CARRAMERICA REALTY CORP
Form 10-Q
May 10, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR QUARTER ENDED March 31, 2002

COMMISSION FILE NO. 1-11706

CARRAMERICA REALTY CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	52-1796339
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1850 K Street, N.W., Washington, D.C. 20006

(Address or principal executive office) (Zip code)

Registrant's telephone number, including area code (202) 729-1700

N/A

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

Number of shares outstanding of each of the registrant's
classes of common stock, as of May 3, 2002:

Common Stock, par value $.01 per share: 52,983,261 shares

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 twelve (12) months (or such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past ninety (90) days.

YES X NO _______

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Part I

Item 1. Financial Information

The information furnished in our accompanying consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows reflects all adjustments which are, in our opinion, necessary for a fair presentation of the aforementioned financial statements for the interim periods.

The financial statements should be read in conjunction with the notes to the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations. The results of operations for the three months ended March 31, 2002 are not necessarily indicative of the operating results to be expected for the full year.

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets As Of March 31, 2002 and December 31, 2001

(In thousands, except share amounts)	March 31, 2002 (unaudited)
Assets	
Rental property:	
Land	$ 649,001
Buildings	1,864,888
Tenant improvements	369,558
Furniture, fixtures and equipment	4,003
	2,887,450
Less: Accumulated depreciation	(505,289)
Total rental property	2,382,161
Land held for development or sale	44,674
Construction in progress	12,505
Cash and cash equivalents	11,427
Restricted deposits	4,736
Accounts and notes receivable,net	25,743
Investments in unconsolidated entities	121,065
Accrued straight-line rents	69,684
Tenant leasing costs, net	50,916
Deferred financing costs, net	3,079
Prepaid expenses and other assets, net	34,188
	$2,760,178
Liabilities, Minority Interest, and Stockholders' Equity	
Liabilities:	
Mortgages and notes payable, net	$1,406,192
Accounts payable and accrued expenses	66,554
Rents received in advance and security deposits	30,885
Total liabilities	1,503,631
Minority interest	79,598
Stockholders' equity:	
Preferred stock, $.01 par value, authorized 35,000,000 shares:	
Series A Cumulative Convertible Redeemable Preferred Stock, 80,000 shares issued and outstanding at December 31, 2001 with an aggregate liquidation preference of $2,000	-

Series B, C, and D Cumulative Redeemable Preferred Stock, 8,800,000 shares issued and outstanding with an aggregate liquidation preference of $400,000.	88
Common Stock, $.01 par value, authorized 180,000,000 shares issued and outstanding 52,759,888 shares at March 31, 2002 and 51,965,066 shares at December 31, 2001.	528
Additional paid-in capital	1,373,326
Cumulative dividends in excess of net income	(196,993)
Total stockholders' equity	1,176,949
Commitments and contingencies	
	$2,760,178

See accompanying notes to consolidated financial statements.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
For the Three Months Ended March 31, 2002 and 2001

(Unaudited and in thousands, except per share amounts)

	2002
Operating revenues:	
Rental revenue:	
Minimum base rent	$ 108,243
Recoveries from tenants	16,168
Parking and other tenant charges	2,793
Total rental revenue	127,204
Real estate service revenue	6,127
Total operating revenues	133,331
Operating expenses:	
Property expenses:	
Operating expenses	30,874
Real estate taxes	11,733
Interest expense	24,388
General and administrative	11,041
Depreciation and amortization	34,116
Total operating expenses	112,152
Real estate operating income	21,179
Other (expense) income:	
Interest income	194

Obligations under lease guarantees	(2,400)	
Equity in earnings of unconsolidated entities	2,043	
Total other (expense) income	(163)	
Income before income taxes, minority interest, and gain (loss) on sale of assets and other provisions, net	21,016	
Income taxes	(33)	
Minority interest	(2,623)	
Gain (loss) on sale of assets and other provisions, net	(860)	
Net income	$ 17,500	
Basic net income per common share	$ 0.17	
Diluted net income per common share	$ 0.17	

See accompanying notes to consolidated financial statements.

