joint Venture Investments).

Minority interests In 1999, the Company formed a subsidiary REIT and sold 10% of this subsidiary's stock to minority investors. Subsequent to December 31, 2002, the Company acquired the 10% interest of the minority investors for \$60.7 million (*see* Note 18, Subsequent Events).

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New accounting standards

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, which addresses financial accounting and reporting for the impairment and disposal of long-lived assets. In general, sales of rental property, (a) not sold subject to an initial tenant purchase option, or (b) explicitly built with the intention of selling, but not sold within two years of completion, are referred to as Investment Properties and classified as discontinued operations. Therefore, as required, gain or loss attributed to the operations and sale of Investment Properties sold or held for sale is presented in the statement of operations as discontinued operations, net of applicable income tax. Prior period statements of operations have been reclassified to reflect as discontinued operations the gain or loss related to Investment Properties that were sold or held for sale and presented as discontinued operations during the year ended December 31, 2002. Additionally, all periods presented will likely require further reclassification in future periods as additional, similar sales of Investment Properties occur.

In November 2002, the FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (see Note 15, Commitments and Contingencies, for required disclosure).

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities - an interpretation of ARB No. 51 (FIN 46)*. FIN 46 requires that any entity meeting certain rules relating to a company's equity investment risk and level of financial control be consolidated as a variable interest entity. The statement is applicable to all variable interest entities created or acquired after January 31, 2003, and the first interim period beginning after June 15, 2003, for variable interest entities in which the Company holds a variable interest that is acquired before February 1, 2003. The Company plans on adopting FIN 46 in the time frames as required by the statement. Management expects no significant effect on the financial position, results of operations or cash flows of the Company as a result of the initial adoption of this standard in regard to existing variable interest entities; however, newly formed entities in 2003 could meet these requirements and will be recorded as appropriate.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure - An Amendment of Statement of Financial Accounting Standards No. 123*. As of December 31, 2002, the Company has not elected the fair value recognition provisions of SFAS No. 123; as such, under SFAS No. 148, the Company made the following disclosure: At December 31, 2002, the Company has five stock-based employee compensation plans. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation (see Note 11, for further data regarding Black-Scholes and the Company's option plans).

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Year Ended December 31, | | |
|---|--|-----------|------------|
| | 2002 | 2001 | 2000 |
| | (In thousands, except income per share data) | | |
| Net income, as reported | \$ 100,656 | \$ 96,521 | \$ 111,007 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (5,330) | (4,558) | (3,859) |
| Pro forma net income | \$ 95,326 | \$ 91,963 | \$ 107,148 |
| Earnings per share: | | | |
| Basic as reported | \$ 1.16 | \$ 0.97 | \$ 1.04 |
| Basic pro forma | \$ 1.10 | \$ 0.92 | \$ 1.01 |
| Diluted as reported | \$ 1.13 | \$ 0.94 | \$ 1.02 |
| Diluted pro forma | \$ 1.07 | \$ 0.90 | \$ 0.98 |

Note 3. Mortgage and Other Debt

Mortgage and other debt consisted of the following:

| | December 31, | |
|---|----------------|------------|
| | 2002 | 2001 |
| | (In thousands) | |
| Fixed rate mortgage loans, interest at 6.01% to 9.50%, due at various dates through April 12, 2016 ^(a) | \$ 1,080,655 | \$ 842,296 |
| Floating rate mortgage loans, interest variable (3.22% to 3.69% at December 31, 2002), due at various dates through August 1, 2006 ^(b) | 207,212 | 272,288 |
| Construction loans, interest variable (3.22% to 3.69% at December 31, 2002), due at various dates through June 12, 2004 ^(c) | 73,068 | 98,321 |
| Land acquisition and development loans, interest at 3.82% to 5.33%, due at various dates through October 15, 2025 ^(d) | 22,241 | 58,498 |
| Assessment district bonds, interest at 3.50% to 8.70%, due at various dates through September 1, 2025 ^(e) | 103,935 | 34,456 |
| Capital leases, interest variable (4.25% at December 31, 2002), due at various dates through December 31, 2004 ^(f) | 5,176 | 3,981 |
| Other loans, interest at 3.74% to 7.0%, due at various dates through August 2, 2012 ^(g) | 8,668 | 617 |

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| | | |
|--------------------------------------|-------------------|-------------------|
| Mortgage and other debt | 1,500,955 | 1,310,457 |
| Liabilities of assets held for sale: | | |
| Fixed rate mortgage loans | 2,849 | |
| Floating rate mortgage loans | 298 | |
| | <u> </u> | <u> </u> |
| Total mortgage and other debt | \$ 1,504,102 | \$ 1,310,457 |
| | <u> </u> | <u> </u> |

(a) The fixed rate mortgage loans consist of the following: a \$352.5 million loan bearing interest at 6.01% (6.66% effective rate considering financing costs), with a 30-year amortization schedule and a maturity in November 2008; a \$196.9 million loan bearing interest at 7.25% (7.28% effective rate considering financing costs), with a 30-year amortization schedule and a maturity in April 2016; a \$142.9 million loan bearing interest at 6.65% (6.84% effective rate considering financing costs), maturing in September 2006; \$72.6 million of loans bearing interest at 7.29% (7.43% effective rate considering financing costs), maturing on

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

various dates from January 2008 through May 2010; \$16.5 million of loans bearing interest at 7.23%, maturing on various dates from February 2003 through December 2005; and \$17.9 million of loans bearing interest at 8.13% to 9.50%, maturing on various dates from October 2006 through March 2009.

In addition, during 2002, the Company closed a \$285.3 million fixed rate mortgage loan bearing interest of 7.05% (7.16% effective rate considering financing costs) with a 30-year amortization schedule and a maturity in April 2012. Of the loan proceeds, \$136.5 million was used to pay off existing variable rate debt, related interest, and fees at closing. At December 31, 2002, \$284.2 million was outstanding.

These fixed rate mortgage loans are collateralized by certain of the Company's operating properties and by an assignment of rents generated by the underlying properties. A majority of these loans have penalties if paid prior to maturity.

- (b) In 2002, the Company closed a \$20.4 million floating rate mortgage loan (LIBOR plus 1.80%) that has a 25-year amortization schedule and a maturity of 3 years. Under certain conditions, this loan has a yield maintenance premium if paid prior to maturity.

Floating rate mortgage loans are collateralized by operating properties and by an assignment of rents generated by the underlying properties.

- (c) The Company's construction loans are used to finance development projects and are collateralized by the related land and improvements. As construction is completed, these loans may be refinanced with fixed or variable rate mortgages.
- (d) Land acquisition and development loans are used to acquire land and/or finance related development and are collateralized by the related land.
- (e) The assessment district bonds are issued through local municipalities to fund the construction of public infrastructure and improvements, which benefit the Company's properties. Debt service on these bonds is either collateralized by certain of the Company's properties or by letters of credit (see Note 15). In 2002, \$74.1 million of such bonds were issued with an estimated weighted average variable interest rate of 4.30% and a series of maturities up to thirty years.
- (f) Capital leases represent the estimated present value of the minimum lease payments.
- (g) During 2002, the Company acquired a corporate aircraft and financed it with an \$8.3 million floating rate collateralized loan (LIBOR plus 2.42%) with a maturity of 10 years. There is a yield maintenance premium if paid prior to the first annual anniversary date.

Three of the Company's credit agreements, totaling \$135 million, contain corporate financial covenants including a minimum debt service coverage ratio of 1.6 to 1, a maximum leverage ratio of 60%, and a minimum tangible net worth of \$435.2 million (subject to adjustment for stock buybacks), all terms as defined in those credit agreements. As of or for the period ending December 31, 2002, the actual results were 1.97; 54.1%; and \$546 million, respectively. The Company's partial guarantee of one of its joint venture's construction loans of \$165 million has the same debt service and tangible net worth covenants, but a different maximum leverage covenant definition. Under this definition, the Company's

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leverage ratio is 57.3% versus a covenant of 65%. The Company's performance against these covenants is measured on a quarterly basis, with debt service coverage being measured on a four-quarter trailing basis. In the event the Company was to breach any of these covenants and was unable to negotiate satisfactory waivers or amendments, the lenders in these credit facilities could declare the amounts outstanding due and payable.

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CATELLUS DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The maturities of mortgage and other debt outstanding as of December 31, 2002, including debt associated with assets held for sale, are summarized as follows (in thousands):

| | |
|------------|--------------|
| 2003 | \$ 154,152 |
| 2004 | 52,346 |
| 2005 | 150,007 |
| 2006 | 186,823 |
| 2007 | 21,491 |
| Thereafter | 939,283 |
| | <hr/> |
| | \$ 1,504,102 |
| | <hr/> |

Interest costs relating to mortgage and other debt are summarized as follows:

| | Year Ended December 31, | | |
|--|--------------------------------|-------------|-------------|
| | 2002 | 2001 | 2000 |
| | <hr/> | <hr/> | <hr/> |
| | (In thousands) | | |
| Total interest incurred | \$ 85,156 | \$ 83,623 | \$ 69,620 |
| Interest capitalized | (24,380) | (25,478) | (18,656) |
| | <hr/> | <hr/> | <hr/> |
| Interest expensed | 60,776 | 58,145 | 50,964 |
| Less discontinued operations | (588) | (1,392) | (989) |
| | <hr/> | <hr/> | <hr/> |
| Interest expense for continuing operations | \$ 60,188 | \$ 56,753 | \$ 49,975 |
| | <hr/> | <hr/> | <hr/> |

Total interest incurred includes \$6 million, \$5.8 million, and \$6.4 million of amortization of deferred loan fees and other costs for the years ended December 31, 2002, 2001, and 2000, respectively.

Note 4. Income Taxes

The income tax expense reflected in the consolidated statement of operations differs from the amounts computed by applying the federal statutory rate of 35% to income before income taxes and discontinued operations as follows:

| | Year Ended December 31, | | |
|--|-------------------------|------------------|------------------|
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Federal income tax expense at statutory rate | \$ 49,385 | \$ 56,871 | \$ 64,881 |
| Increase (decrease) in taxes resulting from: | | | |
| State income taxes, net of federal impact | 6,659 | 8,723 | 9,821 |
| Property donation at fair value | (2,960) | | |
| Other | 868 | 272 | 108 |
| | <u>\$ 53,952</u> | <u>\$ 65,866</u> | <u>\$ 74,810</u> |

Property donation at fair value reflects property conveyances that qualify as charitable contributions for tax purposes. The difference between the fair value and book basis of the properties conveyed represents a tax deduction that results in a permanent reduction in income tax. The effect of deducting the excess of fair value of property over the book basis was a reduction in the effective tax rate of approximately 2% for the year ended December 31, 2002.

