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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2001

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number 1-13355**

**SECURITY CAPITAL GROUP INCORPORATED**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of incorporation  
or organization)

**36-3692698**

(I.R.S. Employer  
Identification No.)

**125 Lincoln Avenue**

**Santa Fe, New Mexico**

(Address of principal executive offices)

**87501**

(Zip Code)

**(505) 982-9292**

(Registrant's telephone number, including area code)

N/A

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

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

Yes  No

The number of shares outstanding of the Registrant's common stock as of November 8, 2001 was:

Class A Common Shares, \$.01 par value – 890,873 shares

Class B Common Shares, \$.01 par value – 93,235,218 shares

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**SECURITY CAPITAL GROUP INCORPORATED**  
and Subsidiaries

**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)

	<u>September 30,</u> <u>2001</u>	<u>December 31,</u> <u>2000</u>
	(unaudited)	
<b><u>ASSETS</u></b>		
Investments, at equity:		
Archstone Communities Trust	\$ —	\$ 488,884
CarrAmerica Realty Corporation	672,836	—
ProLogis Trust	543,113	565,184
Regency Centers Corporation	594,765	—
Security Capital European Realty	393,576	393,200
Security Capital U.S. Realty	—	925,417
Security Capital Research & Management:		
Security Capital Preferred Growth Incorporated	87,729	88,716
SC-US Real Estate Shares	14,946	14,988
Storage USA, Incorporated	<u>269,338</u>	<u>—</u>
	2,576,303	2,476,389
Real estate, less accumulated depreciation	1,713,257	999,278
Investments in publicly traded real estate securities, at market value	<u>10,087</u>	<u>10,993</u>
Total real estate investments	4,299,647	3,486,660
Cash and cash equivalents	330,852	28,917
Intangible assets	42,034	17,808
Deferred income taxes	125,325	—
Other assets	<u>78,195</u>	<u>103,828</u>
Total assets	<u>\$ 4,876,053</u>	<u>\$ 3,637,213</u>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Liabilities:		
Lines of credit	\$ —	\$ 66,500
Mortgage and construction notes payable	334,109	45,668
Long-term debt	799,728	699,676
6.5% Convertible Debentures	221,268	229,818
Capital lease obligation	133,884	137,017
Accounts payable and accrued expenses	212,256	112,650
Deferred income taxes	<u>—</u>	<u>52,832</u>
Total liabilities	1,701,245	1,344,161
Minority interests	12,765	63
Shareholders' Equity:		
Class A Common Shares, \$.01 par value; 15,543,012 shares authorized; 895,803 and 1,029,728 shares issued and outstanding in 2001 and 2000, respectively	9	10
Class B Common Shares, \$.01 par value; 234,199,346 shares authorized; 92,938,003 and 51,737,531 shares issued and outstanding in 2001 and 2000, respectively	929	517
Series B Preferred Shares, \$.01 par value; 257,642 shares issued and outstanding in 2001 and 2000; stated liquidation preference of \$1,000 per share	257,642	257,642
Additional paid-in capital	2,787,372	2,126,290
Accumulated other comprehensive income (loss)	(48,507)	(35,091)
Retained earnings (deficit)	<u>164,598</u>	<u>(56,379)</u>
Total shareholders' equity	<u>3,162,043</u>	<u>2,292,989</u>
Total liabilities and shareholders' equity	<u>\$ 4,876,053</u>	<u>\$ 3,637,213</u>

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

**SECURITY CAPITAL GROUP INCORPORATED**  
and Subsidiaries

**CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME**  
(In thousands, except per share data)  
(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b><u>2001</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>
INCOME:				
Property revenues:				
BelmontCorp	\$ 5,309	\$ 3,425	\$ 14,310	\$ 8,682
City Center Retail Trust	4,854	—	15,528	—
CWS Communities Trust	4,730	—	30,789	—
Homestead Village Incorporated	56,038	68,785	178,029	195,621
InterPark	31,787	—	91,781	—
Equity in earnings (loss) of:				
Archstone Communities Trust	—	25,248	7,308	71,361
CarrAmerica Realty Corporation	9,505	—	28,840	—
ProLogis Trust	13,954	14,749	39,550	34,539
Regency Centers Corporation	16,366	—	43,433	—
Security Capital European Realty	(3,395)	1,384	9,737	1,968
Security Capital U.S. Realty	—	33,511	(16,475)	153,066
Security Capital Research & Management:				
Security Capital Preferred Growth				
Incorporated	(382)	8,860	5,356	18,861
SC-US Real Estate Shares	(275)	2,041	499	6,077
Storage USA, Incorporated	8,021	—	20,656	—
Realized capital gains (losses)	(3)	117,104	225,110	125,685
Other income, net	<u>3,341</u>	<u>1,416</u>	<u>13,331</u>	<u>4,070</u>
	<u>149,850</u>	<u>276,523</u>	<u>707,782</u>	<u>619,930</u>
EXPENSES:				
Property expenses:				
BelmontCorp	4,132	2,635	11,278	7,367
City Center Retail Trust	2,127	—	6,980	—
CWS Communities Trust	2,292	—	10,767	—
Homestead Village Incorporated	23,663	27,364	71,580	79,321
InterPark	18,230	—	54,354	—
General, administrative and other expenses, net of reimbursements from related parties	13,701	4,633	43,903	18,147
Depreciation and amortization	17,653	10,498	46,730	34,358
Interest expense	29,238	25,451	96,683	88,462
Provision for loss on investment	—	—	—	71,000
	<u>111,036</u>	<u>70,581</u>	<u>342,275</u>	<u>298,655</u>
Earnings from operations	38,814	205,942	365,507	321,275
Provision for income tax expense	13,538	66,456	125,222	94,865
Minority interests in net earnings of subsidiaries	417	4	3,077	2,153
Earnings before extraordinary items	24,859	139,482	237,208	224,257
Extraordinary items— gains (losses) on early extinguishments of debt, net of tax	<u>(760)</u>	<u>15,662</u>	<u>(2,705)</u>	<u>21,814</u>
Net earnings	24,099	155,144	234,503	246,071
Less Preferred Share dividends	<u>(4,509)</u>	<u>(4,509)</u>	<u>(13,526)</u>	<u>(13,526)</u>
Net earnings attributable to common shares	<u>\$ 19,590</u>	<u>\$ 150,635</u>	<u>\$ 220,977</u>	<u>\$ 232,545</u>

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

**SECURITY CAPITAL GROUP INCORPORATED**  
and Subsidiaries

**CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME – (Continued)**  
(In thousands, except per share data)  
(Unaudited)

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Net earnings attributable to common shares	\$ 19,590	\$ 150,635	\$ 220,977	\$ 232,545
Other comprehensive income (loss):				
Foreign currency translation adjustments and other	<u>15,965</u>	<u>(20,024)</u>	<u>(13,416)</u>	<u>(38,071)</u>
Comprehensive income	<u>\$ 35,555</u>	<u>\$ 130,611</u>	<u>\$ 207,561</u>	<u>\$ 194,474</u>
Weighted-average Class B common share equivalents outstanding:				
Basic	<u>137,786</u>	<u>107,879</u>	<u>139,846</u>	<u>108,625</u>
Diluted	<u>139,698</u>	<u>126,698</u>	<u>151,946</u>	<u>120,738</u>
Earnings per share:				
Basic earnings before extraordinary items	\$ 0.15	\$ 1.25	\$ 1.60	\$ 1.93
Extraordinary items— gains (losses) on early extinguishments of debt, net of tax	<u>(0.01)</u>	<u>0.15</u>	<u>(0.02)</u>	<u>0.21</u>
Basic net earnings attributable to common shares	<u>\$ 0.14</u>	<u>\$ 1.40</u>	<u>\$ 1.58</u>	<u>\$ 2.14</u>
Diluted earnings before extraordinary items	\$ 0.15	\$ 1.12	\$ 1.52	\$ 1.81
Extraordinary items— gains (losses) on early extinguishments of debt, net of tax	<u>(0.01)</u>	<u>0.12</u>	<u>(0.02)</u>	<u>0.18</u>
Diluted net earnings attributable to common shares	<u>\$ 0.14</u>	<u>\$ 1.24</u>	<u>\$ 1.50</u>	<u>\$ 1.99</u>

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

**SECURITY CAPITAL GROUP INCORPORATED  
and Subsidiaries**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b><u>2001</u></b>	<b><u>2000</u></b>
Operating Activities:		
Net earnings	\$ 234,503	\$ 246,071
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Distributions in excess of (less than) equity in earnings of unconsolidated investees	40,434	(175,907)
Realized gains	(225,110)	(125,685)
Depreciation and amortization	46,730	34,358
Deferred income tax expense	33,187	47,899
Losses (gains) on early extinguishments of debt, net of tax	2,705	(21,814)
Provision for loss on real estate	—	71,000
Other	8,240	4,523
Decrease in other assets	15,221	3,677
(Decrease) increase in accounts payable and accrued expenses	<u>(1,780)</u>	<u>64,180</u>
Net cash flows provided by operating activities	<u>154,130</u>	<u>148,302</u>
Investing Activities:		
Real estate investments	(142,938)	(45,246)
Proceeds from sale of properties and land	96,152	22,089
Proceeds from sale of CWS Communities Trust	291,597	—
Proceeds from sales of Archstone Communities Trust	700,285	178,666
Cash paid to dissenting shareholders of SC-U.S. Realty and transaction costs	(142,025)	—
Cash acquired from SC-U.S. Realty and consolidated subsidiaries	35,691	—
Purchase of minority interest in Homestead Village Incorporated	—	(65,319)
Other	<u>(4,105)</u>	<u>13,921</u>
Net cash flows provided by investing activities	<u>834,657</u>	<u>104,111</u>
Financing Activities:		
Proceeds from lines of credit	491,121	265,900
Payments on lines of credit	(607,940)	(411,749)
Proceeds from transaction loan	530,000	—
Payments on transaction loan	(530,000)	—
Proceeds from issuances of long-term debt and notes	114,963	10,093
Payments on notes and capital leases	(15,548)	—
Payment to redeem SC-U.S. Realty convertible debentures	(407,023)	—
Repurchase of common shares, net of issuances	(239,886)	(84,146)
Preferred dividends paid	(13,526)	(13,526)
Other	<u>(9,013)</u>	<u>(1,494)</u>
Net cash flows used in financing activities	<u>(686,852)</u>	<u>(234,922)</u>
Net increase in cash and cash equivalents	301,935	17,491
Cash and cash equivalents, beginning of period	<u>28,917</u>	<u>30,567</u>
Cash and cash equivalents, end of period	<u>\$ 330,852</u>	<u>\$ 48,058</u>