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2002 and 2001

(Unaudited and in thousands)

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Cash flows from operating activities:	
Net income	$ 17,
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	34,
Minority interest	2,
Equity in earnings of unconsolidated entities	(2,
Gain (loss) on sale of assets and other provisions, net	
Obligations under lease guarantees	2,
Provision for uncollectible accounts	1,
Stock-based compensation	1,
Other	
Changes in assets and liabilities:	
Decrease in accounts receivable	1,
Increase in accrued straight-line rents	(2,
Additions to tenant leasing costs	(1,
Increase in prepaid expenses and other assets	(5,
Decrease in accounts payable and accrued expenses	(12,
(Decrease) increase in rent received in advance and security deposits	(1,
Total adjustments	18,
Net cash provided by operating activities	36,

Cash flows from investing activities:	
Acquisition and development of rental property	(7,
Additions to land held for development or sale	(
Additions to construction in progress	(1,
Payments on notes receivable	
Distributions from unconsolidated entities	1,
Investments in unconsolidated entities	(1,
Acquisition of minority interest	(3,
(Increase) decrease in restricted deposits	(
Proceeds from sales of properties	
Net cash (used by) provided by investing activities	(13,
Cash flows from financing activities:	
Repurchase of common stock	
Exercises of stock options	15,
Proceeds from issuance of unsecured notes	394,
Net (repayments) borrowings on unsecured credit facility	(383,
Deferred financing costs	(
Repayments of mortgages payable	(5,
Dividends and distributions to minority interests	(37,
Net cash used by financing activities	(16,
Increase in cash and cash equivalents	6,
Cash and cash equivalents, beginning of the period	5,
Cash and cash equivalents, end of the period	$ 11,
Supplemental disclosure of cash flow information:	
Cash paid for interest (net of capitalized interest of $872 and $1,792 or the three months ended March 31, 2002 and 2001, respectively)	$ 26,
Cash paid for income taxes	$

See accompanying notes to consolidated financial statements.

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

(1) Description of Business and Summary of Significant Accounting Policies

(a) Business

We are a fully integrated, self-administered and self-managed publicly traded real estate investment trust ("REIT"), organized under the laws of Maryland. We focus on the acquisition, development, ownership and operation of office properties, located primarily in selected suburban markets across the United States.

(b) Basis of Presentation

Our accounts and those of our majority-owned/controlled subsidiaries and affiliates are consolidated in the financial statements. We use the equity or cost methods, as appropriate in the circumstances, to account for our investments in and our share of the earnings or losses of unconsolidated entities. These entities are not majority owned or controlled by us.

Management has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements, and the disclosure of contingent assets and liabilities. Estimates are required in order for us to prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. Significant estimates are required in a number of areas, including the evaluation of impairment of long-lived assets and equity and cost method investments and evaluation of the collectibility of accounts and notes receivable. Actual results could differ from these estimates.

(c) Interim Financial Statements

The financial statements reflect all adjustments, which are, in our opinion, necessary to reflect a fair presentation of the results for the interim periods, and all adjustments are of a normal, recurring nature.

(d) New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 2001. SFAS No. 142 changes the accounting for goodwill and intangible assets with indefinite useful lives from an amortization approach to an impairment-only approach. Adoption of SFAS No. 142 in January 2002 did not have a material effect on our financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Statement does not change the fundamental provisions of SFAS No. 121; however, it resolves various implementation issues of SFAS No. 121 and establishes a single accounting model for long-lived assets to be disposed of by sale. It retains the requirement of Opinion No. 30 to report separately discontinued operations buts extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in distribution to owners) or is classified as held for sale. Adoption of SFAS No. 144 in January 2002 did not have a material effect on our financial statements. However, in the event of a future asset sale, we would be required to reclassify portions of previously reported earnings to discontinued operations and to present assets as held for sale and the related liabilities separately in our consolidated balance sheets.

