SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the fiscal quarter ended September 30, 2003

Commission file number 1-10622

CATELLUS DEVELOPMENT CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	94-2953477
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

201 Mission Street

San Francisco, California 94105

(Address of principal executive offices and zip code)

Registrant s telephone number, including area code:

(415) 974-4500

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

As of November 6, 2003, there were 91,873,180 issued and outstanding shares of the Registrant s Common Stock.

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CATELLUS DEVELOPMENT CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

CATELLUS DEVELOPMENT CORPORATION

Condensed Consolidated Balance Sheet

(In thousands)

	September 30, 2003	December 31, 2002
	(Unaudited)	
Assets		
Properties	$ 2,549,606	$ 2,448,081
Less accumulated depreciation	(443,649)	(399,923)
	2,105,957	2,048,158
Other assets and deferred charges, net	250,334	273,853
Notes receivable, less allowance	56,696	44,947
Accounts receivable, less allowance	16,739	14,211
Assets held for sale	6,332	2,760
Restricted cash and investments	43,901	36,593
Cash and cash equivalents	193,974	274,927
Total	$ 2,673,933	$ 2,695,449
Liabilities and stockholders equity		
Mortgage and other debt	$ 1,430,590	$ 1,500,955
Accounts payable and accrued expenses	96,061	117,493
Deferred credits and other liabilities	157,009	151,466
Liabilities associated with assets held for sale	5,303	3,233
Deferred income taxes	301,646	318,970
Minority interests		57,363
Total liabilities	1,990,609	2,149,480
Commitments and contingencies (Note 8)		
Stockholders equity		
Common stock, 115,338 and 110,817 shares issued and 91,691 and 87,170 shares outstanding at September 30, 2003 and December 31, 2002, respectively	1,153	1,108
Paid-in capital	605,058	531,362
Treasury stock, at cost (23,647 shares at September 30, 2003 and December 31, 2002)	(401,082)	(401,082)
Accumulated earnings	478,195	414,581
Total stockholders equity	683,324	545,969

Total	$ 2,673,933	$ 2,695,449

See notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
	(Unaudited)		(Unaudited)	
Revenue				
Rental revenue	$ 75,180	$ 65,424	$ 223,323	$ 192,699
Sales revenue	45,515	10,299	78,425	108,991
Management, development and other fees	2,954	2,755	9,901	5,651
	123,649	78,478	311,649	307,341
Costs and expenses				
Property operating costs	(23,076)	(18,004)	(62,607)	(50,841)
Cost of sales	(27,171)	(2,471)	(50,424)	(69,723)
Selling, general and administrative expenses	(9,877)	(5,824)	(21,031)	(19,804)
Corporate administrative costs	(5,488)	(4,284)	(14,392)	(12,748)
Depreciation and amortization	(18,066)	(17,317)	(52,358)	(45,666)
	(83,678)	(47,900)	(200,812)	(198,782)
Operating income	39,971	30,578	110,837	108,559
Other income				
Equity in earnings of operating joint ventures, net	540	993	5,199	6,838
Equity in earnings of development joint ventures, net	7,553	4,201	16,834	19,825
Gain on non-strategic asset sales	928	421	8,285	7,242
Interest income	1,745	2,695	5,458	7,840
Other	581	903	2,530	9,069
	11,347	9,213	38,306	50,814
Other expenses				
Interest expense	(15,893)	(16,305)	(49,740)	(42,634)
REIT transition costs	(1,416)		(4,779)	
Other	(411)	268	(607)	(1,177)
	(17,720)	(16,037)	(55,126)	(43,811)
Income before minority interests, income taxes, and discontinued operations	33,598	23,754	94,017	115,562
Minority interests		(1,527)		(4,580)
Income before income taxes and discontinued operations	33,598	22,227	94,017	110,982
Income tax expense	(12,508)	(8,967)	(34,989)	(44,661)

Income from continuing operations	21,090	13,260	59,028	66,321
Discontinued operations, net of income tax:				
Gain (loss) from disposal of discontinued operations	(201)	1,277	4,218	13,332
Income from discontinued operations	60	118	368	125
Net gain (loss) from discontinued operations	(141)	1,395	4,586	13,457
Net income	$ 20,949	$ 14,655	$ 63,614	$ 79,778
Income per share from continuing operations				
Basic	$ 0.23	$ 0.15	$ 0.67	$ 0.76
Assuming dilution	$ 0.23	$ 0.15	$ 0.65	$ 0.74
Income per share from discontinued operations				
Basic	$ 0.00	$ 0.02	$ 0.05	$ 0.16
Assuming dilution	$ 0.00	$ 0.01	$ 0.05	$ 0.15
Net income per share				
Basic	$ 0.23	$ 0.17	$ 0.72	$ 0.92
Assuming dilution	$ 0.23	$ 0.16	$ 0.70	$ 0.89
Average number of common shares outstanding - basic	90,224	87,150	88,409	86,928
Average number of common shares outstanding - diluted	92,339	89,603	91,082	89,539

See notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30,	
	2003	**2002**
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 63,614	$ 79,778
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52,358	45,666
Deferred income taxes	781	21,975
Deferred gain recognized	(3,576)	(15,856)
Amortization of deferred loan fees and other costs	3,316	4,834
Equity in earnings of joint ventures	(22,033)	(26,663)
Operating distributions from joint ventures	19,754	72,770
Gain on sales of investment property	(7,030)	(22,305)
Cost of development property and non-strategic assets sold	49,229	66,304
Capital expenditures for development property	(62,981)	(43,220)
Other, net	(2,699)	10,751
Change in deferred credits and other liabilities	13,548	13,155
Change in other operating assets and liabilities	11,976	(45,381)
Net cash provided by operating activities	116,257	161,808
Cash flows from investing activities:		
Net proceeds from sale of investment property	27,800	29,390
Capital expenditures for investment property	(202,803)	(246,354)
Payment of reimbursable construction costs	(5,128)	(32,497)
Distributions from joint ventures	8,601	
Contributions to joint ventures	(6,028)	(13,403)
Net increase in restricted cash	(7,308)	(28,056)
Net cash used in investing activities	(184,866)	(290,920)
Cash flows from financing activities:		
Borrowings	70,262	381,386
Repayment of borrowings	(131,980)	(211,910)
Distributions to minority partners	(4,551)	(4,540)
Proceeds from issuance of common stock	53,925	8,592
Net cash (used in) provided by financing activities	(12,344)	173,528
Net (decrease) increase in cash and cash equivalents	(80,953)	44,416
Cash and cash equivalents at beginning of period	274,927	222,695
Cash and cash equivalents at end of period	$ 193,974	$ 267,111

Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest (net of amount capitalized)	$	46,500	$	37,917
Income taxes	$	57,923	$	22,926
Non-cash financing activities:				
Debt forgiveness-property reconveyance	$	6,536	$	

See notes to Condensed Consolidated Financial Statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2003

(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS

Catellus Development Corporation, together with its consolidated subsidiaries (Catellus or 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 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.