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities and for operating loss and tax credit carryforwards. Significant components of the Company's net deferred tax liability are as follows:

| | December 31, | |
|---|-------------------|-------------------|
| | 2002 | 2001 |
| | (In thousands) | |
| Deferred tax liabilities: | | |
| Involuntary conversions (condemnations) of property | \$ 82,460 | \$ 85,715 |
| Capitalized interest, taxes, and overhead | 82,820 | 95,154 |
| Like-kind property exchanges | 129,217 | 107,323 |
| Investments in partnerships | 65,624 | 61,307 |
| Income of subsidiary REIT | 52,318 | 40,708 |
| Capital lease | 6,094 | 12,148 |
| Other | 17,294 | 16,137 |
| | <u>435,827</u> | <u>418,492</u> |
| Deferred tax assets: | | |
| Intercompany transactions (prior to spin-off) | 15,265 | 15,001 |
| Capitalized rent | 24,182 | 24,048 |
| Adjustment to carrying value of property | 36,726 | 41,261 |
| Construction contract receivable | 4,024 | 10,556 |
| Depreciation and amortization | 24,862 | 21,372 |
| Capital lease payable | 2,070 | 1,592 |
| Environmental reserve | 3,277 | 3,529 |
| Other | 6,451 | 10,475 |
| | <u>116,857</u> | <u>127,834</u> |
| Net deferred tax liability | <u>\$ 318,970</u> | <u>\$ 290,658</u> |

The permanent income tax benefit of \$1.3 million, \$7.2 million, and \$2.1 million for the years ended December 31, 2002, 2001, and 2000, respectively, associated with the exercise of stock options is credited directly to paid-in capital on the accompanying statement of stockholders equity.

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Joint Venture Investments

The Company has investments in a variety of unconsolidated real estate joint ventures that are involved in both operating properties and development of various other projects.

The Company's unconsolidated joint ventures include the following at December 31, 2002:

| <u>Operating Properties</u> | <u>Ownership</u> | <u>Development Projects</u> | <u>Ownership</u> |
|--|-------------------|--|-------------------|
| | <u>Percentage</u> | | <u>Percentage</u> |
| Hotel | | Residential | |
| International Rivercenter ^(a) | 25% | Talega Associates, LLC ^(e) | 30% |
| New Orleans Rivercenter ^(b) | 42% | Talega Village, LLC ^(f) | 50% |
| Pacific Market Investment Company ^(c) | 50% | Serrano Associates, LLC ^(g) | 50% |
| Office | | Parkway Company, LLC ^(h) | 50% |
| Torrance Investment Company ^(d) | 67% | East Baybridge Partners, L.P. ⁽ⁱ⁾ | 0.14% |
| | | Urban | |
| | | Third & King Investors, LLC ^(j) | 29% |
| | | Commercial | |
| | | Traer Creek-HD LLC ^(k) | 16% |
| | | Traer Creek-WMT LLC ^(l) | 10% |
| | | Traer Creek-RP LLC ^(m) | 10% |

(a) International Rivercenter owns the 1,600-room New Orleans Hilton Hotel on and adjacent to the Lower Poydras Wharf in New Orleans, Louisiana.

(b) New Orleans Rivercenter owns a 75% undivided interest in an 8.5-acre parcel of land, which primarily provides parking for the New Orleans Hilton Hotel.

(c) Pacific Market Investment Company owns and operates a 337-room Embassy Suites Hotel in San Diego, California.

(d) Torrance Investment Company owns two office buildings totaling 202,000 square feet on 14 acres of land in Torrance, California.

(e) Talega Associates, LLC acquired and develops a master-planned community located partially in the City of San Clemente, and partially in an incorporated area of Orange County. At December 31, 2002, it had an inventory of 1,226 available lots.

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- (f) Talega Village, LLC develops age-restricted residential units in Orange County, California. At December 31, 2002, it had an inventory of 65 available homes.
- (g) Serrano Associates, LLC acquired and is developing a 3,500-acre master-planned community near Sacramento, California. At December 31, 2002, it had an inventory of 1,190 available lots.
- (h) Parkway Company, LLC develops a master-planned residential community located in Folsom, California. At December 31, 2002, it had an inventory of 538 multi-unit home lots.
- (i) East Baybridge Partners, L.P. developed and operates a 220-unit multifamily mixed-income rental housing project in Emeryville, California. This partnership is accounted for under the cost method.
- (j) Third & King Investors, LLC is in the construction phase of a mixed-use project at Mission Bay in San Francisco, California.
- (k) Traer Creek-HD LLC owns 9.7 acres of land currently under development for Home Depot in Avon, Colorado.
- (l) Traer Creek-WMT LLC owns 13.5 acres of land currently under development for WalMart in Avon, Colorado.
- (m) Traer Creek-RP LLC owns 1,591 acres of land for development in Avon, Colorado.

In 2001, the Company sold its retained interest in BHC Residential, LLC, and realized a pre-tax gain of \$14.2 million (*see* Note 14), which has been included in Equity in earnings of development joint ventures, net on the consolidated statement of operations.

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company guarantees a portion of the debt and interest of certain of its joint ventures. At December 31, 2002, these guarantees totaled \$44.6 million. In some cases, other parties have jointly and severally guaranteed these obligations, which are also collateralized by the related properties.

The combined balance sheets and statements of operations of these unconsolidated joint ventures, along with the Company's proportionate share, are summarized as follows:

| | Combined | | Proportionate Share | |
|---|----------------|------------|---------------------|------------|
| | December 31, | | December 31, | |
| | 2002 | 2001 | 2002 | 2001 |
| | (In thousands) | | | |
| Assets: | | | | |
| Operating properties: | | | | |
| Property | \$ 147,183 | \$ 139,620 | \$ 46,553 | \$ 45,432 |
| Other | 17,483 | 19,118 | 6,003 | 6,032 |
| Development projects: | | | | |
| Property | 318,727 | 350,877 | 104,158 | 137,786 |
| Other | 31,269 | 40,244 | 10,583 | 11,390 |
| Total | \$ 514,662 | \$ 549,859 | \$ 167,297 | \$ 200,640 |
| Liabilities and venturers' equity: | | | | |
| Operating properties: | | | | |
| Notes Payable | \$ 189,531 | \$ 192,134 | \$ 58,596 | \$ 59,466 |
| Other | 17,052 | 17,408 | 4,880 | 5,024 |
| Development projects: | | | | |
| Notes Payable | 68,038 | 101,345 | 26,538 | 36,803 |
| Other | 83,668 | 96,714 | 30,132 | 35,617 |
| Total liabilities | 358,289 | 407,601 | 120,146 | 136,910 |
| Venturers' equity/(deficit): | | | | |
| Operating properties | (41,918) | (50,804) | (10,920) | (13,026) |
| Development projects | 198,291 | 193,062 | 58,071 | 76,756 |
| | 156,373 | 142,258 | 47,151 | 63,730 |
| Total liabilities and venturers' equity | \$ 514,662 | \$ 549,859 | \$ 167,297 | \$ 200,640 |

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The Company's proportionate share of venturers' equity is an aggregate amount for all ventures. Because the Company's ownership percentage differs from venture to venture, because there are varying distribution agreements, and because certain ventures have accumulated equity while others have accumulated deficits, the Company's percentage of venturers' equity is not reflective of the Company's ownership percentage of the ventures. The Company does not recognize its share of losses generated by joint ventures in excess of its investment unless it is legally committed or intends to fund deficits in the future.

The Company has contributed appreciated property to certain of its joint venture investments. Although the properties are recorded by the venture at fair value on the date of contribution, the related gains have been deferred in the Company's financial statements and will be recognized when the properties are sold by the joint ventures.

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CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Combined | | | Proportionate Share | | |
|--------------------------------|-------------------------|------------------|------------------|---------------------|------------------|------------------|
| | Year Ended December 31, | | | | | |
| | 2002 | 2001 | 2000 | 2002 | 2001 | 2000 |
| | (In thousands) | | | | | |
| Revenue: | | | | | | |
| Operating properties | \$ 136,217 | \$ 135,849 | \$ 139,692 | \$ 40,792 | \$ 41,006 | \$ 41,777 |
| Development projects | 282,100 | 220,154 | 320,988 | 124,434 | 109,842 | 144,381 |
| | <u>418,317</u> | <u>356,003</u> | <u>460,680</u> | <u>165,226</u> | <u>150,848</u> | <u>186,158</u> |
| Expenses: | | | | | | |
| Operating properties | 107,284 | 106,184 | 104,642 | 32,515 | 32,173 | 31,968 |
| Development projects | 207,765 | 191,370 | 276,200 | 95,202 | 83,864 | 116,601 |
| | <u>315,049</u> | <u>297,554</u> | <u>380,842</u> | <u>127,717</u> | <u>116,037</u> | <u>148,569</u> |
| Net earnings before income tax | <u>\$ 103,268</u> | <u>\$ 58,449</u> | <u>\$ 79,838</u> | <u>\$ 37,509</u> | <u>\$ 34,811</u> | <u>\$ 37,589</u> |

Note 6. Property

Book value by property type consists of the following:

| | December 31, | |
|--|------------------|------------------|
| | 2002 | 2001 |
| | (In thousands) | |
| Rental properties: | | |
| Industrial buildings | \$ 1,134,890 | \$ 943,340 |
| Office buildings | 409,339 | 297,707 |
| Retail buildings | 100,882 | 96,263 |
| Ground leases | 139,886 | 138,708 |
| Investment in operating joint ventures | (10,920) | (13,026) |
| | <u>1,774,077</u> | <u>1,462,992</u> |

Developable properties:

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| | | |
|--|---------------------|---------------------|
| Commercial | 171,924 | 188,527 |
| Residential (See Note 14) | 52,850 | 52,108 |
| Urban | 279,495 | 258,504 |
| Investment in development joint ventures | 58,071 | 76,756 |
| | <u>562,340</u> | <u>575,895</u> |
| Work-in-process: | | |
| Commercial | 31,036 | 118,668 |
| Commercial capital lease | 18,902 | 40,560 |
| Urban | 16,915 | 40,318 |
| | <u>66,853</u> | <u>199,546</u> |
| Furniture, fixtures and equipment | 38,096 | 28,818 |
| Other | 6,715 | 9,257 |
| | <u>38,096</u> | <u>28,818</u> |
| Gross book value | 2,448,081 | 2,276,508 |
| Accumulated depreciation | (399,923) | (354,557) |
| | <u>2,448,081</u> | <u>2,276,508</u> |
| Net book value | <u>\$ 2,048,158</u> | <u>\$ 1,921,951</u> |

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Other Financial Statement Captions

Other Assets and Deferred Charges, Net

The Company's other assets and deferred charges consisted of the following:

| | December 31, | |
|--|----------------|------------|
| | 2002 | 2001 |
| | (In thousands) | |
| Reimbursable construction costs | \$ 83,680 | \$ 25,052 |
| Deferred lease commissions, net | 41,446 | 34,200 |
| Bonds proceeds receivable | 35,629 | |
| Straight-line rent | 27,563 | 21,612 |
| Deferred financing fees, net | 23,081 | 26,584 |
| Prepaid expenses | 20,089 | 7,567 |
| Tax increment financing assets | 16,932 | 15,555 |
| Cash surrender value of life insurance | 15,673 | 9,012 |
| Deferred cost of sales | 4,647 | 19,627 |
| Employee loans | 1,733 | 2,025 |
| Deferred cost of acquisitions | 856 | 2,273 |
| Funds held in escrow accounts | 424 | 1,332 |
| Other | 2,100 | 2,466 |
| | \$ 273,853 | \$ 167,305 |

Reimbursable construction costs represent costs the Company has incurred on behalf of municipal bond districts for public infrastructure improvements at four development projects. Subsequent to December 31, 2002, and through March 1, 2003, the Company has been reimbursed \$5.7 million by the districts.

Amortization of lease commissions was \$7.7 million, \$6.5 million, and \$4.9 million for the years ended December 31, 2002, 2001, and 2000, respectively. Accumulated amortization of deferred lease commissions totaled \$23.8 million and \$19.5 million at December 31, 2002 and 2001, respectively. Amortization of finance fees was \$6 million, \$5.8 million, and \$6.4 million for the years ended December 31, 2002, 2001, and 2000, respectively. Accumulated amortization of deferred finance fees totaled \$18.2 million and \$12.4 million at December 31, 2002 and 2001, respectively.

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In 2001, the Company entered into a tax increment financing agreement with a municipality and shares a portion of the increased property tax to be generated by one of its residential development projects. The estimated value to the Company of the incremental tax revenue at December 31, 2002, was \$16.9 million and this amount is anticipated to be collected, with interest, over the next 37 years.

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CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounts Payable and Accrued Expenses

The Company's accounts payable and accrued expenses consisted of the following:

| | December 31, | |
|---|-------------------|-------------------|
| | 2002 | 2001 |
| | (In thousands) | |
| Accrued construction costs | \$ 46,832 | \$ 76,562 |
| Salaries, bonuses and deferred compensation | 31,462 | 33,542 |
| Property taxes | 18,121 | 15,425 |
| Interest | 11,531 | 10,454 |
| Other | 9,547 | 9,705 |
| | <u>\$ 117,493</u> | <u>\$ 145,688</u> |

Deferred Credits and Other Liabilities

The Company's deferred credits and other liabilities consisted of the following:

| | December 31, | |
|----------------------------------|-------------------|-------------------|
| | 2002 | 2001 |
| | (In thousands) | |
| Rent deposits | \$ 107,712 | \$ 111,105 |
| Deferred profits | 13,570 | 38,774 |
| Environmental and legal reserves | 10,359 | 11,216 |
| Security deposits | 7,229 | 7,253 |
| Construction deposit | 3,290 | |
| Refundable property taxes | 2,298 | 2,107 |
| Sales deposits | 1,441 | 1,530 |
| Unearned income | 1,166 | 1,332 |
| Other | 4,401 | 4,339 |
| | <u>\$ 151,466</u> | <u>\$ 177,656</u> |

Rent deposits includes \$99.4 million and \$102.5 million of prepaid ground lease rent from a major tenant at December 31, 2002 and 2001, respectively, and is being amortized over the lease term of 34 years until 2035. The environmental and legal reserves are more fully described in Note 15. Deferred profits represent cash or notes received by the Company in connection with property sales transactions, which do not meet the criteria for full profit recognition.

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8. Leases

The Company, as lessor, has entered into non-cancelable operating leases expiring at various dates through 2099. Rental revenue under these leases totaled \$261.3 million in 2002, \$230.2 million in 2001, and \$202.8 million in 2000. Included in this revenue are rentals contingent on lessees' operations of \$2.4 million in 2002, \$2 million in 2001, and \$3.4 million in 2000. Future minimum rental revenue under existing non-cancelable operating leases as of December 31, 2002, is summarized as follows (in thousands):

| | |
|------------|---------------------|
| 2003 | \$ 208,174 |
| 2004 | 188,709 |
| 2005 | 158,570 |
| 2006 | 129,508 |
| 2007 | 111,116 |
| Thereafter | 987,290 |
| | <u>\$ 1,783,367</u> |

The book value of the Company's properties under operating leases or held for rent is summarized as follows:

| | December 31, | |
|-------------------------------|---------------------|---------------------|
| | 2002 | 2001 |
| | (In thousands) | |
| Buildings | \$ 1,645,111 | \$ 1,337,310 |
| Ground leases | 139,886 | 138,708 |
| | <u>1,784,997</u> | <u>1,476,018</u> |
| Less accumulated depreciation | (366,772) | (325,130) |
| | <u>\$ 1,418,225</u> | <u>\$ 1,150,888</u> |

The Company, as lessee, has entered into noncancelable operating leases expiring at various dates through 2023. Rental expense under these leases totaled \$2.9 million in 2002, \$3 million in 2001, and \$3.1 million in 2000. Future minimum lease payments as of December 31, 2002, are summarized as follows (in thousands):

| | |
|------|----------|
| 2003 | \$ 2,510 |
|------|----------|

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| | |
|------------|----------|
| 2004 | 2,246 |
| 2005 | 1,745 |
| 2006 | 213 |
| 2007 | 15 |
| Thereafter | 225 |
| | <hr/> |
| | \$ 6,954 |
| | <hr/> |

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CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9. Other Income and Expenses

Other income Other is summarized as follows:

| | Year Ended December 31, | | |
|---------------------------------|-------------------------|-----------------|---------------|
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Lease termination fee | \$ 8,304 | \$ 3,398 | \$ |
| Proceeds from condemnation sale | | 1,347 | |
| All other | 892 | 995 | 235 |
| | <u>\$ 9,196</u> | <u>\$ 5,740</u> | <u>\$ 235</u> |

Other expenses Other is summarized as follows:

| | Year Ended December 31, | | |
|---|-------------------------|--------------------|--------------------|
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Abandoned project costs | \$ (1,127) | \$ (3,977) | \$ (2,266) |
| Land holding costs | (805) | (89) | (286) |
| Consulting fees | | (6,470) | (3,500) |
| Legal reserve | 900 | (1,102) | |
| Finder s fees | (499) | | |
| Reserve for uncollectible note receivable | | | (2,000) |
| Loss on fee development contract | | (5,108) | (11,797) |
| All other | (492) | (731) | |
| | <u>\$ (2,023)</u> | <u>\$ (17,477)</u> | <u>\$ (19,849)</u> |

Note 10. Non-Strategic Asset Sales

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The Company's sales of non-strategic assets are summarized as follows:

| | Year Ended December 31, | | |
|---------------|-------------------------|----------|-----------|
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Sales | \$ 8,373 | \$ 4,161 | \$ 50,759 |
| Cost of sales | (1,109) | (252) | (4,480) |
| Gain | \$ 7,264 | \$ 3,909 | \$ 46,279 |

In 2000, the Company sold 405,000 acres of desert holdings for \$45.1 million resulting in a pre-tax gain of \$42.4 million.

Note 11. Employee Benefit and Stock Option Plans

The Company has a profit sharing and savings plan for all employees. Funding consists of employee contributions along with matching and discretionary profit sharing contributions by the Company. Total expense for the Company under this plan was \$1.2 million in each year 2002, 2001, and 2000.

The Company has various plans through which employees may purchase common stock of the Company, and through which non-employee directors may purchase or receive common stock of the Company.

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has five stock option plans under which certain committees of the Board of Directors may grant options to purchase up to 14,500,000 shares of common stock (1991 Stock Option Plan, Amended and Restated Executive Stock Option Plan, 1995 Stock Option Plan, Amended and Restated 1996 Performance Award Plan, and 2000 Performance Award Plan). The exercise price of options granted under these plans is generally the closing price of the common stock on the date of grant. Options typically become exercisable in four annual installments commencing on the first anniversary of the date of grant and expire ten years from the date of grant. However, there are other vesting schedules and expiration periods for options granted under the plans.

Each non-employee director is automatically granted an option, immediately following each annual meeting of stockholders, to purchase 5,000 shares of common stock. Any new non-employee member of the Board will receive an option to purchase a portion of 5,000 shares that corresponds to the number of months until the next annual meeting. The exercise price of each automatic stock option is the closing stock price on the date of grant. Each automatic stock option has a ten-year term and becomes exercisable in four equal installments on each of the first four anniversaries of the date of grant.

In addition, each non-employee director may elect irrevocably to defer any retainers or fees and receive director stock units instead. If a director makes such an election, his or her director stock units will be distributed to him or her in the form of common stock in a single lump sum or in up to five substantially equal installments, beginning on either January 1 of the year immediately following the director's termination of service, or January 1 of another year selected by the director provided that such year is not less than three years after the year in which the compensation being deferred is earned. On the distribution date, the director will receive a number of shares of common stock calculated by dividing the deferred compensation by 90% of the fair market value of the common stock on the date of credit.

The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (Statement 23) requires use of option valuation models that were developed for use in valuing publicly traded stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and income per share as required by Statement 123 is presented in Note 2 and has been determined as if the Company had accounted for its employee stock options under the fair value method. The weighted-average fair value of options granted during 2002, 2001, and 2000 was \$5.01, \$5.42, and \$5.31, respectively. The fair value of options granted was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2002, 2001, and 2000, respectively: risk-free interest rates of 3.47%, 4.42%, and 6.39%; zero percent dividend yields; volatility factors of the expected market price of the Company's common stock of 22.5%, 24.0%, and 28.5%; and a weighted-average expected life of the options of five years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable measure of the fair value of its employee stock options.