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

**SECURITY CAPITAL GROUP INCORPORATED**  
**and Subsidiaries**

**CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)**  
**(In thousands)**  
**(Unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2001</b>	<b>2000</b>
Non-Cash Investing and Financing Activities:		
Acquisition of SC-U.S. Realty's assets for stock and cash:		
Investments in real estate operating companies, net of existing investment in SC-U.S. Realty	\$1,238,913	\$ —
Assumption of SC-U.S. Realty convertible notes (subsequently redeemed)	(407,023)	—
Other liabilities assumed, net of other assets acquired	(11,367)	—
Net deferred tax assets acquired	214,415	—
Value of Security Capital common stock issued	(894,670)	—
Cash paid to dissenting SC-U.S. Realty stockholders and transaction costs, net of cash acquired from SC-U.S. Realty	\$ 140,268	—
Effect of SC-U.S. Realty's sale of Security Capital shares	\$ —	\$ 13,756
Exchange of Convertible Debentures for Archstone shares	\$ —	\$ 42,500
Homestead convertible mortgages received and extinguished, as consideration for Archstone shares	\$ —	\$ 221,334

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

**SECURITY CAPITAL GROUP INCORPORATED**  
**and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**(1) General**

On January 16, 2001, Security Capital acquired the remaining shares of Security Capital U.S. Realty (SC-U.S. Realty) that it did not already own. As a result, all investees directly owned by SC-U.S. Realty are now under direct ownership of Security Capital. These investees include: CarrAmerica Realty Corporation (CarrAmerica), City Center Retail Trust (City Center Retail), InterPark Holdings (InterPark), Regency Centers Corporation (Regency), and Storage USA, Incorporated (Storage USA).

The accompanying consolidated financial statements include the results of Security Capital, its wholly-owned subsidiaries and its majority-owned investees, which include BelmontCorp (Belmont), City Center Retail, CWS Communities Trust (sold in August 2001), Homestead Village Incorporated (Homestead), InterPark, and Security Capital European Real Estate Shares (SC-European Real Estate Shares). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of Security Capital's consolidated financial statements for the interim periods presented. Certain reclassifications have been made in the 2000 consolidated financial statements and notes to consolidated financial statements in order to conform to the 2001 presentation. The results of operations for the three and nine-month periods ended September 30 are not necessarily indicative of the results to be expected for the entire year.

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 at the date of the financial statements and the reported amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements of Security Capital as of September 30, 2001, are unaudited and, pursuant to the rules of the Securities and Exchange Commission, certain information and footnote disclosures normally included in financial statements have been omitted. While management of Security Capital believes that the disclosures presented are adequate, these interim consolidated financial statements should be read in conjunction with Security Capital's 2000 audited consolidated financial statements contained in Security Capital's 2000 Annual Report on Form 10-K.

Security Capital has adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. This Statement establishes standards for accounting and reporting of derivative instruments. As of September 30, 2001, Security Capital and its consolidated subsidiaries did not have any material derivative instruments outstanding.

Revenue Recognition

Security Capital's subsidiaries enter into operating leases with tenants for various time periods and terms as follows:

**SECURITY CAPITAL GROUP INCORPORATED**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

*Retail Facilities – City Center Retail*

City Center Retail leases retail space to tenants under agreements which contain provisions for base rent plus additional rents based on sales volume (percentage rents). Percentage rents are recognized as tenants' reported sales volume exceeds the sales volume level stated in the lease agreement.

*Parking Facilities - InterPark*

In addition to daily parking revenue, InterPark leases certain parking facilities under agreements with varying terms. InterPark also manages certain facilities for third party owners and receives a management fee based upon a percentage of the facilities' revenue.

*Manufactured Housing Communities – CWS Communities*

CWS Communities leases homesites under operating leases with initial terms typically of one year.

*Senior Assisted Living - Belmont*

Belmont collects fees for housing, support services, and additional services. Revenue is recognized when the services are rendered.

*Extended Stay Lodging - Homestead*

Homestead rents rooms in its hotel properties. Room revenue and other revenue are recognized when services are rendered.

For some properties, the Company's subsidiaries record as revenues tenant recoveries for taxes, maintenance, and other costs on certain leases. These revenues are recognized in the period in which the costs are incurred. Minimum rent is recognized on a straight-line basis over the term of the lease regardless of when the payments are due.

Intangible Assets

Intangible assets primarily represent the excess of purchase price over the fair value of net tangible assets acquired in business acquisitions. Intangible assets consist mainly of goodwill, primarily at InterPark. Goodwill is amortized on a straight-line basis over twenty years. Operating contracts are amortized over a straight-line basis over the periods to be benefited, not to exceed seven years. Intangible assets are continually reviewed to assess recoverability.

Recent Accounting Pronouncements

In June 2001, Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" was issued which established standards for the accounting and reporting of goodwill and other intangible assets. Under this statement, goodwill is not amortized but is tested on an annual basis for impairment instead. Security Capital will adopt the provisions of this statement on January 1, 2002. Management does not expect any impairment to be recognized upon adoption.

**SECURITY CAPITAL GROUP INCORPORATED  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

In August 2001, Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", was issued which addresses the financial accounting and reporting for the impairment or disposal of long-lived assets, superseding SFAS No. 121. The new rules will become effective January 1, 2002. It is uncertain what the impact, if any, upon Security Capital will be upon adoption.

**(2) Investments in Real Estate Related Entities and Real Estate**

Security Capital holds the following investments at September 30, 2001:

<u>Investment</u>	<u>Type of Entity</u>	<u>Ownership</u>
EQUITY-METHOD INVESTEEES:		
<i>CarrAmerica</i>	Office REIT (publicly traded)	45.7%
<i>ProLogis Trust</i>	Industrial REIT (publicly traded)	28.6%
<i>Regency</i>	Grocery-anchored retail REIT (publicly traded)	59.5% <sup>(1)</sup>
<i>Storage USA</i>	Self-storage REIT (publicly traded)	42.8% <sup>(2)</sup>
<i>SC-European Realty</i>	Global real estate investments (private entity)	34.6%
<i>SC-Preferred Growth</i>	Convertible security investments in real estate companies (private REIT)	9.2%
<i>SC-US Real Estate Shares</i>	U.S. real estate securities fund (mutual fund)	12.0%
CONSOLIDATED INVESTEEES:		
<i>Belmont</i>	Senior assisted living (private entity)	99.8%
<i>City Center Retail</i>	Retail (private entity)	99.9%
<i>Homestead</i>	Extended-stay lodging (private entity)	99.9%
<i>InterPark</i>	Parking facility ownership and management (private entity)	97.2%
<i>SC-European Real Estate Shares</i>	European real estate securities fund (mutual fund)	99.9%

<sup>(1)</sup>Although Security Capital owns a majority interest of shares outstanding, this entity is not consolidated as voting rights do not exceed 49% per agreement with the investee.

<sup>(2)</sup>On November 5, 2001, Security Capital proposed a transaction to acquire the remaining shares of Storage USA that it does not currently own. See footnote 10 for further discussion.

**SECURITY CAPITAL GROUP INCORPORATED**  
and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

Security Capital received dividends from its investees as follows (in thousands, except per share amounts):

	<b>Dividends Received</b>			
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
Dividends:				
Archstone <sup>(1)</sup>	\$ —	\$ 13,656	\$ 13,006	\$ 55,040
CarrAmerica	13,227	—	39,685	—
CWS Communities <sup>(2) (3)</sup>	4,103	—	7,949	—
Homestead <sup>(3)</sup>	11,649	12,500	11,649	37,500
ProLogis	17,214	16,718	51,648	50,153
Regency	17,135	—	51,408	—
SC-European Real Estate Shares <sup>(3)</sup>	—	—	120	51
SC-Preferred Growth	3,697	1,323	6,343	3,969
SC-US Real Estate Shares	229	208	541	803
Storage USA	8,353	—	16,707	—
	<u>\$ 75,607</u>	<u>\$ 44,405</u>	<u>\$199,056</u>	<u>\$147,516</u>

	<b>Dividend Amount Per Investee Share</b>			
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
Dividends:				
Archstone <sup>(1)</sup>	\$ —	\$ 0.3850	\$ 0.4252	\$ 1.1550
CarrAmerica	0.4625	—	1.3875	—
CWS Communities <sup>(2) (3)</sup>	0.1600	—	0.3100	—
Homestead <sup>(3)</sup>	0.0971	0.1041	0.0971	0.3124
ProLogis	0.3450	0.3350	1.0350	1.0050
Regency	0.5000	—	1.5000	—
SC-European Real Estate Shares <sup>(3)</sup>	—	—	0.1172	0.0501
SC-Preferred Growth	0.9350	0.3350	1.6050	1.0050
SC-US Real Estate Shares	0.1707	0.1548	0.4030	0.4035
Storage USA	0.7100	—	1.4200	—

<sup>(1)</sup>On February 28, 2001, Security Capital sold substantially all of its remaining investment in Archstone (see footnote 8 for further discussion).

<sup>(2)</sup>On August 3, 2001, Security Capital sold its investment in CWS Communities (see footnote 8 for further discussion).

<sup>(3)</sup>Dividends from these consolidated investees to Security Capital are eliminated in consolidation.