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 received stockholder approval on September 26, 2003 (see Note 11).

NOTE 2. INTERIM FINANCIAL DATA

The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Company s 2002 Annual Report on Form 10-K/A as filed with the Securities and Exchange Commission. In the opinion of management, the accompanying financial information includes all normal and recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods presented. Certain prior period financial data have been reclassified to conform to the current period presentation.

New accounting standards

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities an interpretation of ARB No. 51* (FIN 46), which was amended in October 2003 by FASB Staff Position 46-6 *Effective Date of Interpretation 46 Consolidation of Variable Interest Entities*. 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 December 15, 2003, for variable interest entities in which the Company holds a variable interest that was acquired before February 1, 2003. The Company has and will adopt FIN 46 in the time frames as required by the statement. There is 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, future newly formed entities could meet these requirements and will be recorded as appropriate.

In May 2003, the FASB issued Statement of Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS 150 establishes standards for the clarification and measurement of certain financial instruments with

characteristics of both liabilities and equity. However, as of October 29, 2003, the provisions as related to mandatorily redeemable non-controlling interests in infinite lived entities have been deferred. The other provisions of this statement are effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. There is no significant effect on the financial position, results of operations or cash flows of the Company as a result of this standard.

Accounting for stock based compensation

At September 30, 2003, the Company has six stock-based employee compensation plans. After the completion of certain grants in connection with the REIT conversion, five of those plans will not be available for future grants. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board (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 Statement of Financial Accounting Standards Board (FASB) No. 123, *Accounting for Stock-Based Compensation* , to stock-based employee compensation.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(In thousands)		(In thousands)	
Net income, as reported	$ 20,949	$ 14,655	$ 63,614	$ 79,778
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,373)	(1,338)	(3,993)	(4,009)
Pro forma net income	$ 19,576	$ 13,317	$ 59,621	$ 75,769
Earnings per share:				
Basic as reported	$ 0.23	$ 0.17	$ 0.72	$ 0.92
Basic pro forma	$ 0.22	$ 0.15	$ 0.67	$ 0.87
Diluted as reported	$ 0.23	$ 0.16	$ 0.70	$ 0.89
Diluted pro forma	$ 0.21	$ 0.15	$ 0.65	$ 0.85

See Note 11 regarding proposed stock option exchange during the fourth quarter of 2003.

Income taxes

Income tax expense on income from continuing operations for the three and nine months ended September 30, 2003 and 2002 consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(In thousands)		(In thousands)	
Current	$ (12,001)	$ (3,655)	$ (34,208)	$ (22,686)
Deferred	(507)	(5,312)	(781)	(21,975)
Total	$ (12,508)	$ (8,967)	$ (34,989)	$ (44,661)

Non strategic asset sales

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(In thousands)		(In thousands)	
Sales	$ 1,150	$ 478	$ 9,088	$ 8,291
Cost of sales	(222)	(57)	(803)	(1,049)
Gain	$ 928	$ 421	$ 8,285	$ 7,242

NOTE 3. RESTRICTED CASH AND INVESTMENTS

Of the total restricted cash and investments of $43.9 million at September 30, 2003, and $36.6 million at December 31, 2002, $11.2 million and $5.1 million, respectively, represent proceeds from property sales held in separate cash accounts at trust companies in order to preserve the Company s option to reinvest the proceeds on a tax-deferred basis. Approximately $25.2 million and $24.6 million at September 30, 2003 and December 31, 2002, respectively, represent funds held in pledge accounts at a bank until certain loan collateral pool requirements are met, and $4.0 million at September 30, 2003, represents a reserve fund held by a lender in anticipation of substitution of real property collateral. In addition, restricted investments of $3.5 million and $6.9 million at September 30, 2003 and December 31, 2002, respectively, represent certificates of deposits used to guarantee lease performance for certain properties that secure debt.

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NOTE 4. INCOME PER SHARE

Income from continuing and discontinued operations per share of common stock is computed by dividing respective income by the weighted average number of shares of common stock and equivalents outstanding during the period (see table below for effect of dilutive securities, and Notes 2 and 10).

	Three Months Ended September 30,					
	2003			2002		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(In thousands, except per share data)					
Income from continuing operations	$ 21,090	90,224	$ 0.23	$ 13,260	87,150	$ 0.15
Effect of dilutive securities: stock options		2,115			2,453	
Income from continuing operations assuming dilution	$ 21,090	92,339	$ 0.23	$ 13,260	89,603	$ 0.15
Net gain (loss) from discontinued operations	$ (141)	90,224	$ 0.00	$ 1,395	87,150	$ 0.02
Effect of dilutive securities: stock options		2,115			2,453	
Net gain (loss) from discontinued operations assuming dilution	$ (141)	92,339	$ 0.00	$ 1,395	89,603	$ 0.01
Net income	$ 20,949	90,224	$ 0.23	$ 14,655	87,150	$ 0.17
Effect of dilutive securities: stock options		2,115			2,453	
Net income assuming dilution	$ 20,949	92,339	$ 0.23	$ 14,655	89,603	$ 0.16

	Nine Months Ended September 30,					
	2003			2002		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(In thousands, except per share data)					
Income from continuing operations	$ 59,028	88,409	$ 0.67	$ 66,321	86,928	$ 0.76