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the Company's stock option activity, and related information is as follows:

| | Year Ended December 31, | | | | | |
|-------------------------------|---|---------------------------------|---------|---------------------------------|---------|---------------------------------|
| | 2002 | | 2001 | | 2000 | |
| | Options | Weighted-Average Exercise Price | Options | Weighted-Average Exercise Price | Options | Weighted-Average Exercise Price |
| | (In thousands, except exercise price information) | | | | | |
| Outstanding beginning of year | 8,867 | \$ 13.50 | 10,259 | \$ 12.22 | 7,333 | \$ 10.83 |
| Granted | 547 | \$ 18.14 | 1,119 | \$ 17.65 | 4,172 | \$ 14.05 |
| Exercised | (608) | \$ 14.41 | (2,104) | \$ 9.24 | (903) | \$ 8.61 |
| Expired | (11) | \$ 16.13 | (33) | \$ 18.83 | (147) | \$ 11.74 |
| Forfeited | (341) | \$ 15.27 | (374) | \$ 13.50 | (196) | \$ 15.85 |
| Outstanding end of year | 8,454 | \$ 13.68 | 8,867 | \$ 13.50 | 10,259 | \$ 12.22 |
| Exercisable at end of year | 5,276 | \$ 12.28 | 4,663 | \$ 11.85 | 5,158 | \$ 10.03 |

Exercise prices for options outstanding as of December 31, 2002, ranged from \$5.58 to \$21.38. The weighted-average remaining contractual life of those options is 5.7 years.

| Options Outstanding | | | | Options Exercisable | |
|---------------------|---------------------------------|---------------------------------|---|---------------------|---------------------------------|
| Options | Actual Range of Exercise Prices | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life | Number Exercisable | Weighted Average Exercise Price |
| (In thousands) | | | | (In thousands) | |
| 946 | \$5.58-\$7.83 | \$ 6.50 | 2.4 | 946 | \$ 6.50 |
| 1,441 | \$8.44-\$12.38 | \$ 10.18 | 4.2 | 1,402 | \$ 10.14 |
| 5,990 | \$12.88-\$19.31 | \$ 15.60 | 6.6 | 2,926 | \$ 15.18 |
| 77 | \$19.43-\$21.38 | \$ 20.37 | 9.2 | 2 | \$ 20.44 |
| 8,454 | \$5.58-\$21.38 | \$ 13.68 | 5.7 | 5,276 | \$ 12.28 |

Note 12. Capital Stock

The Company has authorized the issuance of 150 million shares of \$.01 par value common stock. The Company has reserved 14,500,000 shares of common stock pursuant to various compensation programs.

From October 1999 through July 2001, the Company's Board of Directors authorized a total of \$250 million in repurchases of the Company's Common Stock. Through December 31, 2001, the Company purchased 13,047,097 shares at a cost of \$218 million under these programs. The remaining \$32 million authorized has expired or was terminated. All purchases were made on the open market.

In December 2001, the Company purchased 10,600,000 shares of its Common Stock from the California Public Employees Retirement System (CalPERS) for \$183.1 million or \$17.2755 per share, representing a negotiated 1% discount to the closing price of the Company's common stock on December 12, 2001. An independent third party, American Appraisal Associates, Inc., provided the Company's Board of Directors with a written opinion confirming that the terms and conditions of this transaction were fair, from a financial point of view, to the Company's stockholders other than CalPERS. Immediately prior to the transaction, CalPERS was the beneficial owner of 18,782,276 shares, or approximately 19.3%, of the Company's issued and outstanding common stock. As a result of the transaction, CalPERS' beneficial ownership was reduced to 8,182,276 shares, or approximately 9.45%, of the Company's issued and outstanding common stock.

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

In December 1999, the Company authorized the issuance of 2,000,000 shares of Series A Junior Participating Preferred Stock in connection with the adoption of a shareholder rights plan. This series of preferred stock has a quarterly dividend of the greater of \$1.00 or 100 times the dividend paid on our common stock, and it has a voting right of 100 votes per share. Also in connection with the shareholder rights plan adopted in December 1999, the Company's Board of Directors declared a dividend of one right to purchase 1/100 of a share of Series A Junior Participating Preferred Stock for each share of common stock. This right becomes exercisable on the occurrence of certain events, and it also may entitle the holder to purchase shares of common stock at one-half its market price on the occurrence of certain events. No shares of this series of preferred stock have been issued.

Note 13. Segment Reporting

The Company's reportable segments are based on the Company's method of internal reporting, which disaggregates its business by type and before the adjustments for discontinued operations. The Company has five reportable segments: Asset Management; Suburban, which includes two reportable segments, Commercial and Residential; Urban; and Corporate. The Asset Management segment leases and manages the Company-owned commercial buildings and ground leases. The Suburban Commercial segment develops real estate for the Company's own account or for third parties and acquires and sells developable land and commercial buildings. The Suburban Residential segment acquires and develops suburban residential communities and sells finished lots to homebuilders via direct ownership or through joint ventures. The Urban segment develops major mixed-use sites including development for residential, office, retail, and entertainment purposes for the Company's own account and for joint ventures. The Corporate segment consists of administrative services.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (*See* Note 2). Inter-segment gains and losses 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. Each segment has a separate operating management structure.

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial data by reportable segment is as follows:

| | Asset Management | Suburban | | Urban | Corporate | Subtotal | Discontinued Operations | Total |
|--|---------------------|-----------------|-----------------|-----------------|-----------------|------------------|----------------------------|------------------|
| | | Commercial | Residential | | | | | |
| (In thousands) | | | | | | | | |
| 2002 | | | | | | | | |
| Revenues | | | | | | | | |
| Rental revenue | \$ 267,807 | \$ | \$ | \$ | \$ | \$ 267,807 | \$ (856) | \$ 266,951 |
| Sales revenue | 43,184 | 52,966 | 59,107 | 14,500 | | 169,757 | (30,153) | 139,604 |
| Management, development and other fees | 42 | 2,973 | 1,516 | 2,557 | | 7,088 | | 7,088 |
| | <u>311,033</u> | <u>55,939</u> | <u>60,623</u> | <u>17,057</u> | | <u>444,652</u> | <u>(31,009)</u> | <u>413,643</u> |
| Costs and expenses | | | | | | | | |
| Property operating costs | (71,929) | | | | | (71,929) | 370 | (71,559) |
| Cost of sales | (14,256) | (42,689) | (28,862) | (11,154) | (601) | (97,562) | 7,901 | (89,661) |
| Selling and G&A expenses | (1,185) | (9,576) | (8,316) | (6,913) | | (25,990) | | (25,990) |
| Corporate administrative costs | | | | | (17,705) | (17,705) | | (17,705) |
| Depreciation and amortization | (59,170) | (673) | (182) | (1,065) | (2,349) | (63,439) | 290 | (63,149) |
| | <u>(146,540)</u> | <u>(52,938)</u> | <u>(37,360)</u> | <u>(19,132)</u> | <u>(20,655)</u> | <u>(276,625)</u> | <u>8,561</u> | <u>(268,064)</u> |
| Operating Income | <u>164,493</u> | <u>3,001</u> | <u>23,263</u> | <u>(2,075)</u> | <u>(20,655)</u> | <u>168,027</u> | <u>(22,448)</u> | <u>145,579</u> |
| Other income | | | | | | | | |
| Income from operating joint ventures, net | 8,277 | | | | | 8,277 | | 8,277 |
| Income from development joint ventures, net | | | 33,063 | | (3,831) | 29,232 | | 29,232 |
| Gain on non-strategic asset sales | 7,264 | | | | | 7,264 | | 7,264 |
| Interest income | 2,498 | 980 | 5,941 | 10 | 442 | 9,871 | | 9,871 |
| Other | 8,304 | 633 | 259 | | | 9,196 | | 9,196 |
| | <u>26,343</u> | <u>1,613</u> | <u>39,263</u> | <u>10</u> | <u>(3,389)</u> | <u>63,840</u> | | <u>63,840</u> |
| Other expenses | | | | | | | | |
| Interest expense | (78,831) | | | | 18,055 | (60,776) | 588 | (60,188) |
| Other | (111) | (2,163) | (125) | (139) | 515 | (2,023) | | (2,023) |
| | <u>(78,942)</u> | <u>(2,163)</u> | <u>(125)</u> | <u>(139)</u> | <u>18,570</u> | <u>(62,799)</u> | <u>588</u> | <u>(62,211)</u> |
| Income before minority interests, income taxes, and discontinued operations | | | | | | | | |
| Minority interests | 111,894 | 2,451 | 62,401 | (2,204) | (5,474) | 169,068 | (21,860) | 147,208 |
| Income taxes | (6,106) | (937) | (23,848) | 842 | 2,092 | (6,306) | 8,354 | (6,106) |
| | <u>(40,455)</u> | <u>(937)</u> | <u>(23,848)</u> | <u>842</u> | <u>2,092</u> | <u>(62,306)</u> | <u>8,354</u> | <u>(53,952)</u> |

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| | | | | | | | | |
|--|---------------------|-------------------|-------------------|-------------------|-------------------|---------------------|-----------------|---------------------|
| Income (loss) from continuing operations | 65,333 | 1,514 | 38,553 | (1,362) | (3,382) | 100,656 | (13,506) | 87,150 |
| Discontinued operations, net of tax: | | | | | | | | |
| Gain from disposal of discontinued operations | | | | | | | 13,748 | 13,748 |
| Loss from discontinued operations | | | | | | | (242) | (242) |
| Gain from discontinued operations | | | | | | | 13,506 | 13,506 |
| Net income (loss) | \$ 65,333 | \$ 1,514 | \$ 38,553 | \$ (1,362) | \$ (3,382) | \$ 100,656 | \$ | \$ 100,656 |
| Investments in equity method subsidiaries | \$ (10,920) | \$ 561 | \$ 37,917 | \$ 19,593 | \$ | \$ 47,151 | \$ | \$ 47,151 |
| Segment assets | \$ 1,539,024 | \$ 327,615 | \$ 130,564 | \$ 363,945 | \$ 331,541 | \$ 2,692,689 | \$ 2,760 | \$ 2,695,449 |
| Capital expenditures for segment assets | \$ 37,614 | \$ 196,786 | \$ 38,796 | \$ 99,529 | \$ 18,686 | \$ 391,411 | \$ | \$ 391,411 |