(e) Earnings Per Share

The following table sets forth information relating to the computations of our basic and diluted earnings per share:

	Three Months Ended March 31, 2002			
(In thousands, except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)
Basic EPS	$ 8,952	52,326	$ 0.17	$ 21,617
Effect of Dilutive Securities				
Stock options	-	1,430		-
Convertible preferred stock	-	12		-
Stock units	-	-		1,344
Diluted EPS	$ 8,952	53,768	$ 0.17	$ 22,961

Net income has been reduced by preferred stock dividends of approximately $8,548,000 and approximately $8,649,000 for the three months ended March 31, 2002 and 2001, respectively.

The effects of convertible units in CarrAmerica Realty, L.P. and Carr Realty, L.P. and Series A Convertible Preferred Stock are not included in the computation of diluted earnings per share for any periods in which their effect is antidilutive.

(f) Reclassifications

Certain reclassifications of prior period amounts have been made to conform to the current period's presentation.

(3) Obligations Under Lease Guarantees

On January 20, 2000, we, along with HQ Global Workplaces, Inc. (HQ Global), VANTAS Incorporated (VANTAS) and FrontLine Capital Group ("FrontLine"), entered into several agreements that contemplated several transactions including (i) the merger of VANTAS with and into HQ Global, (ii) the acquisition by FrontLine of shares of HQ Global common stock from us and other stockholders of HQ Global, and (iii) the acquisition by VANTAS of our debt and equity interest in OmniOffices (UK) Limited and OmniOffices LUX 1929 Holding Company S.A. On June 1, 2000, we consummated the transactions.

On March 13, 2002, HQ Global filed for bankruptcy protection under

Chapter 11 of the federal bankruptcy laws. During 1997 and 1998, to assist HQ Global as it grew its business, we provided guarantees of HQ Global's performance under four office leases that it signed. In connection with the HQ Global/VANTAS merger transaction, FrontLine agreed to indemnify us against any losses incurred with respect to these guarantees. However, at this time, FrontLine's principal asset is its interest in HQ Global, and therefore our ability to recover any resulting losses from FrontLine under this indemnity likely will be limited. To our knowledge, all monthly rent payments were made by HQ Global under two of these leases through January 2002, and rental payments under the other two leases were made through February 2002. As a result, we may be liable to the lessors with respect to payments due under two of these leases from and after February 2002 and under the other two leases from and after March 2002.

In the course of the bankruptcy proceedings, HQ Global has filed motions to reject two of these four leases. One lease is for space in San Jose, California. This lease is for approximately 22,000 square feet of space at two adjacent buildings and runs through October 2008. Total aggregate remaining payments under this lease as of February 1, 2002 were approximately $6.2 million (approximately $0.7 million of which is payable in 2002); however, our liability under this guarantee is limited to approximately $2.0 million. Although we have not yet determined the extent to which we will be able to mitigate any potential exposure we may have through subletting the space or otherwise, we have recognized an expense of $2.0 million, our maximum potential exposure under the guarantee, in the first quarter of 2002. As of March 31, 2002, we had not made any payments under this guarantee.

The second lease is a sublease for space in downtown Manhattan. This lease is for approximately 26,000 square feet of space and runs through March 2008, with total aggregate remaining lease payments as of February 1, 2002 of approximately $5.4 million (approximately $0.8 million of which is payable in 2002). In light of defenses against payment that may be available to us, we have not recognized any expense on this guarantee. As of March 31, 2002, we had not made any payments under this guarantee.

HQ Global has not filed a motion seeking to reject the remaining two leases that we have guaranteed, although it could do so in the future. Even if the leases are not rejected, we may ultimately be liable to the lessors for payments due under the leases. In one case, the lease is for approximately 25,000 square feet of space in midtown Manhattan, and our liability is currently capped at approximately $0.6 million, which liability reduces over the life of the lease until its expiration in September 2007. We have not accrued any expense as of March 31, 2002. As of March 31, 2002, we had not made any payments under this guarantee.