Effect of dilutive securities: stock options		2,673			2,611	
Income from continuing operations assuming dilution	$ 59,028	91,082	$ 0.65	$ 66,321	89,539	$ 0.74
Net gain from discontinued operations	$ 4,586	88,409	$ 0.05	$ 13,457	86,928	$ 0.16
Effect of dilutive securities: stock options		2,673			2,611	
Net gain from discontinued operations assuming dilution	$ 4,586	91,082	$ 0.05	$ 13,457	89,539	$ 0.15
Net income	$ 63,614	88,409	$ 0.72	$ 79,778	86,928	$ 0.92
Effect of dilutive securities: stock options		2,673			2,611	
Net income assuming dilution	$ 63,614	91,082	$ 0.70	$ 79,778	89,539	$ 0.89

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NOTE 5. MORTGAGE AND OTHER DEBT

Mortgage and other debt at September 30, 2003 and December 31, 2002, are summarized as follows:

	September 30, 2003	December 31, 2002
	(In thousands)	
Fixed rate mortgage loans	$ 1,060,330	$ 1,080,655
Floating rate mortgage loans	142,736	207,212
Construction loans	84,374	78,244
Revolving credit facility	50,000	
Land acquisition and development loans	20,358	22,241
Assessment district bonds	64,520	103,935
Other loans	8,272	8,668
Mortgage and other debt	1,430,590	1,500,955
Liabilities of assets held for sale:		
Fixed rate mortgage loans		2,849
Floating rate mortgage loans	5,258	298
Total mortgage and other debt	$ 1,435,848	$ 1,504,102
Due within one year	$ 83,157	$ 154,152

During the third quarter of 2003, the Company closed a senior revolving credit facility in the aggregate principal amount of $200 million, of which $50 million was drawn at September 30, 2003. The facility matures in September 2006, unless extended an additional year at the Company s election. The current interest rate is set at the Eurodollar rate plus 2%. The Company has the right during the initial term of the facility to increase the facility amount to up to an aggregate principal amount of $300 million. The Company may prepay the facility in whole or in part, at any time without penalty. The initial $50 million proceeds were used to pay down an existing floating rate mortgage loan.

In September 2003, the Company sold its interest in an unconsolidated joint venture and removed the associated assessment district bond liability of $35.6 million.

In addition, during September 2003, the Company modified a construction loan agreement reducing the facility commitment from $70 million to $50 million and extended the maturity date one year to October 20, 2004, with the option of extending the maturity an additional year to October 20, 2005, if certain conditions are met. At September 30, 2003, the $50 million has been funded.

Interest costs relating to mortgage and other debt for the three and nine months ended September 30, 2003 and 2002, are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(In thousands)		(In thousands)	
Total interest incurred	$ 21,673	$ 21,754	$ 65,384	$ 62,638
Interest capitalized	(5,750)	(5,313)	(15,476)	(19,214)
Interest expensed	15,923	16,441	49,908	43,424
Less discontinued operations	(30)	(136)	(168)	(790)
Interest expense from continuing operations	$ 15,893	$ 16,305	$ 49,740	$ 42,634

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NOTE 6. PROPERTIES

Book value by property type at September 30, 2003 and December 31, 2002, consisted of the following:

	September 30, 2003	December 31, 2002
	(In thousands)	
Rental properties:		
Industrial buildings	$ 1,200,305	$ 1,134,890
Office buildings	377,690	372,795
Retail buildings	99,177	100,882
Ground leases and other	172,367	176,430
Investment in operating joint ventures	(20,015)	(10,920)
	1,829,524	1,774,077
Developable land:		
Commercial	197,412	171,924
Residential	61,579	52,850
Urban	271,581	279,495
Investment in development joint ventures	67,358	58,071
	597,930	562,340
Work-in-process:		
Commercial	56,121	49,938
Urban	24,203	16,915
	80,324	66,853
Furniture and equipment	37,693	38,096
Other	4,135	6,715
Gross book value	2,549,606	2,448,081
Accumulated depreciation	(443,649)	(399,923)
Net book value	$ 2,105,957	$ 2,048,158

NOTE 7. 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, and retail purposes for the Company s own account and for joint ventures, and sells developable land. The Corporate segment consists of administrative services.

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 and allocated to the segments.

Upon conversion to a REIT, it is expected that the method of internal reporting will change in order to better reflect the anticipated, long-term operations of the Company.

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Financial data by reportable segment is as follows:

Three Months Ended September 30, 2003

	Asset	Suburban					Discontinued	
	Management	Commercial	Residential	Urban	Corporate	Subtotal	Operations	Total
				(In thousands)				
Revenue								
Rental revenue	$ 75,337	$	$	$	$	$ 75,337	$ (157)	$ 75,180
Sales revenue	1,775	2,106	23,247	18,387		45,515		45,515
Management, development and other fees	24	1,671	75	1,184		2,954		2,954
	77,136	3,777	23,322	19,571		123,806	(157)	123,649
Costs and expenses								
Property operating costs	(23,102)					(23,102)	26	(23,076)
Cost of sales	(887)	(1,789)	(11,657)	(13,173)		(27,506)	335	(27,171)
Selling, general and administrative expenses	(446)	(2,993)	(1,013)	(5,425)		(9,877)		(9,877)
Corporate administrative costs					(5,488)	(5,488)		(5,488)
Depreciation and amortization	(17,128)	(109)	(30)	(222)	(577)	(18,066)		(18,066)
	(41,563)	(4,891)	(12,700)	(18,820)	(6,065)	(84,039)	361	(83,678)
Operating income	35,573	(1,114)	10,622	751	(6,065)	39,767	204	39,971
Other income								
Equity in earnings of operating joint ventures, net	540					540		540
Equity in earnings of development joint ventures, net			7,553			7,553		7,553
Gain on non-strategic asset sales	928					928		928
Interest income	492	133	816	14	290	1,745		1,745
Other	(2)			585	(2)	581		581
	1,958	133	8,369	599	288	11,347		11,347
Other expenses								
Interest expense	(21,144)				5,221	(15,923)	30	(15,893)
REIT transition costs					(1,416)	(1,416)		(1,416)
Other	(16)	(166)	(187)	34	(76)	(411)		(411)
	(21,160)	(166)	(187)	34	3,729	(17,750)	30	(17,720)
Income (loss) before income taxes and discontinued operations	16,371	(1,147)	18,804	1,384	(2,048)	33,364	234	33,598