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CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Asset Management | Suburban | | Urban | Corporate | Subtotal | Discontinued Operations | Total |
|--|---------------------|-----------------|-----------------|-----------------|-----------------|------------------|----------------------------|------------------|
| | | Commercial | Residential | | | | | |
| (In thousands) | | | | | | | | |
| 2001 | | | | | | | | |
| Revenues | | | | | | | | |
| Rental revenue | \$ 234,881 | \$ 75,686 | \$ 48,507 | \$ 49,793 | \$ | \$ 234,881 | \$ (2,775) | \$ 232,106 |
| Sales revenue | 71,818 | 75,686 | 48,507 | 49,793 | | 245,804 | | 245,804 |
| Management, development and other fees | 145 | 3,679 | 1,394 | 782 | | 6,000 | | 6,000 |
| | <u>306,844</u> | <u>79,365</u> | <u>49,901</u> | <u>50,575</u> | | <u>486,685</u> | <u>(2,775)</u> | <u>483,910</u> |
| Costs and expenses | | | | | | | | |
| Property operating costs | (62,663) | | | | | (62,663) | 959 | (61,704) |
| Cost of sales | (30,744) | (50,896) | (30,202) | (37,337) | (519) | (149,698) | | (149,698) |
| Selling and G&A expenses | (1,235) | (9,607) | (11,379) | (4,349) | | (26,570) | | (26,570) |
| Corporate administrative costs | | | | | (19,256) | (19,256) | | (19,256) |
| Depreciation and amortization | (47,925) | (514) | (311) | (1,853) | (1,855) | (52,458) | 567 | (51,891) |
| | <u>(142,567)</u> | <u>(61,017)</u> | <u>(41,892)</u> | <u>(43,539)</u> | <u>(21,630)</u> | <u>(310,645)</u> | <u>1,526</u> | <u>(309,119)</u> |
| Operating Income | <u>164,277</u> | <u>18,348</u> | <u>8,009</u> | <u>7,036</u> | <u>(21,630)</u> | <u>176,040</u> | <u>(1,249)</u> | <u>174,791</u> |
| Other income | | | | | | | | |
| Income from operating joint ventures, net | 8,833 | | | | | 8,833 | | 8,833 |
| Income from development joint ventures, net | | 9 | 27,670 | | (1,701) | 25,978 | | 25,978 |
| Gain on non-strategic asset sales | 3,909 | | | | | 3,909 | | 3,909 |
| Interest income | 5,058 | 2,275 | 1,924 | 1,138 | 13,213 | 23,608 | | 23,608 |
| Other | 1,547 | 505 | | 3,398 | 290 | 5,740 | | 5,740 |
| | <u>19,347</u> | <u>2,789</u> | <u>29,594</u> | <u>4,536</u> | <u>11,802</u> | <u>68,068</u> | | <u>68,068</u> |
| Other expenses | | | | | | | | |
| Interest expense | (75,110) | (7) | | (684) | 17,656 | (58,145) | 1,392 | (56,753) |
| Other | (1,087) | (2,959) | (5,792) | 180 | (7,843) | (17,501) | 24 | (17,477) |
| | <u>(76,197)</u> | <u>(2,966)</u> | <u>(5,792)</u> | <u>(504)</u> | <u>9,813</u> | <u>(75,646)</u> | <u>1,416</u> | <u>(74,230)</u> |
| Income before minority interests, income taxes, and discontinued operations | | | | | | | | |
| | <u>107,427</u> | <u>18,171</u> | <u>31,811</u> | <u>11,068</u> | <u>(15)</u> | <u>168,462</u> | <u>167</u> | <u>168,629</u> |
| Minority interests | (6,059) | | (83) | | | (6,142) | | (6,142) |
| Income taxes | (41,091) | (7,366) | (12,861) | (4,487) | 6 | (65,799) | (67) | (65,866) |
| | <u>60,277</u> | <u>10,805</u> | <u>18,867</u> | <u>6,581</u> | <u>(9)</u> | <u>96,521</u> | <u>100</u> | <u>96,621</u> |

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| | | | | | | | | |
|--|--------------|------------|------------|------------|------------|--------------|-------|--------------|
| Income (loss) from continuing operations | | | | | | | | |
| Discontinued operations, net of tax: | | | | | | | | |
| Gain from disposal of discontinued operations | | | | | | | | |
| Loss from discontinued operations | | | | | | | (100) | (100) |
| Loss from discontinued operations | | | | | | | (100) | (100) |
| Net income (loss) | \$ 60,277 | \$ 10,805 | \$ 18,867 | \$ 6,581 | \$ (9) | \$ 96,521 | \$ | \$ 96,521 |
| Investments in equity method subsidiaries | \$ (13,026) | \$ | \$ 74,721 | \$ 2,035 | \$ | \$ 63,730 | \$ | \$ 63,730 |
| Segment assets | \$ 1,243,108 | \$ 371,105 | \$ 216,920 | \$ 321,601 | \$ 262,781 | \$ 2,415,515 | \$ | \$ 2,415,515 |
| Capital expenditures for segment assets | \$ 75,127 | \$ 234,124 | \$ 58,640 | \$ 61,317 | \$ 9,468 | \$ 438,676 | \$ | \$ 438,676 |

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CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Asset Management | Suburban | | Urban | Corporate | Subtotal | Discontinued Operations | Total |
|--|---------------------|-----------------|------------------|----------------|-----------------|------------------|----------------------------|------------------|
| | | Commercial | Residential | | | | | |
| (In thousands) | | | | | | | | |
| 2000 | | | | | | | | |
| Revenues | | | | | | | | |
| Rental revenue | \$ 206,762 | \$ 68,951 | \$ 292,822 | \$ | \$ | \$ 206,762 | \$ (3,071) | \$ 203,691 |
| Sales revenue | 89,323 | 68,951 | 292,822 | | | 451,096 | | 451,096 |
| Management, development and other fees | 11,814 | 999 | 1,498 | 1,149 | | 15,460 | | 15,460 |
| | <u>307,899</u> | <u>69,950</u> | <u>294,320</u> | <u>1,149</u> | | <u>673,318</u> | <u>(3,071)</u> | <u>670,247</u> |
| Costs and expenses | | | | | | | | |
| Property operating costs | (55,272) | | | | | (55,272) | 804 | (54,468) |
| Cost of sales | (46,410) | (52,415) | (238,930) | | | (337,755) | | (337,755) |
| Selling and G&A expenses | (8,903) | (9,643) | (25,007) | (2,248) | | (45,801) | | (45,801) |
| Corporate administrative costs | | | | | (15,675) | (15,675) | | (15,675) |
| Depreciation and amortization | (42,090) | (747) | (108) | (1,684) | (1,876) | (46,505) | 566 | (45,939) |
| | <u>(152,675)</u> | <u>(62,805)</u> | <u>(264,045)</u> | <u>(3,932)</u> | <u>(17,551)</u> | <u>(501,008)</u> | <u>1,370</u> | <u>(499,638)</u> |
| Operating Income | <u>155,224</u> | <u>7,145</u> | <u>30,275</u> | <u>(2,783)</u> | <u>(17,551)</u> | <u>172,310</u> | <u>(1,701)</u> | <u>170,609</u> |
| Other income | | | | | | | | |
| Income from operating joint ventures, net | 9,809 | | | | | 9,809 | | 9,809 |
| Income from development joint ventures, net | | 13 | 27,767 | | | 27,780 | | 27,780 |
| Gain on non-strategic asset sales | 46,279 | | | | | 46,279 | | 46,279 |
| Interest income | 3,021 | 2,724 | 802 | 4 | 4,652 | 11,203 | | 11,203 |
| Other | (136) | 142 | 504 | (63) | (212) | 235 | | 235 |
| | <u>58,973</u> | <u>2,879</u> | <u>29,073</u> | <u>(59)</u> | <u>4,440</u> | <u>95,306</u> | | <u>95,306</u> |
| Other expenses | | | | | | | | |
| Interest expense | (57,832) | (4) | (546) | (1,153) | 8,571 | (50,964) | 989 | (49,975) |
| Other | (532) | (2,342) | (13,515) | 40 | (3,500) | (19,849) | | (19,849) |
| | <u>(58,364)</u> | <u>(2,346)</u> | <u>(14,061)</u> | <u>(1,113)</u> | <u>5,071</u> | <u>(70,813)</u> | <u>989</u> | <u>(69,824)</u> |
| Income before minority interests, income taxes, and discontinued operations | | | | | | | | |
| | <u>155,833</u> | <u>7,678</u> | <u>45,287</u> | <u>(3,955)</u> | <u>(8,040)</u> | <u>196,803</u> | <u>(712)</u> | <u>196,091</u> |
| Minority interests | (6,347) | | (4,354) | | | (10,701) | | (10,701) |
| Income taxes | (60,320) | (3,098) | (16,517) | 1,596 | 3,244 | (75,095) | 285 | (74,810) |
| | <u>89,166</u> | <u>4,580</u> | <u>24,416</u> | <u>(2,359)</u> | <u>(4,796)</u> | <u>111,007</u> | <u>(427)</u> | <u>110,580</u> |

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| | | | | | | | | |
|--|--------------|------------|------------|------------|------------|--------------|-----|--------------|
| Income (loss) from continuing operations | | | | | | | | |
| Discontinued operations, net of tax: | | | | | | | | |
| Gain from disposal of discontinued operations | | | | | | | | |
| Income from discontinued operations | | | | | | | 427 | 427 |
| Gain from discontinued operations | | | | | | | 427 | 427 |
| Net income (loss) | \$ 89,166 | \$ 4,580 | \$ 24,416 | \$ (2,359) | \$ (4,796) | \$ 111,007 | \$ | \$ 111,007 |
| Investments in equity method subsidiaries | \$ (16,092) | \$ 11 | \$ 46,245 | \$ | \$ | \$ 30,164 | \$ | \$ 30,164 |
| Segment assets | \$ 1,072,283 | \$ 325,513 | \$ 152,551 | \$ 355,202 | \$ 368,867 | \$ 2,274,416 | \$ | \$ 2,274,416 |
| Capital expenditures for segment assets | \$ 32,028 | \$ 247,455 | \$ 123,372 | \$ 43,416 | \$ 2,067 | \$ 448,338 | \$ | \$ 448,338 |

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CATELLUS DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**Note 14. Sale of Homebuilding Assets**

In July 2000, the Company's residential subsidiary sold a majority of its homebuilding assets, with a book value of \$125.8 million, to a newly formed limited liability company (LLC) managed by Brookfield Homes of California, Inc., for \$139 million in cash and a retained interest in the new company valued at \$22.5 million. Approximately \$77 million of the initial cash proceeds were used for debt repayment, closing costs, and other expenses related to the sale of the homebuilding operations. The remaining proceeds were added to the Company's working capital. Under the agreement, the Company's residential subsidiary was entitled to a preferred return on the retained interest and 35% of additional profits from LLC operations. The deferred gain related to the retained interest and the 35% share of profits from LLC's operations were recorded as part of Equity in earnings of development joint ventures, net as homes/lots were sold by LLC.