**SECURITY CAPITAL GROUP INCORPORATED**  
and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

The following summarizes real estate investments of Security Capital's consolidated investees as of September 30, 2001 and December 31, 2000 (in thousands):

	<u>Estimated Useful Lives (in years)</u>	<u>September 30, 2001</u>	<u>December 31, 2000</u>
<u>Belmont:</u>			
Senior assisted living properties:	20 – 40		
Operating communities		\$ 99,861	\$ 53,793
Communities under construction		71,890	64,858
Communities in planning		12,594	14,302
Land held for future development		<u>777</u>	<u>777</u>
Total real estate, at cost		185,122	133,730
Less accumulated depreciation		<u>(4,246)</u>	<u>(2,548)</u>
Subtotal		<u>180,876</u>	<u>131,182</u>
 <u>City Center Retail (acquired on January 16, 2001):</u>			
Retail facilities:	20 – 40		
Operating properties		100,816	—
Re-developments under construction		<u>21,132</u>	<u>—</u>
Total real estate, at cost		121,948	—
Less accumulated depreciation		<u>(11,837)</u>	<u>—</u>
Subtotal		<u>110,111</u>	<u>—</u>
 <u>Homestead:</u>			
Extended stay lodging properties:	20 - 40		
Owned properties		734,963	719,400
Properties under capital lease		145,000	145,000
Developments under construction		—	2,787
Properties held for sale		13,732	84,391
Land held for sale		<u>1,402</u>	<u>2,532</u>
Total real estate, at cost		895,097	954,110
Less accumulated depreciation		<u>(112,163)</u>	<u>(86,014)</u>
Subtotal		<u>782,934</u>	<u>868,096</u>
 <u>InterPark (acquired on January 16, 2001):</u>			
Parking facilities:	20 - 40		
Operating properties		670,680	—
Developments under construction		<u>868</u>	<u>—</u>
Total real estate, at cost		671,548	—
Less accumulated depreciation		<u>(32,212)</u>	<u>—</u>
Subtotal		<u>639,336</u>	<u>—</u>
Real Estate, less accumulated depreciation		<u>\$ 1,713,257</u>	<u>\$ 999,278</u>

In the first quarter of 2001, Homestead sold 24 of its first-generation properties for proceeds of \$81.4 million. The proceeds were used to pay down existing debt (including intercompany debt owed to Security Capital). These properties were not representative of Homestead's current competitive design and location strategies.

**SECURITY CAPITAL GROUP INCORPORATED**  
and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

Regency

Regency is a significant subsidiary as defined by the Securities and Exchange Commission. A summarized income statement of Regency follows (in thousands):

	<u>Three Months Ended</u> <u>September 30, 2001</u>	<u>Nine Months Ended</u> <u>September 30, 2001</u>
Revenues	\$ 96,169	\$ 279,187
Operating expenses	(43,729)	(127,906)
Net interest expense	(16,652)	(51,842)
Minority interest and other	(8,938)	(25,295)
Net income	26,850	74,144
Preferred stock dividends	(744)	(2,221)
Net income for common stockholders	<u>\$ 26,106</u>	<u>\$ 71,923</u>
Net income per share:		
Basic	<u>\$ 0.45</u>	<u>\$ 1.25</u>
Diluted	<u>\$ 0.45</u>	<u>\$ 1.25</u>

Restatement

During the third quarter, the Company discovered an inadvertent error in recording its share of the income of CarrAmerica Realty Corporation for both the first and the second quarter of 2001. As a result, the Company has restated its results for both of those quarters. This restatement had no impact on the reported earnings before depreciation, amortization and deferred taxes (EBDADT) for these periods (see footnote 4 for discussion of EBDADT). The year-to-date impact was a reduction to earnings of approximately \$6.6 million, after tax. The amounts as previously reported and restated are as follows (in thousands):

	<u>Originally Reported</u>		<u>Restated</u>		<u>Difference</u>	
	<u>Three Months Ended</u> <u>March 31,</u> <u>2001</u>	<u>June 30,</u> <u>2001</u>	<u>Three Months Ended</u> <u>March 31,</u> <u>2001</u>	<u>June 30,</u> <u>2001</u>	<u>Three Months Ended</u> <u>March 31,</u> <u>2001</u>	<u>June 30,</u> <u>2001</u>
Equity in earnings of CarrAmerica	\$ 12,833	\$ 16,641	\$ 8,149	\$ 11,186	\$ (4,684)	\$ (5,455)
Earnings from operations	\$256,225	\$ 80,607	\$251,556	\$ 75,137	\$ (4,669)	\$ (5,470)
Net earnings attributable						
to common shares	\$161,541	\$ 46,436	\$158,511	\$ 42,876	\$ (3,030)	\$ (3,560)
Net earnings per share attributable						
to common shares:						
Basic	\$ 1.14	\$ 0.33	\$ 1.12	\$ 0.31	\$ (0.02)	\$ (0.02)
Diluted	\$ 1.05	\$ 0.32	\$ 1.03	\$ 0.30	\$ (0.02)	\$ (0.02)

**SECURITY CAPITAL GROUP INCORPORATED**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**(3) Intangible Assets**

Intangible assets, which arise primarily at InterPark, at September 30, 2001 and December 31, 2000 were (in thousands):

	<u>September 30,</u> <u>2001</u>	<u>December 31,</u> <u>2000</u>
Goodwill	\$ 38,321	\$ 17,808
Other	<u>3,713</u>	<u>—</u>
	<u>\$ 42,034</u>	<u>\$ 17,808</u>

Amortization expense for the three and nine months ended September 30, 2001 was \$0.8 million and \$5.4 million, respectively, and \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2000, respectively.

**(4) Segment Reporting**

Security Capital operates its business in one reportable segment—ownership of real estate operating and capital management companies. This segment records revenues by reporting its pro-rata share of its investees' earnings before depreciation, amortization and deferred taxes (EBDADT). EBDADT is considered by management to be an additional measure of operating performance for Security Capital and its affiliates, supplementing net earnings as measured by generally accepted accounting principles (GAAP). Among other things, GAAP net earnings includes the impact of real estate depreciation. The value of real estate assets generally changes in response to existing market conditions and does not necessarily diminish in value predictably over time, as historical cost depreciation implies. Therefore, consistent with real estate industry practice, EBDADT adjusts GAAP net earnings by eliminating real estate related depreciation. EBDADT also involves certain other adjustments, the most material being the omission of changes in unrealized gains and losses on real estate securities due to fluctuations in market prices. EBDADT of investees who are not REITs or who conduct development-for-sale activities include gains and losses on sales of operating properties. **EBDADT should not be considered as an alternative to net earnings or any other GAAP measurement of performance or as an alternative to cash flows from operating, investing or financing activities, or as a measure of Security Capital's liquidity.**

**SECURITY CAPITAL GROUP INCORPORATED**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

Presented below is a statement of EBDADT reconciled to net earnings (in thousands).

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b><u>2001</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>
Equity in EBDADT of investees/divisions	\$ 127,773	\$118,207	\$ 401,820	\$ 325,866
Interest and other income	<u>1,504</u>	<u>792</u>	<u>7,815</u>	<u>1,748</u>
Total income	129,277	118,999	409,635	327,614
Operating expenses	5,476	7,912	21,373	26,087
Interest expense	<u>18,254</u>	<u>18,615</u>	<u>58,895</u>	<u>59,957</u>
Total expense	<u>23,730</u>	<u>26,527</u>	<u>80,268</u>	<u>86,044</u>
Convertible preferred share dividends	<u>4,509</u>	<u>4,509</u>	<u>13,526</u>	<u>13,526</u>
Basic EBDADT before current income taxes and special items	101,038	87,963	315,841	228,044
Current income tax expense	<u>9,912</u>	<u>1,412</u>	<u>33,783</u>	<u>8,477</u>
Basic EBDADT before special items	91,126	86,551	282,058	219,567
Extraordinary gain (loss) on retirement of debt, net of tax	(756)	—	(2,701)	6,152
Gain on sale of Archstone stock, net of tax	—	94,101	160,087	102,848
Other, net	<u>—</u>	<u>337</u>	<u>—</u>	<u>1,519</u>
Basic EBDADT after special items	90,370	180,989	439,444	330,086
Investee reconciling items:				
Real estate depreciation	(57,821)	(37,491)	(177,957)	(122,051)
Gains on sale of depreciated properties	321	12,309	13,558	29,914
Provision for loss on real estate	—	—	—	(71,000)
Unrealized gains (losses), including foreign currency	(8,152)	33,735	(6,474)	144,218
EBDADT, net of dividends from strategic investees of SC-U.S. Realty	—	(10,482)	—	(28,184)
Other	<u>(5,350)</u>	<u>(2,548)</u>	<u>(19,706)</u>	<u>(3,310)</u>
	<u>(71,002)</u>	<u>(4,477)</u>	<u>(190,579)</u>	<u>(50,413)</u>
Security Capital reconciling items:				
Deferred tax expense	(2,014)	(26,791)	(31,700)	(47,899)
Other	<u>2,236</u>	<u>914</u>	<u>3,812</u>	<u>771</u>
	<u>222</u>	<u>(25,877)</u>	<u>(27,888)</u>	<u>(47,128)</u>
Net earnings attributable to common shares	<u>\$ 19,590</u>	<u>\$150,635</u>	<u>\$ 220,977</u>	<u>\$ 232,545</u>

**SECURITY CAPITAL GROUP INCORPORATED**  
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**(5) Indebtedness**

A summary of indebtedness as of September 30, 2001, is as follows (in thousands):

	<u>Security Capital</u>	<u>Belmont</u>	<u>Homestead</u>	<u>InterPark</u>	<u>Total</u>
Lines of credit	\$ —	\$ —	\$ —	\$ —	\$ —
Mortgage and construction notes payable	—	70,426	—	263,683	334,109
Long-term debt	699,728	—	—	100,000	799,728
Convertible Debentures	221,268	—	—	—	221,268
Capital lease obligation	—	—	133,884	—	133,884

On June 12, 2001, Security Capital amended its unsecured revolving line of credit with Wells Fargo Bank, National Association (Wells Fargo), as agent for a group of lenders. Up to \$450 million can be drawn on the line and borrowings accrue at LIBOR plus a margin of 1.2%, based upon Security Capital's credit rating, or a Base Rate defined as the higher of Wells Fargo prime rate or the Federal Fund's rate plus 0.50%.

A wholly-owned subsidiary of Security Capital has two letters of credit for \$2.75 million which bear interest at 0.75% annually and have maturity dates from June 2002 to August 2002 and are automatically extended annually unless otherwise cancelled.