Income tax (expense) benefit	(6,069)	434	(7,025)	(518)	763	(12,415)	(93)	(12,508)
Income (loss) from continuing operations	10,302	(713)	11,779	866	(1,285)	20,949	141	21,090
Discontinued operations, net of tax:								
Loss from disposal of discontinued operations							(201)	(201)
Income from discontinued operations							60	60
Net loss from discontinued operations							(141)	(141)
Net income (loss)	$ 10,302	$ (713)	$ 11,779	$ 866	$ (1,285)	$ 20,949	$	$ 20,949

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Three Months Ended September 30, 2002

	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Subtotal	Discontinued Operations	Total
	(In thousands)							
Revenue								
Rental revenue	$ 66,191	$	$	$	$	$ 66,191	$ (767)	$ 65,424
Sales revenue	5,997	(83)	8,871			14,785	(4,486)	10,299
Management, development and other fees	9	1,355	647	744		2,755		2,755
	72,197	1,272	9,518	744		83,731	(5,253)	78,478
Costs and expenses								
Property operating costs	(18,156)					(18,156)	152	(18,004)
Cost of sales	(2,465)	1,216	(3,508)		(60)	(4,817)	2,346	(2,471)
Selling, general and administrative expenses	(168)	(2,455)	(1,549)	(1,652)		(5,824)		(5,824)
Corporate administrative costs					(4,284)	(4,284)		(4,284)
Depreciation and amortization	(16,017)	(259)	(79)	(351)	(894)	(17,600)	283	(17,317)
	(36,806)	(1,498)	(5,136)	(2,003)	(5,238)	(50,681)	2,781	(47,900)
Operating income	35,391	(226)	4,382	(1,259)	(5,238)	33,050	(2,472)	30,578
Other income								
Equity in earnings of operating joint ventures, net	993					993		993
Equity in earnings of development joint ventures, net			5,028		(827)	4,201		4,201
Gain on non-strategic asset sales	421					421		421
Interest income	894	84	1,670	4	43	2,695		2,695
Other	845		58			903		903
	3,153	84	6,756	4	(784)	9,213		9,213
Other expenses								
Interest expense	(20,200)				3,759	(16,441)	136	(16,305)
REIT transition costs								
Other	83	(209)	(26)	(340)	760	268		268
	(20,117)	(209)	(26)	(340)	4,519	(16,173)	136	(16,037)
Income (loss) before minority interests, income taxes and discontinued operations	18,427	(351)	11,112	(1,595)	(1,503)	26,090	(2,336)	23,754

Minority interests	(1,527)					(1,527)		(1,527)
Income (loss) before income taxes and discontinued operations	16,900	(351)	11,112	(1,595)	(1,503)	24,563	(2,336)	22,227
Income tax (expense) benefit	(6,816)	141	(4,476)	642	601	(9,908)	941	(8,967)
Income (loss) from continuing operations	10,084	(210)	6,636	(953)	(902)	14,655	(1,395)	13,260
Discontinued operations, net of tax:								
Gain from disposal of discontinued operations							1,277	1,277
Income from discontinued operations							118	118
Net gain from discontinued operations							1,395	1,395
Net income (loss)	$ 10,084	$ (210)	$ 6,636	$ (953)	$ (902)	$ 14,655	$	$ 14,655

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Nine Months Ended September 30, 2003

	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Subtotal	Discontinued Operations	Total
				(In thousands)				
Revenue								
Rental revenue	$ 224,520	$	$	$	$	$ 224,520	$ (1,197)	$ 223,323
Sales revenue	31,114	30,414	26,712	18,387		106,627	(28,202)	78,425
Management, development and other fees	47	5,552	344	3,958		9,901		9,901
	255,681	35,966	27,056	22,345		341,048	(29,399)	311,649
Costs and expenses								
Property operating costs	(62,882)					(62,882)	275	(62,607)
Cost of sales	(22,010)	(24,165)	(12,248)	(13,173)		(71,596)	21,172	(50,424)
Selling, general and administrative expenses	(1,011)	(8,395)	(2,661)	(8,964)		(21,031)		(21,031)
Corporate administrative costs					(14,392)	(14,392)		(14,392)
Depreciation and amortization	(49,774)	(205)	(89)	(709)	(1,726)	(52,503)	145	(52,358)
	(135,677)	(32,765)	(14,998)	(22,846)	(16,118)	(222,404)	21,592	(200,812)
Operating income	120,004	3,201	12,058	(501)	(16,118)	118,644	(7,807)	110,837
Other income								
Equity in earnings of operating joint ventures, net	5,199					5,199		5,199
Equity in earnings of development joint ventures, net			16,834			16,834		16,834
Gain on non-strategic asset sales	8,285					8,285		8,285
Interest income	1,304	438	2,379	657	685	5,463	(5)	5,458
Other	1,159	50		585	736	2,530		2,530
	15,947	488	19,213	1,242	1,421	38,311	(5)	38,306
Other expenses								
Interest expense	(63,837)				13,929	(49,908)	168	(49,740)
REIT transition costs					(4,779)	(4,779)		(4,779)
Other	(47)	(309)	(188)	172	(235)	(607)		(607)
	(63,884)	(309)	(188)	172	8,915	(55,294)	168	(55,126)
Income (loss) before income taxes and discontinued operations	72,067	3,380	31,083	913	(5,782)	101,661	(7,644)	94,017

Income tax (expense) benefit	(26,971)	(1,265)	(11,633)	(342)	2,164	(38,047)	3,058	(34,989)
Income (loss) from continuing operations	45,096	2,115	19,450	571	(3,618)	63,614	(4,586)	59,028
Discontinued operations, net of tax:								
Gain from disposal of discontinued operations							4,218	4,218
Income from discontinued operations							368	368
Net gain from discontinued operations							4,586	4,586
Net income (loss)	$ 45,096	$ 2,115	$ 19,450	$ 571	$ (3,618)	$ 63,614	$	$ 63,614

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Nine Months Ended September 30, 2002