In 2000, the Company recorded a \$13.4 million gain on property sales related to this transaction and recognized \$8.3 million of the \$22.5 million retained interest, \$0.8 million of the Company's 35% share of the profits of the LLC, and a \$1 million preferred return from the Company's investment in the LLC.

In 2001, the Company sold its retained interest in the LLC for \$8.2 million and recognized the remaining deferred gain of \$14.2 million, which has been included as part of Equity in earnings of development joint ventures, net.

Note 15. Commitments and Contingencies

The Company has surety bonds and standby letters of credit related to various development projects, lease payment guarantees, various debt and debt service guarantees, and guarantees in capital contribution requirements related to certain unconsolidated real estate joint ventures. These guarantees at December 31, 2002 are summarized in the following categories (in thousands):

| | |
|---|------------|
| Off-balance sheet guarantees: | |
| Surety bonds | \$ 285,225 |
| Standby letters of credit | 52,016 |
| Debt service guarantees | 44,625 |
| Contribution requirements | 5,600 |
| Lease payment guarantee | 2,087 |
| | <hr/> |
| Sub-total | 389,553 |
| Guarantee liabilities included in balance sheet: | |
| Standby letters of credit | 54,375 |
| | <hr/> |
| Total | \$ 443,928 |
| | <hr/> |

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Surety bonds guarantee the construction of infrastructure and public improvements. Surety bonds are commonly required by public agencies from developers in real estate development, and are renewable and expire upon completion of the required improvements. The typical development period of the Company's development projects is approximately one to three years. An example of an event that would require the Company to perform under these surety bonds would be the failure of the Company to construct or complete the required improvements. At December 31, 2002, the Company has not been required to fund any of the surety bonds.

Standby letters of credit consist of two types: performance and financial. Performance standby letters of credit are similar in nature and term as the surety bonds described above. Financial standby letters of credit are a form of credit enhancement commonly required in real estate development when bonds are issued to finance

CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

public improvements; these financial standby letters of credit are scheduled to expire between December 2005 and May 2007. As of December 31, 2002, the Company has a total of \$106.4 million in standby letters of credit; \$52 million of the total is off-balance sheet (\$40.4 million is financial letters of credit and \$11.6 million is performance letters of credit), while the remaining \$54.4 million is related to indebtedness that is reflected in the Company's consolidated balance sheet. The \$54.4 million of letters of credit were issued as additional security for liabilities already recorded on the balance sheet for separate accounting reasons (primarily assessment bond obligations of assessment districts whose operating boards the Company controls). This is different from the \$40.4 million in letters of credit that are related to non-balance sheet items. When the assessment districts are consolidated, the balance sheet is fully consolidated, so there are several corresponding debits, the most significant of which is the associated improvements. An example of an event that would require the Company to perform under the performance standby letters of credit would be the failure of the Company to construct or complete the required improvements. An examples of an event that would require the Company to perform under the financial standby letters of credit would be a debt service shortfall in the municipal districts that issued the municipal bonds. At December 31, 2002, the Company has not been required to satisfy any of these standby letters of credit.

The Company has made debt service guarantees for certain of its unconsolidated joint ventures. At December 31, 2002, based on the joint ventures' outstanding balance, these debt guarantees totaled \$44.6 million; these debt service guarantees are scheduled to expire between March 2003 and September 2005. These debt service guarantees are typical business arrangements commonly required of developers in real estate development. Examples of events that would require the Company to provide a cash payment pursuant to a guarantee include a loan default, which would result from failure of the primary borrower to service its debt when due, or non-compliance of the primary borrower with financial covenants and inadequacy of asset collateral. At December 31, 2002, the Company has not been required to satisfy any amounts under these debt service guarantees.

The Company is required to make additional capital contributions to two of its unconsolidated joint ventures should additional capital contributions be necessary to fund development costs or operating shortfall. At December 31, 2002, the Company had approximately \$5.6 million remaining from the contingent obligation to fund development costs for one of its joint ventures and does not expect to fund any additional capital contributions beyond this amount. The second joint venture requires capital contributions to fund operating shortfall upon written notice from the joint venture's management committee. As of December 31, 2002, no such notice has been received.

The Company has guaranteed \$2.1 million of lease payments through September 2003 of a third party in connection with a development project. As of December 31, 2002, the Company has not been required to satisfy any amounts under this guarantee.

Generally, any funding of off-balance sheet guarantees would result in the increase of Catellus' ownership interest in a project or entity similar to the treatment of a unilateral additional capital contribution to an investee.

The Company also has recorded in its consolidated balance sheet \$0.7 million estimated residual home warranty-related liability from homebuilding activities prior to the selling of its homebuilding assets in 2000. The estimate is based on past claims and experience. These home warranty-related reserves are charged to cost of sales when established.

As of December 31, 2002, \$163.3 million of Community Facility District bonds was sold to finance public infrastructure improvements at several Company projects. The Company provided a letter of credit totaling \$40 million in support of one of these bonds. The \$40 million is

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included in the standby letters of credit and surety bonds amounts disclosed above. The Company, along with other landowners, is required to satisfy any shortfall in annual debt service obligation for these bonds if incremental tax revenues generated by the projects are insufficient.

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CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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 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 originally planned, and therefore, impairment may occur in certain development assets.

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 that 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.

At December 31, 2002, management estimates that future costs for remediation of environmental contamination on operating properties and properties previously sold approximate \$9.3 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 approximately \$12.5 million of similar costs relating to the Company's properties to be developed or sold. The Company may incur additional costs related to management of excess contaminated soil from our projects; however, the necessity of this activity depends on the type of future development activities, and, therefore, the related costs are not currently determinable. These costs 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 2002 totaled \$5.3 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.

Note 16. Related Party Transactions

The entities below are considered related parties because the listed transactions are with entities in which the Company has an ownership interest. There are no affiliated persons involved with these entities.

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The Company provides development and management services and loan guarantees to various unconsolidated joint venture investments. Fees earned were \$4.2 million, \$1.2 million, and \$0.6 million in 2002, 2001, and 2000, respectively, primarily from Third and King Investors, LLC, Traer Creek LLC, Talega Village, LLC, and Serrano Associates, LLC. Deferred fees of \$1.8 million at December 31, 2002, will be earned as completed projects are sold or the venture is sold or liquidated.

In 2001, the Company entered into a 99-year ground lease with one of its unconsolidated joint venture investments, Third and King Investors, LLC. Rent payments of \$3.7 million and \$1.8 million were received and recognized as rental income during the years ended December 31, 2002 and 2001, respectively. Rent payments of \$1.0 million of previously received rent was deferred at December 31, 2002, and will be recognized, together with annual rents, over the life of the lease.

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CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has a \$4.7 million collateralized 9.0% note receivable from an unconsolidated joint venture, East Baybridge Partners, LP, for project costs plus accrued interest. The note is collateralized by property owned by the venture, and matures in October 2028. The Company has entered into various lease agreements with this unconsolidated joint venture. As lessee, rent expense was \$0.1 million in each of the years 2002, 2001, and 2000; this lease will expire in November 2011. As lessor, the Company entered into a ground lease, which will expire in August 2054. The Company earned rental income of \$0.2 million in each of the last three years and has recorded a \$1.8 million receivable associated with this lease.

Note 17. Discontinued Operations

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, which addresses financial accounting and reporting for the impairment and disposal of long-lived assets. In general, sales of rental property, (a) not sold subject to an initial tenant purchase option or, (b) explicitly built with the intention of selling, but not sold within two years of completion, are referred to as *Investment Properties* and classified as discontinued operations. Therefore, as required, gain or loss attributed to the operations and sale of *Investment Properties* sold or held for sale is presented in the statement of operations as discontinued operations, net of applicable income tax. Prior period statements of operations have been reclassified to reflect as discontinued operations the gain or loss related to *Investment Properties* that were sold or held for sale and presented as discontinued operations during the year ended December 31, 2002. Additionally, all periods presented will likely require further reclassification in future periods as additional, similar sales of *Investment Properties* occur.

During the year ended December 31, 2002, the Company sold *Investment Properties* for \$30.2 million, with a gain from the disposal of discontinued operations of \$13.8 million, net of income taxes of \$8.5 million. Rents from these properties, and properties under contract to be sold were \$0.9 million in 2002, \$2.8 million in 2001, and \$3.1 million in 2000. Loss from discontinued operations from these properties was \$0.2 million net of income tax benefit of \$0.2 million and \$0.1 million, net of income tax benefit of \$0.1 million for the years ended December 31, 2002 and 2001, respectively, and a gain of \$0.4 million, net of income tax expense of \$0.3 million, for the year ended December 31, 2000.