The remaining lease is for space in San Mateo, California. This lease is for approximately 19,000 square feet of space and runs through January 2013, with total aggregate remaining lease payments as of March

1, 2002 of approximately $10.4 million (approximately $0.6 million of which is payable in 2002). We are in negotiations with HQ Global with respect to this lease and are considering terms that would result in cash losses to us of up to $0.4 million. Based on the status of these negotiations, we have recognized an expense of $0.4 million under this guarantee in the first quarter of 2002. Any agreement with HQ Global will have to be approved by the bankruptcy court. Even if approved, there can be no assurance that we will not be required to recognize further expense or to make full payment under the guarantee. As of March 31, 2002, we had not made any payments under this guarantee.

(4) Gain (Loss) on Sale of Assets and Other Provisions, Net

We dispose of assets that are inconsistent with our long-term strategic or return objectives or where market conditions for sale are favorable. During the three months ended March 31, 2002, we did not dispose of any assets. We recognized an impairment loss of $0.9 million on a parcel of land held for development. During the three months ended March 31, 2001, we disposed of seven operating properties, one property under development and one parcel of land that was being held for development. We recognized a gain of $2.0 million, net of $2.0 million in income taxes. During that period, we also recognized an impairment loss of $0.9 million on a parcel of land held for development.

(5) Segment Information

Our reportable operating segments are real estate property operations and development operations. Other business activities and operating segments that are not reportable are included in other operations. The real estate property operations segment includes the operation and management of rental properties. The development operations segment includes the development of new rental properties for us and for other companies. Our reportable segments offer different products and services and are managed separately because each requires different business strategies and management expertise.

Our operating segments' performance is measured using funds from operations. Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) as follows:

* Net income (loss) - computed in accordance with accounting principles generally accepted in the United States of America (GAAP);
* Less gains (or plus losses) from sales of depreciable operating properties and items that are classified as extraordinary items under GAAP;
* Plus depreciation and amortization of assets uniquely significant to the real estate industry;
* Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis).

Funds from operations does not represent net income or cash flow

generated from operating activities in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our performance or to cash flows as a measure of our liquidity or our ability to make distributions.

Operating results of our reportable segments and our other operations for the three months ended March 31, 2002 and 2001 are summarized and reconciled to net income for the applicable period as follows:

	For the three months ended March 31, 2002			
	Real Estate			
	Property	Development	Other	
(In millions)	Operations	Operations	Operations	
Operating revenue	$ 127.2	2.7	3.4	$
Segment expense	42.6	2.0	9.0	
Net segment revenue (expense)	84.6	0.7	(5.6)	
Interest expense	8.3	-	16.1	
Other income (expense), net	5.2	-	(3.8)	
Funds from operations	$ 81.5	0.7	(25.5)	
Depreciation and amortization				
Income from operations before minority interest and gain (loss) on sale of assets and other provisions, net				
Minority interest and gain (loss) on sale of assets and other provisions, net				
Net income				$

	For the three months ended March 31, 2001			
	Real Estate			
	Property	Development	Other	
(In millions)	Operations	Operations	Operations	T
Operating revenue	$ 123.8	6.2	3.9	$
Segment expense	41.7	1.5	12.9	
Net segment revenue (expense)	82.1	4.7	(9.0)	

Interest expense	11.1	-	9.8	
Other income (expense), net	7.0	0.2	(1.0)	
Funds from operations	$ 78.0	4.9	(19.8)	
Depreciation and amortization				
Income from operations before minority interest and gain (loss) on sale of assets and other provisions net, net				
Minority interest and gain (loss) on sale of assets and other provisions, net				
Net income				$

CARRAMERICA REALTY CORPORATION AND SUBSIDARIES
Notes to Consolidated Financial Statements
(Unaudited)

(6) Supplemental Cash Flow Information

In the first quarter of 2002, 80,000 shares of our Series A Cumulative Convertible Redeemable Preferred Stock were converted to shares of common stock.