	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Subtotal	Discontinued Operations	Total
				(In thousands)				
Revenue								
Rental revenue	$ 194,750	$	$	$	$	$ 194,750	$ (2,051)	$ 192,699
Sales revenue	41,121	40,907	57,046			139,074	(30,083)	108,991
Management, development and other fees	60	3,018	1,102	1,471		5,651		5,651
	235,931	43,925	58,148	1,471		339,475	(32,134)	307,341
Costs and expenses								
Property operating costs	(51,355)					(51,355)	514	(50,841)
Cost of sales	(13,919)	(35,000)	(28,006)		(576)	(77,501)	7,778	(69,723)
Selling, general and administrative expenses	(878)	(6,540)	(7,315)	(5,071)		(19,804)		(19,804)
Corporate administrative costs					(12,748)	(12,748)		(12,748)
Depreciation and amortization	(42,919)	(534)	(152)	(820)	(1,781)	(46,206)	540	(45,666)
	(109,071)	(42,074)	(35,473)	(5,891)	(15,105)	(207,614)	8,832	(198,782)
Operating income	126,860	1,851	22,675	(4,420)	(15,105)	131,861	(23,302)	108,559
Other income								
Equity in earnings of operating joint ventures, net	6,838					6,838		6,838
Equity in earnings of development joint ventures, net			22,585		(2,760)	19,825		19,825
Gain on non-strategic asset sales	7,242					7,242		7,242
Interest income	2,238	903	4,536	6	157	7,840		7,840
Other	8,177	633	259			9,069		9,069
	24,495	1,536	27,380	6	(2,603)	50,814		50,814
Other expenses								
Interest expense	(58,083)				14,659	(43,424)	790	(42,634)
REIT transition costs								
Other	19	(1,483)	69	(198)	416	(1,177)		(1,177)
	(58,064)	(1,483)	69	(198)	15,075	(44,601)	790	(43,811)
Income (loss) before minority interests, income taxes and discontinued operations	93,291	1,904	50,124	(4,612)	(2,633)	138,074	(22,512)	115,562
Minority interests	(4,580)					(4,580)		(4,580)
Income (loss) before income taxes and discontinued	88,711	1,904	50,124	(4,612)	(2,633)	133,494	(22,512)	110,982

operations								
Income tax (expense) benefit	(35,696)	(766)	(20,164)	1,855	1,055	(53,716)	9,055	(44,661)
Income (loss) from continuing operations	53,015	1,138	29,960	(2,757)	(1,578)	79,778	(13,457)	66,321
Discontinued operations, net of tax:								
Gain from disposal of discontinued operations							13,332	13,332
Income from discontinued operations							125	125
Net gain from discontinued operations							13,457	13,457
Net income (loss)	$ 53,015	$ 1,138	$ 29,960	$ (2,757)	$ (1,578)	$ 79,778	$	$ 79,778

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NOTE 8. 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 capital contribution commitments related to certain unconsolidated real estate joint ventures. These surety bonds, standby letters of credit, guarantees and capital contribution commitments as of September 30, 2003, are summarized in the following categories (in thousands):

Off-balance sheet liabilities:	
Surety bonds	$ 202,941
Standby letters of credit	47,803
Debt service guarantees	56,379
Contribution requirements	13,281
Lease payment guarantee	157
Sub-total	320,561
Liabilities included in balance sheet:	
Standby letters of credit	16,325
Total	$ 336,886

Surety bonds are to guarantee the construction of infrastructure and public improvements as a requirement of entitlement. Surety bonds are commonly required by public agencies from real estate developers, 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 the type of 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 September 30, 2003, 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 public improvements; these financial standby letters of credit are scheduled to expire between December 2005 and June 2006. As of September 30, 2003, the Company has a total of $64.1 million in these standby letters of credit; $47.8 million of the total is off-balance sheet ($40 million in financial letters of credit and $7.8 million in performance letters of credit), while the remaining $16.3 million are related to obligations that are reflected in the Company s Condensed Consolidated Balance Sheet ($12.9 million in Mortgage and other debt and $3.4 million in Restricted cash and investments). The $16.3 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 $47.8 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 the type of 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 example of the type of event that would require the Company to perform under the financial standby letters of credit would be a debt service shortfall in the municipal district that issued the municipal bonds. At September 30, 2003, 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 September 30, 2003, based on the joint ventures outstanding balance, these debt guarantees totaled $56.4 million. These debt service guarantees are scheduled to expire between January 2004 and September 2005. These debt service guarantees are typical business arrangements commonly required of real estate developers. An example of the types of event 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 or inadequacy of asset collateral. At September 30, 2003, 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 five of its unconsolidated joint ventures should additional capital contributions be necessary to fund development costs or operating shortfalls. The Company agreed with an unconsolidated joint venture to make additional contributions should there be insufficient funds to meet its current or projected financial requirements. As of September 30, 2003, the Company cumulatively contributed $17.3 million to this unconsolidated joint venture, as additional contributions. The Company is also required to make additional capital contributions to another four of its unconsolidated joint ventures should additional capital contributions be necessary (see chart below). As of September 30, 2003, the Company does not expect to fund any additional capital contributions beyond the maximum capital requirements.

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	Contribution Committed	Remaining Contribution Commitment
	(In thousands)	
Talega Village, LLC	$ 14,000	$ 5,269
Talega Associates, LLC	20,000	4,773
Parkway Company, LLC	38,000	2,530
Third and King Investors, LLC	25,000	709
	$ 97,000	$ 13,281

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.

In addition to the contingent liabilities summarized in the table above, the Company also has the following contingencies:

The Company has recorded in its consolidated balance sheet $1.0 million estimated residual home warranty related liability from home-building activities prior to the selling of its home-building 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 September 30, 2003, $163.3 million of Community Facility District bonds were sold to finance public infrastructure improvements at several Company projects. The Company provided letters of credit totaling $40.0 million in support of some of these bonds. The $40.0 million is 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.

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 conditions, 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.

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 by it in the past.

At September 30, 2003, management estimates that future costs for remediation of environmental contamination on operating properties and properties previously sold approximate $9.1 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 $12.6 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 the nine months ended September 30, 2003, totaled $1.6 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.

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NOTE 9. 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.

The Company provides development and management services and loan guarantees to various unconsolidated joint venture investments. Fees earned were $2.8 million and $6.1 million for the three and nine months ended September 30, 2003, respectively, of which $1.2 million and $4.0 million, respectively, were from Third and King Investors, LLC, with the remainder primarily from Traer Creek LLC, Serrano Associates, LLC, and Talega Village, LLC. Fees earned were $1.4 million and $2.5 million for the three and nine months ended September 30, 2002, respectively, of which $0.8 million and $1.5 million, respectively, were from Third and King Investors, LLC, with the remainder primarily from Traer Creek LLC and Talega Village, LLC. Deferred fees from Serrano Associates, LLC of $0.5 million at September 30, 2003, will be earned as completed projects are sold or the venture is sold or liquidated. In September 2003, the Company sold its investment interest in Traer Creek LLC. A provision in the sales allows for a discount on the purchase price of $1 million depending on the buyers timing of payment of the note. Thus the Company deferred a gain of $6.7 million, until such timing is known.