Asset and liability balances of *Investment Properties* under contract to be sold at December 31, 2002, consist of the following:

| | December 31, 2002 |
|--------------------------|----------------------|
| | (In thousands) |
| Assets | |
| Properties | \$ 3,216 |
| Accumulated depreciation | (744) |
| Net | 2,472 |
| Other assets | 288 |
| Total assets | 2,760 |

| | |
|--------------------------|---------------|
| Liabilities | |
| Mortgage and other debt | 3,147 |
| Payables | 62 |
| Other liabilities | 24 |
| Total liabilities | 3,233 |
| Net liabilities | \$ 473 |

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CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 18. Subsequent Events

On March 3, 2003, the Company announced that its Board of Directors has authorized it to restructure its business operations in order to qualify as a real estate investment trust (REIT), effective January 1, 2004. The REIT conversion is subject to a shareholder approval process, which is expected to conclude in the third quarter of 2003, as well as Board approval. This announcement has no material effect on the financial statements as of, or for, the year ended December 31, 2002; however, it will likely have an impact on future operating results in the following areas, if approved by the shareholder vote:

- a one-time distribution of pre-REIT earnings and profits, projected to be approximately \$100 million in cash and \$200 million in common stock, will be declared in the fourth quarter and be paid in the first quarter of 2004, this distribution is subject to approval by the Internal Revenue Service
- commencing in the third quarter of 2003, a quarterly dividend of approximately \$0.30 per existing share of common stock will be paid
- conversion and related restructure costs are currently estimated to be \$15 million
- certain deferred tax liabilities associated with assets in the REIT would be reversed through income and result in a one-time increase in income currently estimated in the \$200 to \$250 million range

The Company will soon file a preliminary proxy statement/prospectus with the Securities and Exchange Commission that will provide important information, including detailed risk factors, regarding the proposed transaction.

In January 2003, the Company acquired the 10% minority interest owned by other investors in a subsidiary for cash of \$60.7 million. The acquisition was accounted for based on the purchase method of accounting.

CATELLUS DEVELOPMENT CORPORATION

Summarized Quarterly Results (Unaudited)

The Company's income and cash flow are determined to a large extent by property sales. Sales and net income have fluctuated significantly from quarter to quarter, as evidenced by the following summary of unaudited quarterly consolidated results of operations. Property sales fluctuate from quarter to quarter, reflecting general market conditions and the Company's intent to sell property when it can obtain attractive prices. Cost of sales may also vary widely 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.

Year Ended December 31,

| | 2002 | | | | 2001 | | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | First | Second | Third | Fourth | First | Second | Third | Fourth |
| (In thousands, except per share data) | | | | | | | | |
| Revenues | | | | | | | | |
| Rental revenue | \$ 62,967 | \$ 64,895 | \$ 66,115 | \$ 72,974 | \$ 55,007 | \$ 56,345 | \$ 58,515 | \$ 62,239 |
| Sales revenue | 54,694 | 43,998 | 10,299 | 30,613 | 57,896 | 67,966 | 64,324 | 55,618 |
| Management, development and other fees | 1,132 | 1,764 | 2,755 | 1,437 | 1,180 | 1,374 | 1,266 | 2,180 |
| Costs and expenses | | | | | | | | |
| Property operating costs | (15,701) | (17,215) | (18,102) | (20,541) | (13,804) | (13,854) | (17,174) | (16,872) |
| Cost of sales | (39,085) | (28,167) | (2,471) | (19,938) | (35,051) | (41,824) | (36,609) | (36,214) |
| Selling, general and administrative expenses | (7,850) | (6,130) | (5,824) | (6,186) | (8,648) | (6,932) | (6,373) | (4,617) |
| Corporate administrative costs | (4,102) | (4,362) | (4,284) | (4,957) | (5,545) | (5,062) | (4,685) | (3,964) |
| Depreciation and amortization | (13,438) | (14,957) | (17,570) | (17,184) | (12,792) | (12,801) | (12,751) | (13,547) |
| Other income (expenses) | | | | | | | | |
| Equity in earnings of development joint ventures, net | 7,447 | 8,177 | 4,201 | 9,407 | 7,795 | 332 | 13,489 | 4,362 |
| Gain (loss) on non-strategic asset sales | (238) | 7,059 | 421 | 22 | 1,747 | 1,389 | 765 | 8 |
| Interest expense | (12,571) | (13,928) | (16,388) | (17,301) | (14,273) | (14,652) | (13,569) | (14,259) |
| Income from continuing operations | 27,061 | 26,174 | 13,415 | 20,500 | 26,252 | 22,158 | 28,686 | 19,525 |
| Net income | \$ 31,484 | \$ 33,639 | \$ 14,655 | \$ 20,878 | \$ 26,208 | \$ 22,171 | \$ 28,646 | \$ 19,496 |
| Income per share from continuing operations | | | | | | | | |
| basic | \$ 0.31 | \$ 0.30 | \$ 0.15 | \$ 0.24 | \$ 0.25 | \$ 0.22 | \$ 0.29 | \$ 0.20 |
| Income per share from continuing operations assuming dilution | | | | | | | | |
| | \$ 0.30 | \$ 0.29 | \$ 0.15 | \$ 0.23 | \$ 0.24 | \$ 0.21 | \$ 0.28 | \$ 0.20 |
| Net income per common share | | | | | | | | |
| basic | \$ 0.36 | \$ 0.39 | \$ 0.17 | \$ 0.24 | \$ 0.25 | \$ 0.22 | \$ 0.29 | \$ 0.20 |
| Net income per common share assuming dilution | | | | | | | | |
| | \$ 0.35 | \$ 0.37 | \$ 0.16 | \$ 0.23 | \$ 0.24 | \$ 0.21 | \$ 0.28 | \$ 0.20 |

**REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULES**

To the Board of Directors
of Catellus Development Corporation

Our audits of the consolidated financial statements referred to in our report dated January 29, 2003, appearing on page F-2 of this Form 10-K of Catellus Development Corporation, also included an audit of the financial statement schedules listed in Item 14(a)(2) of this Form 10-K. In our opinion, these Financial Statement Schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICEWATERHOUSECOOPERS LLP

San Francisco, California

January 29, 2003, except as to Note 18, for which the date is March 3, 2003

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CATELLUS DEVELOPMENT CORPORATION

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Three Years Ended December 31, 2002

(In thousands)

| | Balance at Beginning of Year | Additions | | Deductions | Balance at End of Year |
|--|--|--|------------------------------------|-------------------------|---------------------------|
| | | Charged to Costs and Expenses | Charged to Other Accounts | | |
| Year ended December 31, 2000 | | | | | |
| Allowance for doubtful accounts receivable | \$ 1,254 | \$ 853 | \$ | \$ (404) ⁽¹⁾ | \$ 1,703 |
| Allowance for doubtful notes receivable | 1,860 | 2,000 | | (40) ⁽¹⁾ | 3,820 |
| Reserve for environmental and legal costs | 10,502 | | | (125) ⁽²⁾ | 10,377 |
| Year ended December 31, 2001 | | | | | |
| Allowance for doubtful accounts receivable | 1,703 | 444 | | (716) ⁽¹⁾ | 1,431 |
| Allowance for doubtful notes receivable | 3,820 | | | (2,000) ⁽³⁾ | 1,820 |
| Reserve for environmental and legal costs | 10,377 | 1,102 | | (263) ⁽²⁾ | 11,216 |
| Year ended December 31, 2002 | | | | | |
| Allowance for doubtful accounts receivable | 1,431 | 338 | | (185) ⁽¹⁾ | 1,584 |
| Allowance for doubtful notes receivable | 1,820 | | | | 1,820 |
| Reserve for environmental and legal costs | 11,216 | (416) ⁽⁴⁾ | | (441) ⁽²⁾ | 10,359 |

Notes:

- (1) Balances written off as uncollectible.
(2) Environmental and legal costs incurred.
(3) Recovery of note receivable previously written off.
(4) Reduction in estimate.

CATELLUS DEVELOPMENT CORPORATION

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2002

(Dollars in thousands)

| Description | Cost Capitalized | | | | | | | | | Date of Completion | Date Acquired | Life on Which Depreciation in Latest Income Statement is Computed |
|--|--------------------------|-------------------------------|-------------------|---------------------|---|-------------------|-------------------------------|--------------------------|-------------------|--------------------|---------------|---|
| | Initial Cost to Catellus | Subsequent to Acquisition | | | Gross Amount at Which Carried at Close of Period ⁽¹⁾⁽²⁾⁽³⁾ | | | Accumulated Depreciation | | | | |
| | Encumbrances | Buildings & Land Improvements | Land Improvements | Improvements | Costs | Land Improvements | Buildings & Land Improvements | Total | Depreciation | Construction | Acquired | Computed |
| Rental properties | \$ 1,319,447 | \$ 197,739 | \$ 141,828 | \$ 1,289,079 | \$ 156,351 | \$ 197,739 | \$ 1,587,258 | \$ 1,784,997 | \$ 366,772 | N/A | Various | (4) |
| Developable properties | | | | | | | | | | | | |
| Mission Bay, San Francisco, CA | 9,795 | 66,829 | 3,952 | 105,480 | 57,871 | 66,829 | 167,303 | 234,132 | 5,159 | N/A | Various | (4) |
| Other properties less than 5% of total | 154,296 | 102,956 | 798 | 140,196 | 93,041 | 102,956 | 234,035 | 336,991 | 5,540 | N/A | Various | (4) |
| Total developable properties | 164,091 | 169,785 | 4,750 | 245,676 | 150,912 | 169,785 | 401,338 | 571,123 | 10,699 | | | |
| Other | 547 | 5,259 | | 1,385 | 70 | 5,259 | 1,455 | 6,714 | 725 | N/A | Various | (4) |
| Total | \$ 1,484,085 | \$ 372,783 | \$ 146,578 | \$ 1,536,140 | \$ 307,333 | \$ 372,783 | \$ 1,990,051 | \$ 2,362,834 | \$ 378,196 | | | |

(1) The aggregate cost for Federal income tax purpose is approximately \$1,719,576.

(2) See Attachment A to Schedule III for reconciliation of beginning of period total to total at close of period.

(3) Excludes investments in joint ventures and furniture and equipment.

(4) Reference is made to Note 2 to the Consolidated Financial Statements for information related to depreciation.