On April 27, 2001, Homestead entered into an amended and restated credit facility which provides for a revolving line of up to \$35.0 million in borrowings, a reduction in the interest rate to 2.0% over LIBOR (previously LIBOR plus 3.0%), a reduction in the commitment fee to 0.25% on the undrawn balance (previously 0.375%), an extension of the maturity date to February 2004, and a reduction in the collateral pool to 7 properties. The amended facility requires maintenance of financial ratio and coverage covenants similar to the prior facility and permits payment of dividends based upon a definition of free cash flow. They are currently in compliance with these covenants.

InterPark has mortgages payable collateralized by certain properties. The mortgages bear interest at rates ranging from 4.3% to 8.7% and have maturity dates from June 20, 2005 to October 20, 2006. InterPark also has \$100 million of subordinated convertible debt financing bearing interest at 7% (4% due semi-annually and 3% deferred until maturity). The debt can be converted into common stock of InterPark at any time at the conversion rate of \$12.36 per share. The loan matures in June 2010.

Security Capital does not guarantee, and is not liable for, the debt incurred by its subsidiaries.

**SECURITY CAPITAL GROUP INCORPORATED**  
and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**(6) Shareholders' Equity**

*Share Repurchase Program:*

On April 23, 2001, Security Capital announced the final results of its modified Dutch auction self-tender offer, which expired April 17, 2001. The Company purchased approximately 9.3 million shares of Class B common stock at a purchase price of \$20.50 per share, or a total of approximately \$191 million.

On August 23, 2001, Security Capital announced that its Board of Directors authorized additional share repurchases of up to \$250 million.

As of September 30, 2001, Security Capital had repurchased 31.9 million Class B equivalent shares for a combined purchase price of \$541 million since August 1999, when the original share repurchase program was initially announced.

*Per Share Data:*

The following is a reconciliation of the numerators and denominators used to calculate basic and diluted earnings per Class B Shares (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
Net earnings attributable to Common Shares-Basic	\$ 19,590	\$150,635	\$220,977	\$232,545
Convertible debenture interest expense, net of tax	—	2,560	7,494	7,950
Preferred share dividends	—	4,509	—	—
Net earnings to Common Shares-Diluted	<u>\$ 19,590</u>	<u>\$157,704</u>	<u>\$228,471</u>	<u>\$240,495</u>
Weighted-average Class B Common				
Shares outstanding-Basic	137,786	107,879	139,846	108,625
Increase in shares which would result from:				
Exercise of options and warrants	1,912	1,989	2,124	1,424
Conversion of convertible debentures	—	10,224	9,976	10,689
Conversion of preferred shares	—	6,606	—	—
Weighted-average Class B Common				
Shares outstanding-Diluted	<u>139,698</u>	<u>126,698</u>	<u>151,946</u>	<u>120,738</u>

For the three and nine months ended September 30, 2001, convertible securities issued by InterPark are not assumed converted as the effect is anti-dilutive.

For the three months ended September 30, 2001, Security Capital's convertible debentures are not converted as the effect would be anti-dilutive. The remaining periods reflect the conversion as the effect is dilutive.

For the three months ended September 30, 2000, Security Capital's convertible preferred shares are assumed converted as the effect is dilutive. The remaining periods reflect no conversion as the effect is anti-dilutive.

**SECURITY CAPITAL GROUP INCORPORATED**  
**and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**(7) Commitments and Contingencies**

As of September 30, 2001, Security Capital and its affiliates have a remaining funding commitment to SC-European Realty of \$77.7 million. In addition, Security Capital has a remaining funding commitment of \$82.3 million to Belmont. At September 30, 2001, Belmont had approximately \$43.9 million of unfunded commitments for developments under construction and InterPark has approximately \$34.0 million of unfunded commitments for acquisitions/developments.

**(8) Sale of Investments**

As discussed in Note 2, Security Capital sold substantially all of its remaining shares of Archstone stock in February 2001, resulting in a gain of \$217.1 million and generating \$700.3 million of proceeds, and \$57.3 million of estimated income taxes.

Also, as discussed in Note 2, on August 3, 2001, Security Capital sold its entire 94.1% ownership in CWS Communities Trust for \$291.6 million in cash. Net proceeds from the transaction, after taxes and transaction costs, are \$270.0 million. Under the purchase method of accounting for business combinations, no gain was recognized on the sale as any gains on sale within twelve months of the acquisition of Security Capital U.S. Realty are reflected as purchase price adjustments.

**(9) Purchase of SC-U.S. Realty Assets**

On January 16, 2001, SC Realty Incorporated, an indirect wholly-owned subsidiary of Security Capital, purchased all of the assets of SC-U.S. Realty in exchange for the issuance of 45.4 million Class B Shares with a market value of \$894.7 million and the payment of \$112 million in cash to SC-U.S. Realty shareholders who elected to receive cash. In addition, Security Capital funded \$434 million to repay indebtedness of SC-U.S. Realty existing on the date of acquisition. As a result of the acquisition, all investees directly owned by SC-U.S. Realty are now under direct ownership of Security Capital.

The acquisition was accounted for under the purchase method of accounting. Because the fair-value of the assets acquired was more than the purchase price, approximately \$652.5 million of negative goodwill was recognized. The negative goodwill reduced the investments in real estate companies that are accounted for under the equity method of accounting and the long-lived assets of the two real estate companies that are consolidated, namely their real estate and intangible assets. Negative goodwill was not applied to the real estate of CWS Communities, as the company anticipated selling (and did sell) this investment within twelve months of the acquisition of SC-U.S. Realty (see note 8).

The following pro forma financial information for the nine months ended September 30, 2000 assumes that the acquisition of SC-U.S. Realty had occurred on January 1, 2000 (in thousands, except per share amounts):

Income	\$ 708,790
Expenses	<u>560,357</u>
Net earnings	<u>\$ 148,433</u>
Net earnings per share:	
Basic	<u>\$ 0.96</u>
Diluted	<u>\$ 0.94</u>

**SECURITY CAPITAL GROUP INCORPORATED**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**(10) Subsequent Events**

On November 5, 2001, Security Capital proposed a transaction to acquire the entire public interest in Storage USA, Inc. (NYSE:SUS) that it does not currently own. The proposal states that the shareholders of Storage USA other than Security Capital would receive \$42 in cash for each common share of Storage USA. If the transaction occurs, Security Capital will finance the \$1.051 billion transaction cost with cash on hand, its existing line of credit and an unsecured bridge loan. Storage USA, Inc.'s existing \$600 million rated senior unsecured notes and \$65 million of unrated preferred operating partnership units will remain outstanding.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of  
Security Capital Group Incorporated:

We have reviewed the accompanying consolidated balance sheet of Security Capital Group Incorporated and subsidiaries (see note 1) as of September 30, 2001, and the related consolidated statements of earnings and comprehensive income for the three and nine month periods ended September 30, 2001 and 2000 and the consolidated statements of cash flows for the nine month periods ended September 30, 2001 and 2000. These financial statements are the responsibility of the Management of the Company. We were furnished with the reports of other accountants on their reviews of the financial statements of Archstone Communities Trust for the nine month period ended September 30, 2000, Storage USA Incorporated for the three month period ended March 31, 2001 and of CarrAmerica Realty Corporation, Regency Centers Corporation and Security Capital European Realty all for the three and nine month periods ended September 30, 2001, whose total assets collectively represent 33.6% of the total assets of Security Capital Group Incorporated and subsidiaries as of September 30, 2001 and whose revenues collectively represent 11.8% and 11.5% of the total revenues of Security Capital Group Incorporated and subsidiaries for the nine month periods ended September 30, 2001 and 2000, respectively.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review and the reports of other accountants, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Security Capital Group Incorporated and subsidiaries as of December 31, 2000, and, in our report dated March 16, 2001, we expressed an unqualified opinion on that statement based on our audit and reports of other auditors. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

**ARTHUR ANDERSEN LLP**

Chicago, Illinois  
November 14, 2001

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

### **Forward-Looking Statements**

The statements contained in this report that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on current expectations, management's beliefs, and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance. Actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Security Capital undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

See Security Capital's 2000 Annual Report on Form 10-K for a discussion of various risk factors associated with forward-looking statements made in this document.

### **Overview**

The results of operations are discussed below, followed by a discussion of Security Capital's Liquidity and Capital Resources. These sections should be read in conjunction with the consolidated financial statements and accompanying notes thereto and Security Capital's 2000 Annual Report on Form 10-K.

### **Results of Operations**

#### **Three and Nine Months Ended September 30, 2001 Compared to Three and Nine Months Ended September 30, 2000**

A substantial portion of Security Capital's earnings are generated by transactional activities in several of its investees. The timing and frequency of these vary, which may lead to fluctuations in consolidated results quarter to quarter.

### **Investments in Public Companies**

Security Capital generates earnings from its investments in public companies. These investments are not consolidated and Security Capital reports its share of their respective earnings. Cash flow from the investments in public companies are generated through receipt of dividends. (See note 2 to the consolidated financial statements for detail of dividends received.)

Presented below is Security Capital's equity in earnings (loss) and common share ownership of its investment in public companies for the periods indicated. Explanations of earnings changes at the investee level, which materially impacted Security Capital's equity in earnings, follow the table (dollar amounts in millions).

	<b>Equity in Earnings (Loss)</b>				<b>% Ownership</b>	
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>as of September 30,</b>	
	<b>September 30,</b>		<b>September 30,</b>		<b>2001</b>	<b>2000</b>
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>		
Archstone	\$ —	\$ 25.2	\$ 7.3	\$ 71.3	—	29.0 %
ProLogis	14.0	14.7	39.6	34.5	28.6%	30.3 %
SC-U.S. Realty	—	33.5	(16.5)	153.1	—	40.6 %
CarrAmerica	9.5	—	28.8	—	45.7%	—
Regency	16.4	—	43.4	—	59.5% <sup>(1)</sup>	—
Storage USA	8.0	—	20.7	—	42.8 %	—
	<u>\$ 47.9</u>	<u>\$ 73.4</u>	<u>\$ 123.3</u>	<u>\$ 258.9</u>		

<sup>(1)</sup>Although Security Capital owns a majority interest of shares outstanding, this entity is not consolidated as voting rights may not exceed 49% per agreement with the investee.

#### *Archstone*

Security Capital sold its investment in Archstone between July 2000 and February 2001, including the February 28, 2001 sale of substantially all of its remaining 31.7 million Archstone shares (realizing a gain of \$217.1 million). Hence, Security Capital's equity in earnings from Archstone for the three and nine months ended September 30, 2001 declined.