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 $0.9 million were received and recognized as rental income during each of the three months ended September 30, 2003 and 2002 and $2.7 million in each of the nine months ended September 30, 2003 and 2002. Rent payments of $1.3 million of previously received rent were deferred at September 30, 2003, and will be recognized, together with annual rents, over the life of the lease.

The Company has a $4.6 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 entered into various lease agreements with this unconsolidated joint venture. As lessee, rent expense was $34,000 in each of the three-month periods ended September 30, 2003 and 2002 and $102,000 for each of the nine-month periods ended September 30, 2003 and 2002; 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 $0.1 million in each of the three-month periods ended September 30, 2003 and 2002, and $0.3 million for each of the nine-month periods ended September 30, 2003 and 2002, and recorded a $2.1 million receivable associated with this lease.

NOTE 10. DISCONTINUED OPERATIONS

In general, sales of rental property are classified as discontinued operations. Therefore, income or loss attributed to the operations and sale of rental properties sold or held for sale is presented in the statement of operations as discontinued operations, net of applicable income taxes. Prior period statements of operations have been reclassified to reflect as discontinued operations the income or loss related to rental properties that were sold or held for sale and presented as discontinued operations during the period up to September 30, 2003. Additionally, all periods presented will likely require further reclassification in future periods as additional, similar sales of rental properties occur.

Discontinued operations activities for the three and nine months ended September 30, 2003 and 2002 are summarized as follows:

	Three Months	Nine Months

	Ended September 30,		Ended September 30,	
	2003	2002	2003	2002
	(In thousands)			
Gain from disposal of discontinued operations				
Sales revenue	$	$ 4,486	$ 28,202	$ 30,083
Cost of sales	(335)	(2,346)	(21,172)	(7,778)
	(335)	2,140	7,030	22,305
Income tax (expense) benefit	134	(863)	(2,812)	(8,973)
Net gain (loss)	$ (201)	$ 1,277	$ 4,218	$ 13,332
Rental Revenue	$ 157	$ 767	$ 1,197	$ 2,051
Income from discontinued operations before income taxes	$ 101	$ 196	$ 614	$ 207
Income tax expense	(41)	(78)	(246)	(82)
Income from discontinued operations	$ 60	$ 118	$ 368	$ 125

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Asset and liability balances of rental properties under contract to be sold at September 30, 2003, and December 31, 2002, consist of the following:

	September 30, 2003	December 31, 2002
	(In thousands)	
Assets		
Properties	$ 6,276	$ 3,216
Accumulated depreciation		(744)
Net	6,276	2,472
Other assets	56	288
Total assets	6,332	2,760
Liabilities		
Mortgage and other debt	(5,258)	(3,147)
Payables	(45)	(62)
Other liabilities		(24)
Total liabilities	(5,303)	(3,233)
Net assets (liabilities)	$ 1,029	$ (473)

NOTE 11. REAL ESTATE INVESTMENT TRUST (REIT) CONVERSION

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. At the Company s annual meeting of stockholders on September 26, 2003, the stockholders of the Company approved the restructuring of Catellus and the related REIT conversion. The REIT conversion is subject to final confirmation by the Company s Board of Directors that no events have occurred and no circumstances have arisen that would alter the Board s earlier determination that such conversion is in the best interests of the Company and its stockholders. The REIT conversion process has no material effect on the financial statements, except for $1.4 million and $4.8 million of transition costs, which relate to the REIT conversion and was incurred and expensed during three and nine months ended September 30, 2003, respectively; however, it will have an impact on future operating results in the following areas:

a one-time distribution of pre-REIT accumulated earnings and profits (E&P) of $3.83 per share of common stock, or approximately $350 million, payable on December 18, 2003, to stockholders of record at the close of business on November 4, 2003. The special E&P dividend is payable in the form of cash, shares of Catellus common stock, or a combination of both at the election of each stockholder with certain cash and ownership limitations, including a limitation of $100 million on the total cash portion of the distribution

commencing with the third quarter of 2003, a quarterly cash dividend of $0.30 per existing share of common stock is expected to be paid. A dividend in that amount for the third quarter was declared on October 8, 2003, and is payable on November 25, 2003, to stockholders of record at the close of business on November 4, 2003. The actual amount of the dividends for subsequent quarters will

be as determined and declared by the Company s Board of Directors and will depend on the Company s financial condition, earnings, and other factors, many of which are beyond the Company s control

conversion and related restructure costs are currently estimated to be $8.0 million through the first quarter of 2004, $4.8 million of which has been incurred

one-time costs associated with the proposed stock option exchange offer estimated at $32 million; included in the estimated $32 million are the estimated costs for the restricted stock (such cost will be amortized over three years), and any potential compensation expenses as a result of the required variable accounting treatment for the remaining outstanding options upon the expiration of the exchange offer program (such expense will be amortized over the remaining vesting period of the options)

certain deferred tax liabilities associated with assets in the REIT will be reversed in the fourth quarter through income and result in a one-time increase in income currently estimated in the $200 to $250 million range

Catellus SubCo, Inc., a wholly owned subsidiary of the Company, filed a Form S-4 registration statement, containing a proxy statement/prospectus, with the Securities and Exchange Commission on May 2, 2003, as amended by Amendment No. 1, Amendment No. 2, and Amendment No. 3, filed on June 17, 2003, July 28, 2003, and August 12, 2003, respectively. The proxy statement/prospectus provides important information, including detailed risk factors, regarding the proposed REIT conversion.

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

The Company:

Catellus Development Corporation is a publicly traded real estate development company that owns and operates approximately 38.2 million square feet of predominantly industrial property in many of the country s major distribution centers and transportation corridors. The company s principal objective is sustainable, long-term growth in earnings, which it seeks to achieve by applying its strategic resources: a lower-risk/higher-return rental portfolio, a focus on expanding that portfolio through development, and the deployment of its proven land development skills to select opportunities where it can generate profits to recycle back into its business. More information on the company is available at www.catellus.com.