CATELLUS DEVELOPMENT CORPORATION

ATTACHMENT A TO SCHEDULE III

RECONCILIATION OF COST OF REAL ESTATE AT BEGINNING OF PERIOD

WITH TOTAL AT END OF PERIOD

(In thousands)

| | Year Ended December 31, | | |
|--|-------------------------|--------------|--------------|
| | 2002 | 2001 | 2000 |
| Balance at January 1 | \$ 2,183,960 | \$ 1,969,050 | \$ 1,873,254 |
| Additions during period: | | | |
| Acquisitions | 32,326 | 83,567 | 63,637 |
| Improvements | 235,739 | 321,788 | 368,185 |
| Reclassification from other accounts | 13,999 | 6,075 | 22,107 |
| Total additions | 282,064 | 411,430 | 453,929 |
| Deductions during period: | | | |
| Cost of real estate sold | 100,064 | 195,541 | 356,077 |
| Other | | | |
| Reclassification to assets held for sale, personal property and other accounts | 3,126 | 979 | 2,056 |
| Total deductions | 103,190 | 196,520 | 358,133 |
| Balance at December 31 | \$ 2,362,834 | \$ 2,183,960 | \$ 1,969,050 |

RECONCILIATION OF REAL ESTATE ACCUMULATED DEPRECIATION

AT BEGINNING OF PERIOD WITH TOTAL AT END OF PERIOD

(In thousands)

| | Year Ended December 31, | | |
|--------------------------|-------------------------|------------|------------|
| | 2002 | 2001 | 2000 |
| Balance at January 1 | \$ 335,741 | \$ 303,866 | \$ 279,946 |
| Additions during period: | | | |
| Charged to expense | 52,603 | 43,522 | 39,266 |

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| | | | |
|---------------------------|------------|------------|------------|
| Deductions during period: | | | |
| Cost of real estate sold | 9,244 | 11,923 | 14,685 |
| Other | 904 | (276) | 661 |
| Total deductions | 10,148 | 11,647 | 15,346 |
| Balance at December 31 | \$ 378,196 | \$ 335,741 | \$ 303,866 |

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EXHIBIT INDEX

**Exhibit
Number**

- 3.1 Restated Certificate of Incorporation, effective December 4, 1990. (Incorporated by reference to the exhibits to the Registration Statement on Form 10 (Form 10) of Catellus Development Corporation (Catellus), filed with the Securities and Exchange Commission (SEC) on July 18, 1990.)
- 3.2 Amendment to Restated Certificate of Incorporation, effective July 13, 1993. (Incorporated by reference to Exhibit 3.1B to Catellus Form 10-K for the year ended December 31, 2000 filed with the SEC on March 21, 2001 (the 2000 Form 10-K).)
- 3.3 Amended and Restated Bylaws. (Incorporated by reference to Exhibit 3.2 to the 2000 Form 10-K.)
- 4.1 Rights Agreement, dated as of December 16, 1999, between Catellus and American Stock Transfer and Trust Company. (Incorporated by reference to Exhibit 4.1 to Catellus Form 8-K filed with the SEC on December 28, 1999.)
- 4.2 Form of Certificate of Designations of Series A Junior Participating Preferred Stock, Form of Right Certificate and Summary of Rights to Purchase Preferred Shares. (Incorporated by reference to Exhibits A, B and C, respectively, to Exhibit 4.1 to Catellus Form 8-K filed with the SEC on December 28, 1999.)
- 4.3 Purchase and Sale Agreement, dated December 12, 2001, between Catellus and CalPERS. (Incorporated by reference to Exhibit 99.1 to Catellus Form 8-K filed with the SEC on December 13, 2001.)
- 10.1 Loan Agreement by and between Catellus Finance 1, L.L.C. (Catellus Finance) and Prudential Mortgage Capital Company, Inc., dated as of October 26, 1998 (the Loan Agreement). (Incorporated by reference to Exhibit 4.3 to Catellus Form 10-K for the year ended December 31, 1998.)
- 10.2 First Amendment to Loan Agreement, dated as of January 11, 2001, by and among Catellus Finance, LaSalle Bank National Association, as trustee (LaSalle), certain certificate holders and Prudential Insurance Company of America, as servicer (Prudential). (Incorporated by reference to Exhibit 10.2 to Catellus Form 10-K for the year ended December 31, 2002 filed with the SEC on March 27, 2003 (the 2002 Form 10-K).)
- 10.3 Second Amendment to Loan Agreement, dated as of February 8, 2001, by and among Catellus Finance, and LaSalle. (Incorporated by reference to Exhibit 10.3 to the 2002 Form 10-K.)
- 10.4 [Third] Amendment to Loan Agreement, dated as of August 27, 2002, by and among Catellus Finance, LaSalle, certain certificate holders and Prudential. (Incorporated by reference to Exhibit 10.4 to the 2002 Form 10-K.)
- 10.5 Fourth Amendment to Loan Agreement, dated as of December 23, 2002, by and among Catellus Finance, LaSalle, certain certificate holders and Prudential. (Incorporated by reference to Exhibit 10.5 to the 2002 Form 10-K.)
- 10.6 Loan Agreement (Pool A), dated as of March 28, 2002, by and between Catellus and Teachers Insurance and Annuity Association of America (Teachers). (Incorporated by reference to Exhibit 10.6 to the 2002 Form 10-K.)
- 10.7 First Amendment to Loan Agreement (Pool A), dated July 23, 2002, by and between Catellus and Teachers. (Incorporated by reference to Exhibit 10.7 to the 2002 Form 10-K.)
- 10.8 Second Amendment to Loan Agreement (Pool A), dated November 15, 2002, by and between Catellus and Teachers. (Incorporated by reference to Exhibit 10.8 to the 2002 Form 10-K.)
- 10.9 Loan Agreement (Pool B), dated as of March 28, 2002, by and between Catellus and Teachers. (Incorporated by reference to Exhibit 10.9 to the 2002 Form 10-K.)

**Exhibit
Number**

- 10.10 First Amendment to Loan Agreement (Pool B), dated July 23, 2002, by and between Catellus and Teachers. (Incorporated by reference to Exhibit 10.10 to the 2002 Form 10-K.)
- 10.11 Second Amendment to Loan Agreement (Pool B), dated November 15, 2002, by and between Catellus and Teachers. (Incorporated by reference to Exhibit 10.11 to the 2002 Form 10-K.)
- 10.12 Restated Tax Allocation and Indemnity Agreement, dated December 29, 1989, by and among Catellus and certain of its subsidiaries and Santa Fe Pacific Corporation. (Incorporated by reference to the exhibits to Form 10.)
- EXECUTIVE COMPENSATION PLANS OR ARRANGEMENTS (Exhibits 10.13 10.31)**
- 10.13 The Amended and Restated 1991 Stock Option Plan. (Incorporated by reference to Exhibit 10.7 to Catellus Form 10-K for the year ended December 31, 1997 (the 1997 10-K).)
- 10.14 Amendment to Amended and Restated 1991 Stock Option Plan, dated as of September 26, 2001. (Incorporated by reference to Exhibit 10.4 to Catellus Form 10-Q for the quarter ended September 30, 2001 (the 2001 third quarter 10-Q).)
- 10.15 The Amended and Restated 1995 Stock Option Plan. (Incorporated by reference to Exhibit 10.13 to the 1997 Form 10-K.)
- 10.16 Amendment to Amended and Restated 1995 Stock Option Plan, dated as of September 26, 2001. (Incorporated by reference to Exhibit 10.5 to the 2001 third quarter 10-Q.)
- 10.17 The Amended and Restated Executive Stock Option Plan. (Incorporated by reference to Exhibit 10.8 to the 1997 Form 10-K.)
- 10.18 Amendment to Amended and Restated Executive Stock Option Plan, dated as of September 26, 2001. (Incorporated by reference to Exhibit 10.6 to the 2001 third quarter 10-Q.)
- 10.19 The Amended and Restated 1996 Performance Award Plan. (Incorporated by reference to Exhibit 10.14 to Catellus Form 10-Q for the quarter ended March 31, 1999.)
- 10.20 Amendment to Amended and Restated 1996 Performance Award Plan, dated as of September 26, 2001. (Incorporated by reference to Exhibit 10.7 to the 2001 third quarter 10-Q.)
- 10.21 The 2000 Performance Award Plan. (Incorporated by reference to Appendix A to Catellus proxy statement filed with the SEC on Schedule 14A on March 31, 2000.)
- 10.22 Amendment to 2000 Performance Award Plan, dated as of September 26, 2001. (Incorporated by reference to Exhibit 10.8 to the 2001 third quarter 10-Q.)
- 10.23 Deferred Compensation Plan. (Incorporated by reference to Exhibit 10.21 to the 1997 Form 10-K.)
- 10.24 First Amendment to Deferred Compensation Plan, effective as of January 1, 2002. (Incorporated by reference to Exhibit 10.8B to Catellus Form 10-Q for the quarter ended March 31, 2002.)
- 10.25 Second Amendment to Deferred Compensation Plan. (Incorporated by reference to Exhibit 10.1 to Catellus Form 10-Q for the quarter ended June 30, 2002.)
- 10.26 Third Amended and Restated Employment Agreement between Catellus and Nelson C. Rising, dated as of December 24, 2001. (Incorporated by reference to Exhibit 10.10 to Catellus Form 10-K for the year ended December 31, 2001.)
- 10.27 Memorandum of Understanding regarding Employment between Catellus and Timothy J. Beaudin, dated February 7, 2001. (Incorporated by reference to Exhibit 10.14 to the 2001 third quarter 10-Q.)
- 10.28 Memorandum of Understanding regarding Employment between Catellus and C. William Hosler, dated February 7, 2001. (Incorporated by reference to Exhibit 10.11 to the 2000 Form 10-K.)
- 10.29 Memorandum of Understanding regarding Employment between Catellus and Vanessa L. Washington, dated as of December 12, 2001. (Incorporated by reference to Exhibit 10.29 to the 2002 10-K.)

**Exhibit
Number**

| | |
|-------|--|
| 10.30 | Amendment to Memorandum of Understanding regarding Employment between Catellus and Vanessa L. Washington, dated as of October 4, 2002. (Incorporated by reference to Exhibit 10.30 to the 2002 10-K.) |
| 10.31 | Letter Agreement regarding Employment between Catellus and Paul A. Lockie, dated January 29, 1996. (Incorporated by reference to Exhibit 10.35 to the Form S-4 of Catellus SubCo, Inc. filed with the SEC on May 2, 2003.) |
| 21 | Schedule of Subsidiaries and Joint Ventures of Catellus. (Incorporated by reference to Exhibit 21 to the 2002 10-K.) |
| 23 | Consent of Independent Accountants. |
| 24 | Power of Attorney. (Incorporated by reference to Exhibit 24 to the 2002 10-K.) |
| 99.1 | Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 99.2 | Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Catellus 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 Catellus and its subsidiaries on a consolidated basis. Catellus agrees to furnish a copy of such instruments to the SEC upon request.