#### *ProLogis*

The decrease in equity in earnings of ProLogis is due to a reduction in Security Capital's ownership position from 30.3% in September 30, 2000 to 28.6% on September 30, 2001, partially offset by an increase in ProLogis' earnings for the three months ended September 30, 2001 compared to the same period in 2000. ProLogis' increased earnings was due to its corporate distribution facilities service business, partially offset by losses in its temperature-controlled distribution operations. The increase in earnings for the nine months ended September 30, 2001 compared to the same period in 2000 was due to an increase in contribution from its corporate distribution facilities service business and lower foreign currency exchange losses, partially offset by losses in its temperature-controlled distribution operations and an impairment adjustment to the value of a technology investment.

#### *SC-U.S. Realty*

For the period from January 2, 2001 through January 16, 2001, SC-U.S. Realty recognized unrealized losses on the market value of its investments in public real estate companies.

As a result of the acquisition of the assets of SC-U.S. Realty on January 16, 2001, Security Capital no longer records its share of SC-U.S. Realty's earnings (which were significantly affected by unrealized securities gains and losses); rather, it records its share of earnings from the former investees of SC-U.S. Realty. The following discusses changes in the result of operations of former SC-U.S. Realty investees.

### *CarrAmerica*

CarrAmerica's net income from continuing operations decreased from \$49.9 million to \$28.9 million for the three months ended September 30, 2001 compared to the same period in 2000. CarrAmerica had a \$20.2 million gain on the sale of assets in 2000. Excluding that gain, results are similar from quarter to quarter. Net income from continuing operations decreased from \$112.9 million to \$91.8 million for the nine months ended September 30, 2001. 2000 results include a \$27.9 gain on the sale of assets. Excluding that gain, results are up 6.7% year over year primarily due to lower interest expense and real estate taxes.

### *Regency*

Regency's net income increased by \$2.2 million to \$26.1 million for the three months ended September 30, 2001 compared to the same period in 2000 due primarily to favorable net recoverable expenses and gain on sales of land. Net income for the nine months ended September 30, 2001 increased by \$11.0 million to \$71.9 million compared to the same period in 2000 primarily due to a \$6.9 million provision for loss on operating properties held for sale recorded in 2000, partially offset by 3.4% same store net operating income growth, favorable net recoverable expenses and gains on sales of land.

### *Storage USA*

Storage USA's net income increased by \$1.7 million to \$18.5 million for the three months ended September 30, 2001 and increased \$3.0 million to \$49.7 million for the nine months ended September 30, 2001 compared to the same periods in 2000. Both increases were due to revenue growth of 5.7% on a same store basis and increased service income partially offset by an increase in property level expenses.

## **Investments in Private Divisions**

Security Capital has significant investments in several real estate companies that operate as private divisions. Security Capital owns all or substantially all of each of these operating companies, which are consolidated (Belmont, CWS Communities, City Center Retail, Homestead and InterPark).

### *Belmont*

The increase in Belmont's property revenues and expense is due to additional operating properties. Belmont has six operating properties: three achieved stabilized occupancy levels in 2001 and three are prestabilized, compared to all four properties being prestabilized in 2000. Based on properties that were stabilized during the entire period, stabilized occupancy was 97% and 100% for three and nine months ended September 30, 2001, respectively. Belmont currently has five properties under construction.

### *City Center Retail*

City Center Retail has two operating properties and one property under redevelopment. Management is evaluating strategic alternatives, which could include the sale of a portion or all of its assets.

### *Homestead*

In the fourth quarter of 2000 and first quarter of 2001, Homestead completed the sale of 25 first-generation properties. The proceeds were used to repay existing debt (including intercompany debt owed to Security Capital). These properties were not representative of Homestead's current competitive design and location strategies.

Overall property level results for Homestead are summarized below (in millions):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30 ,</b>		<b>September 30,</b>	
	<b><u>2001</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>
Property revenues	\$ 56.4	\$ 69.3	\$ 179.1	\$ 197.2
Total room expense	<u>(23.7)</u>	<u>(27.4)</u>	<u>(71.6)</u>	<u>(79.3)</u>
Net operating income	<u>\$ 32.7</u>	<u>\$ 41.9</u>	<u>\$ 107.5</u>	<u>\$ 117.9</u>

Same Store<sup>(1)</sup> Property Performance

Occupancy %	76.9%	83.8%	76.5%	80.0%
Weekly Revenue per Available Room	\$ 292	\$ 319	\$ 306	\$ 300

<sup>(1)</sup>Includes 111 stabilized properties (\$945 million investment) as of September 30, 2001.

The decrease in net operating income from 2000 to 2001 was attributable to the sale of 25 properties and slower economic conditions, as well as the effects of the events of September 11, 2001, which resulted in a decrease in same-store occupancy levels. Homestead had 111 and 136 operating properties at September 30, 2001 and 2000, respectively.

*InterPark*

In January 2001, Urban Growth Property Trust (Urban Growth) merged into InterPark Holdings, the property manager for most of Urban Growth's properties and is now part of InterPark. Because of the merger, prior year information is not comparable.

*Security Capital Research & Management*

Security Capital Research & Management (formerly Global Capital Management Group) manages or advises capital invested in publicly traded and privately owned real estate companies and securities for investment companies, institutional separate accounts and high net worth clients. The equity in earnings of Security Capital Research & Management's investees includes changes in unrealized gains or losses for SC-Preferred Growth and SC-US Real Estate Shares. These changes are a result of fluctuating market prices for the shares in their underlying investments and are reflected in earnings as these investees use fair value accounting. Fluctuations in market prices do not have an impact on cash flow. During the three and nine months ended September 30, 2001, a general decrease in security prices has negatively impacted such equity in earnings.

Security Capital Research & Management continues to add new investment management clients. Assets managed for separate accounts increased from \$0.9 billion at September 30, 2000 to \$1.1 billion at September 30, 2001.

*SC-Preferred Growth*

SC-Preferred Growth's earnings for the three and nine months ended September 30, 2001 were lower compared to the same period in 2000 as a result of a general decline in security prices during the year.

### *SC-US Real Estate Shares*

The decrease in earnings for the three and nine months ended September 30, 2001 compared to the same periods in 2000 was due to the decrease in Security Capital's ownership from 17.5% at September 30, 2000 to 12.0% at September 30, 2001.

### *SC-European Realty*

SC-European Realty's current investments are primarily in operating and development companies with significant pre-stabilized assets in three businesses. The decrease in earnings for the three months ended September 30, 2001 compared to the same period in 2000 was due to a \$9 million loss provision for a property sale which occurred in October 2001 in one of SC-European Realty's office affiliates. The increase in earnings for the nine months ended September 30, 2001 compared to the same period in 2000 was due to gains on sales of office development properties, which were partially offset by increased foreign exchange losses due to the change in foreign exchange rates. In addition, SC-European Realty's parking affiliate's operating performance increased due to acquisitions and improved operations. It is expected that earnings, excluding the impact of property sales, for SC-European Realty will increase as additional properties reach stabilization. However, there is no assurance this will occur and failure to do so would impair the ability of SC-European Realty to grow both its portfolio and its earnings. A substantial portion of SC-European Realty's earnings are generated by transactional activities in several of its investees. The timing, frequency and profitability of these activities are difficult to predict, which may lead to variations in consolidated results quarter to quarter.

### *EBDADT*

Earnings before depreciation, amortization and deferred taxes, or EBDADT, is considered by management to be an additional measure of operating performance for Security Capital and its affiliates, supplementing net earnings as measured by GAAP. Among other things, GAAP net earnings includes the impact of real estate depreciation. The value of real estate assets generally changes in response to existing market conditions and does not necessarily diminish in value predictably over time, as historical cost depreciation implies. Therefore, consistent with real estate industry practice, EBDADT adjusts GAAP net earnings by eliminating real estate related depreciation. EBDADT also involves certain other adjustments, the most material being the omission of changes in unrealized gains and losses on real estate securities due to fluctuations in market prices. EBDADT of investees who are not REITs or who conduct development-for-sale activities include gains and losses on sales of operating properties. **EBDADT should not be considered as an alternative to net earnings or any other GAAP measurement of performance or as an alternative to cash flows from operating, investing or financing activities, or as a measure of Security Capital's liquidity.**

Components of EBDADT before special items are (in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
Equity in EBDADT of investees/divisions	\$ 127,773	\$ 118,207	\$ 401,820	\$ 325,866
Interest and other income	1,504	792	7,815	1,748
Total income	129,277	118,999	409,635	327,614
Operating expenses	5,476	7,912	21,373	26,087
Interest expense	18,254	18,615	58,895	59,957
Total expenses	23,730	26,527	80,268	86,044
Convertible preferred share dividends	4,509	4,509	13,526	13,526
Basic EBDADT before current income taxes and special items	101,038	87,963	315,841	228,044
Current income tax expense	9,912	1,412	33,783	8,477
Basic EBDADT before special items	<u>\$ 91,126</u>	<u>\$ 86,551</u>	<u>\$ 282,058</u>	<u>\$ 219,567</u>

### *Provision for Income Taxes*

The effective tax rate for the first nine months of 2001 was 34.6%, which is slightly lower than the expected corporate tax rate of 35% due to non-taxable earnings of a foreign subsidiary. The effective tax rate for 2001 increased compared to 2000 as net operating loss carry-forwards were completely utilized during 2000.

For the first nine months of 2000, the effective tax rate was 29.7%, which is lower than the expected corporate tax rate of 35% due to the use of a capital loss carry-forward partially offsetting a capital gain recognized in 2000, as well as non-taxable earnings of a foreign subsidiary.

Security Capital's tax basis in any investee is generally equal to its original cost basis for such asset, reduced by the portion of the cumulative dividends received from such investee which have been characterized for tax purposes as return on capital.