Recent Developments

On March 3, 2003, we announced that our Board of Directors has authorized us to restructure our business operations to qualify as a real estate investment trust, or REIT, effective January 1, 2004. At our annual meeting of stockholders on September 26, 2003, our stockholders approved the restructuring of Catellus and the related REIT conversion. The REIT conversion is subject to final confirmation by our Board of Directors that no events have occurred and no circumstances have arisen that would alter our Board s earlier determination that such conversion is in the best interests of Catellus and its stockholders.

We have spent the past several years successfully transforming what was one of the country s largest land portfolios into predominantly industrial rental property. We are now embarking upon a transition period to restructure our operations and change our business strategy to focus increasingly on industrial development and to reduce focus on other product types.

In anticipation of the REIT conversion, we are taking steps during 2003 to better position our businesses for operation as a REIT. This includes 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 also anticipated that the scope of activities will be reduced, resulting in a reduction in work force over 2003 and 2004. Doug Gardner, President, and Mark Schuh, Executive Vice President, both of the Urban Group, will continue to lead their group during the transition for the balance of 2003, after which they will leave Catellus. The Urban Group currently reports to the chief executive officer of Catellus, and this reporting relationship will continue. The Urban Group projects will be operated primarily in a taxable REIT subsidiary (TRS), and we expect to recycle surplus capital from the Urban Group projects through continuing development with greater emphasis on third party parcel sales, land leases, and joint ventures. During 2003, the Suburban Residential Group (*see* Suburban Residential Group below) projects are being positioned for sale and any remaining assets operated in a TRS upon REIT conversion.

Having obtained approval of the restructuring of Catellus and the related REIT conversion at our annual meeting of stockholders on September 26, 2003, we anticipate that, effective January 1, 2004, we will operate as an umbrella partnership REIT, with wholly owned taxable REIT subsidiaries. As part of the REIT conversion, and in order to be eligible to elect REIT status for federal income tax purposes, our Board of Directors declared a special dividend on October 8, 2003, consisting of a one-time distribution of pre-REIT accumulated earnings and profits (E&P) of $3.83 per share of common stock, or approximately $350 million, payable on December 18, 2003, to stockholders of record at the close of business on November 4, 2003. The special E&P dividend is payable in the form of cash, shares of Catellus common stock, or a combination of both at the election of each stockholder with certain cash and ownership limitations, including a limitation of $100 million on the

total cash portion of the distribution. Furthermore, on October 8, 2003, our Board of Directors declared a regular cash dividend of $0.30 per share of common stock for the third quarter of 2003, payable on November 25, 2003, to stockholders of record at the close of business on November 4, 2003. Also, as part of the REIT conversion, on October 1, 2003, we announced the start of a voluntary stock option exchange offer program. This offer expired on October 29, 2003. As disclosed at Note 11 of the accompanying Condensed Consolidated Financial Statements, the one-time costs associated with the voluntary stock option exchange offer program are estimated at $30 million. Included in the estimated $30 million are the estimated costs for the restricted stock (such cost will be amortized over three years), and any potential compensation expenses as a result of the required variable accounting treatment for the remaining outstanding options upon the expiration of the exchange offer program (such expense will be amortized over the remaining vesting period of the options).

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Catellus SubCo, Inc., a wholly owned subsidiary, filed a Form S-4 registration statement, which contains a proxy statement/prospectus, with the Securities and Exchange Commission on May 2, 2003, as amended by Amendment No. 1, Amendment No. 2, and Amendment No. 3, filed on June 17, 2003, July 28, 2003, and August 12, 2003, respectively. The proxy statement/prospectus provides important information, including detailed risk factors, regarding the proposed REIT conversion. A copy of the proxy statement/prospectus and other relevant documents are available free of charge at the SEC s website (www.sec.gov) or can be obtained free of charge 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 by email at InvestorRelations@catellus.com or can be obtained free of charge through our website (www.Catellus.com) as soon as reasonably practicable after such material is filed with or furnished to the Securities and Exchange Commission. 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 proxy statement/prospectus and other relevant documents.

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.

Upon conversion to a REIT, it is expected that the method of internal reporting will change in order to better reflect the anticipated, long-term operations of the Company.

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 10 of the accompanying Condensed Consolidated Financial Statements for a discussion of discontinued operations).

Rental Building Occupancy:

	September 30,		
	2003	2002	Difference
	(In thousands of square feet, except percentages)		
Owned [1]	38,203	36,477	1,726

Occupied [1]	36,403	34,450	1,953
Occupancy percentage	95.3%	94.4%	0.9%

[1] New buildings are added to our rental portfolio at the earlier of twelve months after completion of the building shell or commencement of rent on 50% of the space. Space is considered occupied upon commencement of rent.

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The table below provides the rental portfolio rental revenue less property operating costs for the three months ended September 30, 2003, (In thousands):

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
Southern California	$ 12,974	24.6%	$ 1,534	2.9%	$ 564	1.1%	$ 15,072	28.6%
Northern California	7,742	14.7%	4,205	8.0%	1,449	2.7%	13,396	25.4%
Illinois	5,688	10.8%	1,337	2.5%		0.0%	7,025	13.3%
Texas	2,367	4.5%	1,555	2.9%		0.0%	3,922	7.4%
Colorado	2,474	4.7%	858	1.6%	395	0.7%	3,727	7.0%
Arizona	848	1.6%		0.0%	29	0.1%	877	1.7%
Maryland	782	1.5%		0.0%		0.0%	782	1.5%
Oregon	720	1.4%	115	0.2%	118	0.2%	953	1.8%
Ohio	560	1.1%		0.0%		0.0%	560	1.1%
Other	409	0.8%		0.0%		0.0%	409	0.8%
Subtotal	$ 34,564	65.7%	$ 9,604	18.1%	$ 2,555	4.8%	$ 46,723	88.6%
Ground leases and other							5,396	10.2%
Other properties							116	0.2%
							52,235	
Equity in earnings of operating JV s							540	1.0%
Total							$ 52,775	100.0%
Less: discontinued operations							(131)	
Rental revenue less property operating costs from continuing operations							$ 52,644	