Our employees converted approximately $0.7 million and $0.8 million in units to 31,797 shares and 25,131 shares of common stock during the three months ended March 31, 2002 and 2001, respectively.

Management's Discussion and Analysis

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

The discussion that follows is based primarily on our consolidated financial statements as of March 31, 2002 and December 31, 2001 and for the three months ended March 31, 2002 and 2001 and should be read along with the consolidated financial statements and related notes. The ability to compare one period to another may be significantly affected by acquisitions completed, development properties placed in service and dispositions made during those periods.

Critical Accounting Policies

Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex or subjective judgments. Our critical

accounting policies relate to the evaluation of impairment of long-lived assets and the evaluation of the collectibility of accounts and notes receivable.

If events or changes in circumstances indicate that the carrying value of a rental property to be held and used or land held for development may be impaired, we perform a recoverability analysis based on estimated undiscounted cash flows to be generated from the property in the future. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to estimated fair value and an impairment loss is recognized. If we decide to sell rental properties or land held for development, we evaluate the recoverability of the carrying amounts of the assets. If the evaluation indicates that the carrying value is not recoverable from estimated net sales proceeds, the property is written down to estimated fair value less costs to sell and an impairment loss is recognized within income from continuing operations. Our estimates of cash flows and fair values of the properties are based on current market conditions and consider matters such as rental rates and occupancies for comparable properties, recent sales data for comparable properties and, where applicable, contracts or the results of negotiations with purchasers or prospective purchasers. Our estimates are subject to revision as market conditions and our assessments of them change.

Our allowance for doubtful accounts receivable is established based on analysis of the risk of loss on specific accounts. The analysis places particular emphasis on past-due accounts and considers information such as the nature and age of the receivable, the payment history of the tenant or other debtor, the financial condition of the tenant and our assessment of its ability to meet its lease obligations, the basis for any disputes and the status of related negotiations, etc. Our estimate of the required allowance, which is reviewed on a quarterly basis, is subject to revision as these factors change and is sensitive to the effects of economic and market conditions on our tenants, particularly in our largest markets (i.e., the San Francisco Bay and Washington, D.C. areas). For example, due to economic conditions and analysis of our accounts receivable, we increased our provision for uncollectible accounts by approximately $5.5 million in 2001 and by an additional $1.5 million in the first quarter of 2002.

Results Of Operations

The discussion and analysis of operating results focuses on our segments as management believes that segment analysis provides the most effective means of understanding the business. Our reportable operating segments are real estate property operations and development operations. Other business activities and operations, which are not reported separately, are included in other operations.

Our operating segments' performance is measured using funds from operations. Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) as follows:

* Net income (loss) - computed in accordance with accounting principles generally accepted in the United States of America (GAAP);

* Less gains (or plus losses) from sales of depreciable operating properties and items that are classified as extraordinary items under GAAP;

* Plus depreciation and amortization of assets uniquely significant to the real estate industry;

* Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis).

Management's Discussion and Analysis

Funds from operations does not represent net income or cash flow generated from operating activities in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our performance or to cash flows as a measure of our liquidity or our ability to make distributions.

Real Estate Property Operations

Operating results of real estate property operations are summarized as follows:

	For the three months ended March 31,		Variance 2002 vs.
(in millions)	2002	2001	2001
Operating revenue	$ 127.2	$ 123.8	$ 3.4
Segment expense	42.6	41.7	0.9
Interest expense	8.3	11.1	(2.8)
Other income, net	5.2	7.0	(1.8)

Real estate operating revenues increased $3.4 million (2.7%) for the three months ended March 31, 2002 as compared to 2001. This increase resulted from development properties being placed in service and "same store" rental growth, partially offset by sold properties. Same store rental revenues grew by approximately 0.8% (approximately $1.0 million). This increase was due primarily to an increase in rental rates and stable occupancy in properties in the Washington, D.C. market, partially offset by declining occupancies and rents in other markets.