Security Capital's basis on which taxes would be calculated upon a sale of the investments in its strategic investees at September 30, 2001, was as follows (in thousands):

Belmont	\$ 97,633
CarrAmerica	711,578
City Center Retail	177,154
Homestead	530,097
InterPark	210,675
ProLogis	636,361
Regency	722,467
SC-European Realty	440,548
SC-Preferred Growth	77,402
Storage USA	377,982

### **Liquidity and Capital Resources**

#### *Cash Flow from Operations*

Cash flow from operations increased from \$148.3 million to \$154.1 million for the nine months ended September 30, 2000 and 2001, respectively. The increase was due to additional dividends received from former investees of SC-U.S. Realty that are now directly owned by Security Capital, partially offset by the payment of higher taxes.

#### *Investment Activity*

Security Capital's investment activity primarily consists of allocations to and redemptions from its capital in its various affiliates. The following table summarizes Security Capital's capital allocations to and (proceeds from or redemptions of) its primary investments (in millions):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
Archstone	\$ —	\$ (383.8)	\$ (700.3)	\$ (416.5)
CarrAmerica <sup>(1)</sup>	—	—	683.7	—
City Center Retail <sup>(1)</sup>	—	—	141.6	—
CWS <sup>(2)</sup>	(291.6)	—	(291.6)	—
InterPark <sup>(1)</sup>	—	—	294.9	—
Regency <sup>(1)</sup>	—	—	602.7	—
Storage USA <sup>(1)</sup>	—	—	265.4	—
SC-US Real Estate Shares	—	(9.0)	—	(16.3)
SC-U.S. Realty	—	—	(908.8)	—

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
Net real estate investment (proceeds):				
Belmont	\$ 17.6	\$ 19.0	\$ 50.3	\$ 38.2
City Center Retail	0.7	—	(12.7)	—
CWS Communities	1.5	—	(3.1)	—
Homestead	4.8	3.0	11.7	7.0
InterPark	7.2	—	80.9	—
Homestead proceeds from sale of properties and land	—	(2.5)	(80.3)	(22.1)

<sup>(1)</sup>Reflects allocated purchase price paid to acquire SC-U.S. Realty's assets.

<sup>(2)</sup>Proceeds from sale of CWS.

Real estate investments reflect development activity at Security Capital's consolidated subsidiaries.

### *Financing Activity*

In January 2001, Security Capital obtained a \$530 million transaction loan to finance the acquisition of SC-U.S. Realty's assets and to retire that company's debt. This loan was entirely repaid in February 2001 with the proceeds from the sale of 31.7 million Archstone common shares.

On April 27, 2001 Homestead entered into an amended and restated credit facility which provides for a revolving line of up to \$35.0 million in borrowings, a reduction in the interest rate to 2.0% over LIBOR (previously LIBOR plus 3.0%), a reduction in the commitment fee to 0.25% on the undrawn balance (previously 0.375%), an extension of the maturity date to February 2004, and a reduction in the collateral pool to 7 properties. The amended facility requires maintenance of financial ratio and coverage covenants similar to the prior facility and permits payment of dividends based upon a definition of free cash flow.

On June 12, 2001, Security Capital amended its unsecured revolving line of credit with Wells Fargo Bank, National Association (Wells Fargo) as agent for a group of lenders. Up to \$450 million can be drawn on the line and borrowings accrue at LIBOR plus a margin of 1.2%, based upon Security Capital's credit rating, or a Base Rate (defined as the higher of Wells Fargo prime rate or the Federal Funds rate plus 0.50%).

### *Stock and Debenture Repurchase Programs*

On April 23, 2001, Security Capital announced the final results of its modified Dutch auction self-tender offer, which expired April 17, 2001. The Company purchased approximately 9.3 million shares of Class B common stock at a purchase price of \$20.50 per share, or a total of approximately \$191 million.

On August 23, 2001, Security Capital announced that its Board of Directors authorized additional share repurchases of up to \$250 million. As of September 30, 2001, Security Capital had repurchased 31.9 million Class B equivalent shares for a combined purchase price of \$541 million since August 1999 and \$60.3 million of 6.5% convertible subordinated debentures (\$80.5 million principal amount).

### *Future Capital Commitments and Liquidity*

As of October 31, 2001, Security Capital and its affiliates have a remaining funding commitment to SC-European Realty of \$77.7 million. In addition, Security Capital has a remaining funding commitment of \$80.5 million to Belmont. At September 30, 2001, Belmont had approximately \$43.9 million of unfunded commitments for developments under construction and InterPark has approximately \$34.0 million of unfunded commitments for acquisitions.

On November 5, 2001, Security Capital proposed a transaction to acquire the entire public interest in Storage USA, Inc. (NYSE:SUS) that it does not currently own. The proposal states that the shareholders of Storage USA other than Security Capital would receive \$42 in cash for each common share of Storage USA. If the transaction occurs, Security Capital will finance the \$1.051 billion transaction cost with cash on hand, its existing line of credit and an unsecured bridge loan. Storage USA, Inc.'s existing \$600 million rated senior unsecured notes and \$65 million of unrated preferred operating partnership units will remain outstanding.

Security Capital expects that cash flows from operations and funds currently available under its revolving line of credit will be sufficient to enable Security Capital to satisfy its anticipated cash requirements for operations and currently committed investments. In the longer term, Security Capital intends to finance its business activities through the selective sale of assets, internally generated cash flow, its line of credit transaction loans, and future issuance of equity and debt securities. The business activities to be financed may include investments in new business initiatives, additional investments in certain existing affiliates and additional potential repurchases of Security Capital securities.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

See Form 10-K "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for a more complete discussion of Security Capital's exposure to interest rate and equity price risks. Other than the purchase of assets and assumption of liabilities of SC-U.S. Realty that were recorded at fair value, there have been no material changes in the fair values of assets and liabilities disclosed in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in Security Capital's 2000 Form 10-K, as compared to their respective book values at September 30, 2001.

## **PART II**

### **Item 1. Legal Proceedings**

Security Capital and its subsidiaries are parties to certain legal proceedings arising in the ordinary course of their business, none of which are expected to have a material adverse impact on Security Capital.

### **Item 6. Exhibits and Reports on Form 8-K**

#### **(a) Exhibits**

- 4.1 Amended and Restated Credit Agreement, dated as of August 31, 2001 by and between Security Capital and Bank of America, N.A., The Chase Manhattan Bank, Wells Fargo Bank, National Association and Chase Securities, Inc.
- 12.1 Computation of Ratio of Earnings to Fixed Charges
- 12.2 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends
- 15 Letter from Arthur Andersen LLP, dated November 14, 2001, regarding unaudited financial information

#### **(b) Reports on Form 8-K**

<u>Date</u>	<u>Items Reported</u>
August 23, 2001	Item 5, Item 7
November 7, 2001	Item 9, Item 7

## SIGNATURES

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

SECURITY CAPITAL GROUP INCORPORATED

/s/ Paul E. Szurek

Paul E. Szurek, *Chief Financial Officer*  
(Principal Financial Officer)

/s/ James C. Swaim

James C. Swaim, *Sr. Vice President*  
(Principal Accounting Officer)

Date: November 14, 2001

FIRST AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT

THIS FIRST AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this “Amendment”) dated as of August 31, 2001, by and among SECURITY CAPITAL GROUP INCORPORATED (the “Borrower”), each of the financial institutions party hereto as “Lenders”, and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Agent (the “Agent”) for the Lenders under the Credit Agreement referenced below.

WHEREAS, the Borrower, the Lenders and the Agent are parties to that certain Second Amended and Restated Credit Agreement dated as of June 12, 2001 (the “Credit Agreement”); and

WHEREAS, each of East Mixed-Use Realty Investors Trust (“East”), Midwest Mixed-Use Realty Investors Trust (“Midwest”), West Mixed-Use Realty Investors Trust (“West”) and Security Capital Holdings III Incorporated (“Holdings III”), among others, are Guarantors under that certain Guaranty dated as of January 16, 2001 (the “Guaranty”), pursuant to which the Guarantors unconditionally guaranty the payment and performance of the Obligations under the Credit Agreement; and

WHEREAS, The Borrower has requested that East, Midwest and West be released from the Guaranty concurrent with the effectiveness of this Amendment (the “Guaranty Release”) and that Holdings III be released from the Guaranty upon the satisfaction of certain other conditions precedent set forth herein (the “Future Guaranty Release”); and

WHEREAS, the parties hereto desire to effect the Guaranty Release, set forth the conditions precedent for the Future Guaranty Release and amend certain other provisions of the Credit Agreement on the terms and conditions contained herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

Section 1. Specific Amendments To Credit Agreement.

(a) The Credit Agreement is amended by deleting the definitions of the terms “Guarantor”, “Guaranty”, “Guaranty Exempt Entity” and “Loan Document” contained in Section 1.1. thereof in their entirety and substituting in their respective places the following:

“Guarantor” means SC Realty, SC Capital Incorporated, a Nevada corporation, Security Capital Holdings II Incorporated, a Delaware corporation, Security Capital Holdings III Incorporated, a Delaware corporation, Security Capital Operations, Security Capital Lodging Incorporated, a Delaware corporation, Security Capital Assisted Living Incorporated, a Delaware corporation, Security Capital Parking Incorporated, a Delaware corporation, Security Capital European Incorporated, a Delaware corporation, Security Capital Manufactured Housing Incorporated, a Delaware corporation, and any other Subsidiary of Borrower that later becomes a party to the Guaranty.

“Guaranty” means the Guaranty dated as of January 16, 2001 in favor of the Agent and Lenders to which each of the Guarantors is a party.

“Guaranty Exempt Entity” means any Subsidiary that satisfies all of the following conditions: (a) such Subsidiary was established for the sole purpose of owning Qualifying Securities; (b) at least 99% of the issued and outstanding equity interests of such Subsidiary are owned, directly or indirectly, by the Borrower; (c) such Subsidiary has no Indebtedness or outstanding accounts payable other than accounts payable arising in the ordinary course of business and in an aggregate dollar amount less than \$500,000; (d) such Subsidiary is prohibited from incurring (i) any Indebtedness and (ii) any accounts payable other than accounts payable incurred in the ordinary course of business and in an aggregate dollar amount less than \$500,000 at any time outstanding, in each case pursuant to a restriction in such Subsidiary’s Organizational

Documents; (e) such Subsidiary qualifies as a REIT; and (f) such Subsidiary is a party to the Guaranty Exempt Entity Agreement.