The table below provides the rental portfolio by square feet by State as of September 30, 2003 (In thousands):

Industrial	Office	Retail	Total

	Square Feet	% of Total	Square Feet	% of Total	Square Feet	% of Total	Square Feet	% of Total
Southern California	12,566	32.9%	574	1.5%	176	0.5%	13,316	34.9%
Northern California	5,773	15.2%	807	2.1%	481	1.3%	7,061	18.6%
Illinois	6,268	16.4%	584	1.5%		0.0%	6,852	17.9%
Texas	3,264	8.5%	869	2.3%		0.0%	4,133	10.8%
Colorado	2,353	6.2%	273	0.7%	100	0.3%	2,726	7.2%
Arizona	1,123	2.9%		0.0%	74	0.2%	1,197	3.1%
Ohio	966	2.5%		0.0%		0.0%	966	2.5%
Oregon	545	1.4%	57	0.1%	37	0.1%	639	1.6%
Maryland	471	1.2%		0.0%		0.0%	471	1.2%
Other	842	2.2%		0.0%		0.0%	842	2.2%
Total	34,171	89.4%	3,164	8.2%	868	2.4%	38,203	100.0%

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

Customer Name	State	Type of Product Leased	% of Total Monthly Base Rent as of September 30, 2003
The Gap	CA	Office	6.7%
APL Logistics, Inc	CA, IL, KY, TX	Industrial	5.2%
Exel Corporation	CA	Industrial	2.6%
Ford Motor Company	CA, CO, KS, TX	Industrial	2.6%
J.C. Penney Company	TX	Office	2.0%
Kellogg USA, Inc.	CA, CO, IL	Industrial	1.9%
Home Depot USA, Inc.	CA	Industrial/Retail	1.6%
Office Depot, Inc.	CA	Industrial/Retail	1.5%
The Gillette Company	CA, IL	Industrial	1.4%
Spicers/La Salle paper	CA, OR	Industrial	1.3%

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Suburban Commercial:

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

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

Project Name	City/Location	September 30, 2003 [1]
		Square feet (In thousands)
Southern California		
Kaiser Commerce Center	San Bernardino County	2,147
Crossroads Business Park	Ontario	2,016
Rancho Pacific Distribution Centre	Rancho Cucamonga	312
San Bernardino	San Bernardino	865
Pacific Center	Anaheim	44
Subtotal Southern Calif.		5,384
Northern California		
Pacific Commons	Fremont	2,325
Duck Creek	Stockton	2,000
Spreckels Business Park	Manteca	686
Manteca Spreckels II	Manteca	200
Regatta Business Park	Richmond	89
Subtotal Northern Calif.		5,300
Subtotal California		10,684
Illinois		
Minooka	Minooka	3,710
Internationale Centre	Woodridge	975
Prairie Glen Corporate Campus	Glenview	102
Joliet	Joliet	403
Internationale Centre West	Romeoville	17
Subtotal Illinois		5,207
Texas		
Hobby Business Park	Houston	1,700
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		4,904
Northeast		
Quakertown	Milford, Bucks County, PA	1,336
Carteret	Carteret, NJ	367
Subtotal Northeast		1,703
Other		
Eastgate	Aurora, CO	4,000
Stapleton Business Park	Denver, CO	750
South Shore Corp. Park	Gresham/Portland, OR	707
Circle Point Corporate Center	Westminster, CO	566
Cedar Grove Business Park	Louisville, KY	545
Douglas Hill Business Park	Atlanta, GA	294
Subtotal Other		6,862
Subtotal Outside of California		18,676
Total Owned Land		29,360
Option/Controlled Land		
Alameda (FISC)	Alameda, CA	1,300
Prairie Glen Corporate Campus	Glenview, IL	335
Minooka	Minooka, IL	2,457
Total Inventory		33,452

(1) All entitled, except for 1,327,000 square feet included in Crossroads Business Park in which entitlement is in progress.

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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. As part of the REIT conversion, we anticipate the level of activities in the Suburban Residential segment will decrease.

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

	Ownership Interest	Lots/Units at September 30, 2003
Northern California		
Alameda [1]	100%	485
Hercules [2]	100%	1
Serrano, Sacramento	50%	1,143
Parkway, Sacramento (multi-family)	50%	538
		2,167
Southern California		
Talega, San Clemente [3]	30%	967
West Bluffs, Playa del Rey [4]	100%	114
		1,081
Total		3,248

(1) Of the 485 lots, we own 190 and have the option to purchase 295 lots.
(2) A commercial site.
(3) We are negotiating with our partners to purchase our 30% interest in this joint venture.
(4) 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 project of the segment is Mission Bay in San Francisco.

As discussed in the Recent Developments section, as part of the REIT conversion, we plan to continue our Urban mixed-use projects that are currently underway, but do not plan to seek new ones. As such, it is anticipated that the scope of activities will be reduced over the next several years.

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

	R&D, Biotech & Office	CBD Office	Retail/ Entertainment	Residential	Hotel
		(Net Rentable Sq. Ft.)		(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)		440,000	270,000	425	
Total	4,537,000	5,615,000	1,493,000	3,688	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.

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Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations is based on our Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our Condensed 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 and cost of sales recognition, impairment of real estate assets, capitalization of costs, allowance 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 Condensed 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, 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 prices, revenue recognition 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 an impairment review, we consider capitalized interest and other expenses as costs of development in costs projections and the value from comparable property sales. 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. 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 clean up costs, consulting fees for environmental studies and investigations, monitoring costs, and legal costs relating to clean up, 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 clean up 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 Condensed 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.

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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 Condensed Consolidated Financial Statements and related Notes appearing elsewhere in this Form 10-Q. This discussion and analysis covers our five business segments: Asset Management; Suburban, which includes a Commercial and Residential division; Urban; and Corporate.

Below is a summary of net income by segment for the Three Months Ended September 30, 2003:

	Asset	Suburban					Discontinued	
	Management	Commercial	Residential	Urban	Corporate	Subtotal	Operations	Total
				(In thousands)				
Revenue								
Rental revenue	$ 75,337	$	$	$	$	$ 75,337	$ (157)	$ 75,180
Sales revenue	1,775	2,106	23,247	18,387		45,515		45,515
Management, development and other fees	24	1,671	75	1,184		2,954		