Real estate operating expenses increased $0.9 million (2.2%) for the first quarter of 2002 as compared to the same period in 2001. This increase was due primarily to an increase in real estate taxes of $2.2 million and an addition to the provision for uncollectible accounts receivable of approximately $1.5 million due to tenant bankruptcies and collection issues. In 2001, the addition to the provision for uncollectible accounts for the first quarter was $4.6 million. Other expenses related to real estate property operations, including insurance, repairs and maintenance and utilities, increased $1.8 million in the first quarter of 2002 compared to the same period a year ago.

Real estate interest expense decreased $2.8 million (25.2%) in the first quarter of 2002 as compared to the same period in 2001. This decrease was principally the result of the retirement of mortgages due to maturities or dispositions of related properties.

Real estate other income decreased $1.8 million (25.7%) for the three months ended March 31, 2002 as compared to the three months ended March 31, 2001. This decrease was primarily the result of a decline of $1.1 million from equity in earnings of unconsolidated entities (excluding depreciation),

primarily from reduced earnings from our investment in Carr Office Park, L.L.C. In June 2001, Carr Office Park, L.L.C. obtained third party financing on its properties resulting in increased interest expense.

As a result of the economic climate in 2001, the real estate markets materially softened. Demand for office space declined significantly and vacancy rates increased in each of our core markets. During the first quarter of 2002, our core markets continued to be weak. As a result, occupancy in our portfolio of operating properties decreased to 93.9% at March 31, 2002, as compared to 95.3% at December 31, 2001 and 97.0% at March 31, 2001. Market rental rates have declined in most markets from peak levels. Rental rates on space that was re-leased in the first quarter of 2002 decreased an average of 5.2% compared to rates that were in effect under expiring leases.

We expect vacancy rates to continue to increase in most of our markets although we expect that the rate of deterioration will slow in the latter half of the year. As a result, we expect occupancy levels in our portfolio to average approximately 93.0% for 2002.

Development Operations

Operating results of development operations are summarized as follows:

	For the three months ended March 31,		Variance
(in millions)	2002	2001	2002 vs. 2001
Operating revenue	$ 2.7	$ 6.2	$ (3.5)
Segment expense	2.0	1.5	0.5
Interest expense	-	-	-
Other income, net	-	0.2	(0.2)

Revenue from our development operations decreased $3.5 million (56.5%) for the first quarter of 2002 compared to the first quarter of 2001 primarily because we earned one-time incentive fees ($2.6 million) related to the development of properties during the first quarter of 2001.

Operating expenses for our development operations increased $0.5 million (33.3%) for the three months ended March 31, 2002 as compared to the three months ended March 31, 2001 due to a decline in capitalized personnel and related costs as a result of development operations focus on third party activity in 2002.

Other Operations

Operating results of other operations are summarized as follows:

(in millions)	For the three months ended March 31, 2002	2001	Variance 2002 vs. 2001
Operating revenue	$ 3.4	$ 3.9	$ (0.5)
Segment expense	9.0	12.9	(3.9)
Interest expense	16.1	9.8	6.3
Other expense, net	3.8	1.0	2.8

Revenues from our other operations decreased $0.5 million (12.8%) in the first quarter of 2002 as compared to the first quarter of 2001. The decrease in 2002 resulted primarily from declines in leasing fee revenue as a result of the increasing vacancies rates and reduced rental activity.

Expenses of our other operations decreased $3.9 million (30.2%) in the three months ended March 31, 2002 compared to the three months ended March 31, 2001. The decrease was due primarily to the completion of portions of our internal process improvement efforts.

Interest expense increased $6.3 million (64.2%) during the first quarter of 2002 compared to the first quarter of 2001 due primarily to higher debt levels partially offset by a decrease in short-term interest rates on variable rate debt.

Other expense increased $2.8 million (280%) due primarily to the accrual of costs related to obligations under lease guarantees for HQ Global Workplaces, Inc.