“Loan Document” means this Agreement, each of the Notes, each Letter of Credit Document, the Guaranty, the Guaranty Exempt Entity Agreement, any agreement evidencing the fees referred to in Section 3.1.(d) and each other document or instrument executed and delivered by Borrower, any Guarantor or Guaranty Exempt Entity in connection with this Agreement or any of the other foregoing documents.

(b) The Credit Agreement is amended by adding the following new defined terms to Section 1.1. thereof in the appropriate alphabetical locations:

“Guaranty Exempt Entity Accession Agreement” means a Guaranty Exempt Entity Accession Agreement substantially in the form of Annex I to the Guaranty Exempt Entity Agreement.

“Guaranty Exempt Entity Agreement” means the Guaranty Exempt Entity Agreement dated as of September 6, 2001 in favor of the Agent and Lenders to which each Guaranty Exempt Entity is a party and substantially in the form of Exhibit L.

(c) The Credit Agreement is amended by adding the following as a new Section 1.5. immediately after Section 1.4. thereof:

SECTION 1.5. References to Guarantors.

References in the following provisions of this Agreement to Guarantor and Guarantors shall be deemed to include references to Guaranty Exempt Entity and Guaranty Exempt Entities, respectively:

Section 1.1., the defined terms “Materially Adverse Effect”, “Strategic Investee”, “Traded Security” and “Unencumbered Pool Value”

Section 2.12.

Section 5.2.(d)

Section 5.3.(c)

Section 6.1.

Section 6.3.

Section 6.4.

Section 6.5.

Section 6.7.

Section 6.8.

Section 6.11.

Section 6.14.

Section 6.15.

Section 6.16.

Section 6.18.

Section 7.1. (subsections (j), (k), (m) and (o) only)

Section 7.8.

Section 7.10.

Section 7.13.

Section 7.15.

Section 8.1. (subsections (d), (e), (k), and (l) only)

Section 10.8. (subsections (b) and (c) only)

(d) The Credit Agreement is amended by deleting Section 7.19. thereof in its entirety and substituting in its place the following:

SECTION 7.19. Covenants Regarding Guarantors and Guaranty Exempt Entities.

(a) Indebtedness and Accounts Payable. Borrower will not permit Guaranty Exempt Entities to incur, assume or suffer to exist any Indebtedness or accounts payable other than accounts payable arising in the ordinary course of business and in an aggregate dollar amount less than \$500,000 at any time outstanding. Borrower will not permit Guarantors to incur, assume or suffer to exist any of the following (determined on a collective basis): (i) accounts payable (excluding obligations to purchase Securities

pursuant to subscription or stock purchase agreements, or otherwise make capital contributions, in or with respect to Strategic Investees or Capital Management Entities) in excess of \$10,000,000 in the aggregate at any time outstanding and (ii) any Indebtedness other than:

(w) Indebtedness owing to Borrower, or subject to Section 7.15, a Guarantor or Guaranty Exempt Entity;

(x) Indebtedness under the Guaranty and, subject to compliance with Section 7.18., under Guarantees of senior unsecured long term Indebtedness of Borrower so long as such Indebtedness so Guaranteed is of a type described in clause (a) or (b) of the definition of Indebtedness; and

(y) Indebtedness represented by declared but unpaid dividends.

(b) Asset Transfers. Borrower will not permit any Guarantor or Guaranty Exempt Entity to sell, transfer or otherwise convey any of its assets other than:

(x) sales and transfers of Unencumbered Pool Securities to the extent permitted under Section 7.8.;

(y) transfers of assets to Borrower and any other Guarantor or Guaranty Exempt Entity, subject to the limitations set forth in Section 7.19.(b)(z) below, so long as such transferee is organized under the laws of, and has its chief executive office in, any State of the United States of America or the District of Columbia, and so long as no Default or Event of Default shall have occurred and be continuing or would result from such transfer; and

(z) rights in assets of a Guarantor as of August 31, 2001 may only be transferred to the Borrower or another Guarantor. Rights in assets of a Guaranty Exempt Entity as of August 31, 2001 may be transferred to the Borrower, a Guarantor, or a Guaranty Exempt Entity.

(c) Independent Director. As of the date hereof, SC Realty's Independent Director (as defined in such Guarantor's articles of incorporation) is James R. Wilcox. Borrower shall cause such Guarantor to pay such Independent Director a director's fee not greater than comparable fees received by independent directors of entities similar to such Guarantor engaging in comparable activities with similar risks. Borrower will not permit such Guarantor to permit such Independent Director to be a trustee in bankruptcy for Borrower.

(d) Compliance with and Amendment of Charter or Bylaws. Borrower shall cause each Guarantor and Guaranty Exempt Entity to (a) comply with the terms of its Organizational Documents and (b) not amend, supplement, restate or otherwise modify any of the terms of its Organizational Documents.

(e) The Credit Agreement is amended by deleting Section 8.1.(p) thereof in its entirety and substituting in its place the following:

(p) except as permitted by Section 10.14.(a), Borrower shall cease to own, directly or indirectly, all of the issued and outstanding capital stock of each Guarantor, or Borrower shall cease to own, directly or indirectly, at least 99% of the issued and outstanding equity interests of each Guaranty Exempt Entity.

(f) Section 10.14. of the Credit Agreement is amended by (i) deleting the heading thereof in its entirety and substituting in its place the following: "SECTION 10.14. Additional Guarantors and Guaranty Exempt Entities; Release of Guarantors and Guaranty Exempt Entities."; and (ii) adding the following new subsections (c) and (d) immediately after subsection (b) thereof:

(c) Additional Guaranty Exempt Entities. Any Subsidiary of Borrower that satisfies all of the conditions set forth in the definition of Guaranty Exempt Entity may become a Guaranty Exempt Entity by delivering to Agent each of the following:

(i) a Guaranty Exempt Entity Accession Agreement duly executed by such Subsidiary;

(ii) the Organizational Documents of such Subsidiary (which Organizational Documents shall contain the restrictions described in subsection (d) of the definition of Guaranty Exempt Entity), certified as of a recent date by the Secretary of State or other similar Governmental Authority of the jurisdiction of its formation;

(iii) a certificate of good standing or a certificate of similar meaning with respect to such Subsidiary issued as of a recent date by the Secretary of State or other similar Governmental Authority of the jurisdiction of its formation and certificates of qualification to transact business or other comparable certificates with respect to such Subsidiary issued by each Secretary of State or other similar Governmental Authority (and any state department of taxation, as applicable) of each state in which such Subsidiary is required to be so qualified;

(iv) a certificate of incumbency signed by the Secretary or Assistant Secretary (or other individual performing similar functions) of such Subsidiary with respect to each of the officers of such Subsidiary authorized to execute and deliver the Loan Documents to which such Subsidiary is a party;

(v) a certified copy (certified by the Secretary or Assistant Secretary (or other individual performing similar functions)) of such Subsidiary of (i) the by-laws of such Subsidiary and (ii) all corporate, partnership, member or other necessary action taken by such Subsidiary to authorize the execution, delivery and performance of the Loan Documents to which it is a party; and

(vi) such other documents and instruments as Agent may reasonably request.

(d) Release of Guaranty Exempt Entities. If a Guaranty Exempt Entity no longer owns any Securities that are Unencumbered Pool Securities, then, upon the written request of Borrower to Agent, and so long as no Default or Event of Default shall have occurred and be continuing, Agent shall release such Guaranty Exempt Entity from the Guaranty Exempt Entity Agreement. To evidence such release, Agent agrees to execute and deliver, at the sole cost and expense of Borrower, such instruments as Borrower may reasonably request.

(g) The Credit Agreement is amended by adding Exhibit L hereto as a new Exhibit L to the Credit Agreement.

## Section 2. Guaranty Release.

(a) The Agent and the Lenders hereby agree that, upon the satisfaction of the conditions set forth in Section 3 hereof, East, Midwest and West shall be released from the Guaranty.

(b) The Agent and the Lenders hereby agree that, upon the satisfaction of the conditions set forth in Sections 3 and 4 hereof, Holdings III shall be released from the Guaranty.

Section 3. Effectiveness of Amendments and Guaranty Release. The effectiveness of Sections 1 and 2(a) hereof is subject to receipt by the Agent of each of the following in form and substance satisfactory to the Agent:

(a) counterparts of this Amendment executed by each of the parties hereto;

(b) counterparts of the Guaranty Exempt Entity Agreement duly executed by East, Midwest and West;

(c) the Organizational Documents of East, Midwest and West (which Organizational Documents shall contain the restrictions described in subsection (d) of the definition of Guaranty Exempt Entity (as amended by this Amendment)), certified as of a recent date by the Secretary of State or other similar Governmental Authority of the jurisdiction of its formation;

(d) certificates of incumbency signed by the Secretary or Assistant Secretary (or other individual performing similar functions) of East, Midwest and West with respect to each of the officers of each such Subsidiary authorized to execute and deliver the Loan Documents to which it is a party;

(e) certified copies (certified by the Secretary or Assistant Secretary (or other individual performing similar functions)) of East, Midwest and West of all corporate, partnership, member or other necessary action taken

by such Subsidiary to authorize the execution, delivery and performance of the Loan Documents to which it is a party; and

- (f) such other documents and instruments as the Agent may reasonably request.

Section 4. Effectiveness of the Future Guaranty Release. The effectiveness of Section 2(b) hereof is subject to the satisfaction of the conditions set forth in Section 3 hereof and receipt by the Agent of each of the following in form and substance satisfactory to the Agent:

- (a) each of the items listed in Section 10.14.(c) of the Credit Agreement (as amended by this Amendment); and

- (b) such other documents and instruments as the Agent may reasonably request.

Section 5. Representations of the Borrower. The Borrower represents and warrants to the Agent and the Lenders that:

- (a) Authorization. The Borrower has the right and power, and has taken all necessary action to authorize it, to execute and deliver this Amendment and to perform its obligations hereunder and under the Credit Agreement, as amended by this Amendment, in accordance with their respective terms. This Amendment has been duly executed and delivered by a duly authorized officer of the Borrower and each of this Amendment and the Credit Agreement, as amended by this Amendment, is a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its respective terms, except as the same may be limited by bankruptcy, insolvency, and other similar laws affecting the rights of creditors generally and the availability of equitable remedies for the enforcement of certain obligations (other than the payment of principal) contained herein or therein may be limited by equitable principles generally.

- (b) Compliance with Laws, Etc. The execution and delivery by the Borrower of this Amendment and the performance by the Borrower of this Amendment and the Credit Agreement, as amended by this Amendment, each in accordance with its terms, do not and will not, by the passage of time, the giving of notice or otherwise: (i) require any Governmental Approval or violate any Applicable Law relating to the Borrower, any Guarantor or any Guaranty Exempt Entity the failure to possess or to comply with which would have a Materially Adverse Effect; (ii) conflict with, result in a breach of or constitute a default under the Organizational Documents of the Borrower or any Guarantor or Guaranty Exempt Entity, or any indenture, agreement or other instrument to which the Borrower or any Guarantor or Guaranty Exempt Entity is a party or by which it or any of its properties may be bound and the violation of which would have a Materially Adverse Effect; or (iii) result in or require the creation or imposition of any Lien upon or with respect to any property now owned or hereafter acquired by the Borrower or any Guarantor or Guaranty Exempt Entity other than Permitted Liens.

- (c) No Default. No Default or Event of Default has occurred and is continuing as of the date hereof nor will exist immediately after giving effect to this Amendment.

Section 6. Reaffirmation of Representations by Borrower. The Borrower hereby repeats and reaffirms all representations and warranties made by the Borrower to the Agent and the Lenders in the Credit Agreement and the other Loan Documents to which the Borrower is a party on and as of the date hereof (and after giving effect to this Amendment) with the same force and effect as if such representations and warranties were set forth in this Amendment in full.

Section 7. Reaffirmation of Guaranty by Guarantors. Each Guarantor hereby reaffirms its continuing obligations to the Agent and the Lenders under the Guaranty, and agrees that, except as expressly set forth herein, the transactions contemplated by this Amendment shall not in any way affect the validity and enforceability of the Guaranty, or reduce, impair or discharge the obligations of such Guarantor thereunder.

Section 8. References to the Credit Agreement. Each reference to the Credit Agreement in any of the Loan Documents (including the Credit Agreement) shall be deemed to be a reference to the Credit Agreement as amended by this Amendment.

Section 9. Benefits. This Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

Section 10. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF GEORGIA.

Section 11. Effect. Except as expressly herein amended, the terms and conditions of the Credit Agreement and the other Loan Documents shall remain in full force and effect. Neither the Guaranty Release nor the Future Guaranty Release shall be construed to be a release from the Guaranty, or of any obligations thereunder, of any other Guarantor that is now or may from time to time become a party to the Guaranty.

Section 12. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original and shall be binding upon all parties, their successors and assigns.

Section 13. Definitions. All capitalized terms not otherwise defined herein are used herein with the respective definitions given them in the Credit Agreement.

[Signatures on Next Page]

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to Second Amended and Restated Credit Agreement to be executed as of the date first above written.

**BORROWER:**

SECURITY CAPITAL GROUP INCORPORATED

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**GUARANTORS:**

SC REALTY INCORPORATED  
SC CAPITAL INCORPORATED  
SECURITY CAPITAL HOLDINGS II INCORPORATED  
SECURITY CAPITAL OPERATIONS INCORPORATED  
SECURITY CAPITAL LODGING INCORPORATED  
SECURITY CAPITAL ASSISTED LIVING INCORPORATED  
SECURITY CAPITAL PARKING INCORPORATED  
SECURITY CAPITAL EUROPEAN INCORPORATED  
SECURITY CAPITAL MANUFACTURED HOUSING  
INCORPORATED  
EAST MIXED-USE REALTY INVESTORS TRUST  
MIDWEST MIXED-USE REALTY INVESTORS TRUST  
WEST MIXED-USE REALTY INVESTORS TRUST

By: \_\_\_\_\_  
(for each of the Guarantors listed above)  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

[Signatures Continued on Next Page]

**[Signature Page to First Amendment to Second Amended and Restated Credit Agreement dated as of August  
\_\_\_\_, 2001 with Security Capital Group Incorporated]**

**AGENT AND LENDERS**

WELLS FARGO BANK, NATIONAL ASSOCIATION, individually  
and as Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

COMMERZBANK AG New York and Grand Cayman Branches

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

THE CHASE MANHATTAN BANK

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BANK OF AMERICA, N.A.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

[Signatures Continued on Next Page]

**[Signature Page to First Amendment to Second Amended and Restated Credit Agreement dated as of August  
\_\_\_\_, 2001 with Security Capital Group Incorporated]**

BANKERS TRUST COMPANY

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CITICORP REAL ESTATE INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CREDIT SUISSE FIRST BOSTON

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

AMSOUTH BANK

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BANK ONE, NA

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

[Signatures Continued on Next Page]

**[Signature Page to First Amendment to Second Amended and Restated Credit Agreement dated as of August  
\_\_\_\_, 2001 with Security Capital Group Incorporated]**

FIRST UNION NATIONAL BANK

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

KBC BANK, N.V.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CHANG HWA COMMERCIAL BANK LTD., NEW YORK  
BRANCH

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FIRSTAR BANK, NATIONAL ASSOCIATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**SECURITY CAPITAL GROUP INCORPORATED**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
(Dollar amounts in thousands)

	Nine Months Ended		Year Ended December 31,				
	September 30,						
	2001	2000	2000	1999	1998	1997	1996
Earnings (loss) from Operations	\$ 365,507	\$ 321,275	\$ 434,689	\$ (134,135)	\$ (156,351)	\$ 80,732	\$ 84,128
Less: Equity in earnings from equity investees	( 138,904)	(285,872)	(369,045)	(78,899)	71,950	(170,576)	(168,473)
Add: Dividends received from equity investees	179,338	109,965	147,005	150,756	144,757	110,082	74,652
Other	—	—	—	2,612	7,124	18,003	—
Net Earnings (loss) from Operations	405,941	145,368	212,649	(59,666)	67,480	38,241	(9,693)
Add:							
Interest Expense	96,683	88,462	108,558	133,454	82,203	104,434	117,224
Earnings as Adjusted	<u>\$ 502,624</u>	<u>\$ 233,830</u>	<u>\$ 321,207</u>	<u>\$ 73,788</u>	<u>\$ 149,683</u>	<u>\$ 142,675</u>	<u>\$ 107,531</u>
Fixed Charges:							
Interest Expense	\$ 96,683	\$ 88,462	\$ 108,558	\$ 133,454	\$ 82,203	\$ 104,434	\$ 117,224
Capitalized Interest	3,885	1,983	3,192	8,209	26,703	69,883	11,448
Total Fixed Charges	<u>\$ 100,568</u>	<u>\$ 90,445</u>	<u>\$ 111,750</u>	<u>\$ 141,663</u>	<u>\$ 108,906</u>	<u>\$ 174,317</u>	<u>\$ 128,672</u>
Ratio of Earnings to Fixed Charges	<u>5.0</u>	<u>2.6</u>	<u>2.9</u>	<u>0.5</u>	<u>1.4</u>	<u>0.8</u>	<u>0.8</u>

**SECURITY CAPITAL GROUP INCORPORATED**  
**COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED**  
**CHARGES AND PREFERRED SHARE DIVIDENDS**

(Dollar amounts in thousands)

	Nine Months Ended		Year Ended December 31,				
	September 30,						
	2001	2000	2000	1999	1998	1997	1996
Earnings (loss) from Operations	\$ 365,507	\$ 321,275	\$ 434,689	\$ (134,135)	\$ (156,351)	\$ 80,732	\$ 84,128
Less: Equity in earnings from equity investees	(138,904)	(285,872)	(369,045)	(78,899)	71,950	(170,576)	(168,473)
Add: Dividends received from equity investees	179,338	109,965	147,005	150,756	144,757	110,082	74,652
Other	—	—	—	2,612	7,124	18,003	—
Net Earnings (loss) from Operations	405,941	145,368	212,649	(59,666)	67,480	38,241	(9,693)
Add:							
Interest Expense	96,683	88,462	108,558	133,454	82,203	104,434	117,224
Earnings as Adjusted	<u>\$ 502,624</u>	<u>\$ 233,830</u>	<u>\$ 321,207</u>	<u>\$ 73,788</u>	<u>\$ 149,683</u>	<u>\$ 142,675</u>	<u>\$ 107,531</u>
Combined Fixed Charges and Preferred Share Dividends:							
Interest Expense	\$ 96,683	\$ 88,462	108,558	\$ 133,454	\$ 82,203	\$ 104,434	\$ 117,224
Capitalized Interest	3,885	1,983	3,192	8,209	26,703	69,883	11,448
	100,568	90,445	111,750	141,663	108,906	174,317	128,672
Preferred Share Dividends <sup>(1)</sup>	<u>20,575</u>	<u>19,186</u>	<u>24,876</u>	<u>20,280</u>	<u>22,368<sup>(2)</sup></u>	<u>15,416</u>	<u>12,352</u>
Combined Fixed Charges and Preferred Share Dividends	<u>\$ 121,143</u>	<u>\$ 109,631</u>	<u>\$ 136,626</u>	<u>\$ 161,943</u>	<u>\$ 131,274</u>	<u>\$ 189,733</u>	<u>\$ 141,024</u>
Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends	<u>4.1</u>	<u>2.1</u>	<u>2.4</u>	<u>0.5</u>	<u>1.1</u>	<u>0.8</u>	<u>0.8</u>

(1) The preferred dividends have been increased to show a pretax basis.

(2) Excludes a one-time non-cash dividend of \$19.8 million incurred in conjunction with the exchange of Series A Preferred Shares for Series B Preferred Shares.

November 14, 2001

Board of Directors and Shareholders  
of Security Capital Group Incorporated:

We are aware that Security Capital Group Incorporated has incorporated by reference in its Registration Statement Nos. 333-38521, 333-38523, 333-38525, 333-38527, 333-38531, 333-38533, 333-38537, 333-38539, 333-47926, 333-48167, 333-61395, 333-61401, 333-64979, 333-65688 and 333-65704 its Form 10-Q for the nine months ended September 30, 2001, which includes our report dated November 14, 2001 covering the unaudited interim financial information contained therein. Pursuant to Regulation C of the Securities Act of 1933 (the "Act"), that report is not considered a part of the registration statements prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

ARTHUR ANDERSEN LLP