Depreciation and Amortization

Depreciation and amortization increased $3.3 million (10.7%) in the first quarter of 2002 compared to the first quarter of 2001. This increase was due primarily to development properties being placed into service, partially offset by dispositions of interests in properties.

Gain (Loss) on Sale of Assets and Other Provisions, Net

We dispose of assets that are inconsistent with our long-term strategic or return objectives or where market conditions for sale are favorable. The proceeds from the sales are redeployed into other properties or used to fund development operations or to support other corporate needs. During the three months ended March 31, 2002, we did not dispose of any assets. We recognized an impairment loss of $0.9 million on a parcel of land that is held for development. During the three months ended March 31, 2001, we disposed of seven operating properties, one property

under development and one parcel of land that was being held for development. We recognized a gain of $2.0 million, net of $2.0 million in income taxes. During that period, we also recognized an impairment loss of $0.9 million on a parcel of land held for development.

Consolidated Cash Flows

Consolidated cash flow information is summarized as follows:

(in millions)	For the three months ended March 31, 2002	2001
Cash provided by operating activities	$ 36.4	$ 38.6
Cash (used by) provided by investing activities	(13.8)	74.4
Cash used by financing activities	(16.3)	(89.8)

Operations generated $36.4 million of net cash in 2002 compared to $38.6 million in 2001. The changes in cash flow from operating activities were primarily the result of factors discussed above in the analysis of operating results. The level of net cash provided by operating activities is also affected by the timing of receipt of revenues and payment of expenses.

Our investing activities used net cash of $13.8 million in 2002 and provided net cash of $74.4 million in 2001. The decrease in net cash provided by investing activities in 2002 is due primarily to the fact that in 2001 we sold properties ($98.3 million) and received payment on a note receivable ($19.1 million). The effect of these transactions was partially offset by a reduction in acquisition of land held for development ($32.3 million), a decrease in development activities ($8.0 million) and a reduction in investment in unconsolidated entities ($3.7 million).

Our financing activities used net cash of $16.3 million in 2002 and $89.8 million in 2001. The decrease in net cash used by financing activities in 2002 is due primarily to a suspension of our stock buyback program ($104.5 million). The effect of the reduced stock buyback activity was partially offset by lower net borrowings. We paid down $383.0 million on our line of credit facility in 2002 using proceeds from issuance of unsecured notes in January 2002.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2002, we had approximately $11.4 million in available cash and cash equivalents. As a REIT, we are required to distribute at least 90% of our taxable income to our stockholders on an annual basis. In addition, we and our affiliates require capital to invest in our existing portfolio of operating assets for capital projects. These capital projects can include such things as large-scale renovations, routine capital improvements, deferred maintenance on properties we have recently acquired and tenant related matters, including tenant improvements, allowances and leasing commissions. Therefore, as a general matter, it is unlikely our cash balances would satisfy our liquidity needs. Instead, these needs must be met from cash generated from rental and real estate service revenue and external sources of capital.

We derive substantially all of our revenue from tenants under existing leases at our properties. Our operating cash flow therefore depends materially on the rents that we are able to charge to our tenants, and the ability of these tenants to make their rental payments. We believe that the diversity of our tenant base (no tenant accounted for more than 5% of annualized revenue as of March 31, 2002) helps insulate us from the negative impact of tenant defaults and bankruptcies. However, general economic downturns, or economic downturns in one or more of our core markets, still may adversely impact the ability of our tenants to make lease payments and our ability to re-lease space on favorable terms as leases expire. In either of these cases, our cash flow and therefore our ability to meet our capital needs would be adversely affected.

We seek to create and maintain a capital structure that will enable us to diversify our capital resources. This should allow us to obtain additional capital from a number of different sources. These sources could include additional equity offerings of common stock and/or preferred stock, public and private debt financings and possible asset dispositions. Our management believes that we will have access to the capital resources necessary to expand and develop our business, to fund our operating and administrative expenses, to continue to meet our debt service obligations, to pay dividends in accordance with REIT requirements, to acquire additional properties and land and to pay for construction in progress.

We have three investment grade ratings. As of March 31, 2002, Fitch Rating Services and Standard & Poors have each assigned their BBB rating to our prospective senior unsecured debt offerings and their BBB- rating to our prospective cumulative preferred stock offerings. Moody's Investor Service has assigned a negative outlook and its Baa2 rating to our prospective senior unsecured debt offerings and its Ba2 rating to our prospective cumulative preferred stock offerings. A downgrade in outlook or rating by any one of these rating agencies could result from, among other things, a change in our financial position or a downturn in general economic conditions. Any such downturn could adversely affect our ability to obtain future financing or could increase costs of existing debt.

Our total debt at March 31, 2002 was approximately $1.4 billion, of which $74.0 million (5.3%) bore a LIBOR-based floating interest rate. The interest rate on borrowings on our unsecured credit facility at March 31, 2002 was 2.6%. Our fixed rate mortgage payable debt bore an effective weighted average interest rate of 8.02% at March 31, 2002. The weighted average term of this debt is 6.6 years. At March 31, 2002, our debt represented 38.7% of our total market capitalization of $3.7 billion.

Our primary external source of liquidity is our credit facility. We have a three-year $500 million unsecured credit facility expiring in June 2004 with J.P. Morgan Chase, as agent for a group of banks. We can extend the life of the line an additional year at our option. The line carries an interest rate of 70 basis points over 30-day LIBOR. As of March 31, 2002, $74.0 million was drawn on the credit facility, $2.2 million in letters of credit were outstanding and we had $423.8 million available for borrowing.

Our unsecured credit facility contains financial and other covenants with which we must comply. Some of these covenants include:

* A minimum ratio of annual EBITDA (earnings before interest, taxes,

depreciation and amortization) to interest expense;
* A minimum ratio of annual EBITDA to fixed charges;
* A maximum ratio of total debt to tangible fair market value of our assets; and
* Restrictions on our ability to make dividend distributions in excess of 90% of funds from operations.

Availability under the unsecured credit facility is also limited to a specified percentage of the fair value of our unmortgaged properties.

In January 2002, we issued $400.0 million of senior unsecured notes. The notes bear interest at 7.125% per annum payable semi-annually beginning on July 15, 2002. The notes mature on January 15, 2012. The notes are unconditionally guaranteed by CarrAmerica Realty, L.P., one of our subsidiaries.

Our senior unsecured notes also contain covenants with which we must comply. These include:

* Limits on our total indebtedness on a consolidated basis;
* Limits on our secured indebtedness on a consolidated basis; and
* Limits on our required debt service payments.

As a result of the economic climate in 2001, the real estate markets materially softened. Demand for office space declined significantly and vacancy rates increased in each of our core markets. During the first quarter of 2002, our core markets continued to be weak. As a result, occupancy in our portfolio of operating properties decreased to 93.9% at March 31, 2002, as compared to 95.3% at December 31, 2001 and 97.0% at March 31, 2001. Market rental rates have declined in most markets from peak levels. Rental rates on space that was re-leased in the first quarter of 2002 decreased an average of 5.2% in comparison to rates that were in effect under expiring leases.

We expect vacancy rates to continue to increase in most of our markets although the rate of deterioration will slow in the latter half of the year. As a result, we expect occupancy levels in our portfolio to average approximately 93.0% for 2002.

We will require capital for development projects currently underway and in the future. As of March 31, 2002, we had approximately 124,000 square feet of office space in two development projects in progress. Our total expected investment on these projects is $17.5 million. Through March 31, 2002, we had invested $10.9 million or 62.3% of the

total expected investment for these projects. We also have a residential project under development as part of a development project in a joint venture. Our total expected investment in the residential project is expected to be $20.0 million. As of March 31, 2002, we had invested $1.6 million in this project. As of March 31, 2002, we also had 1.0 million square feet of office space under construction in five projects in which we own minority interests. These projects are expected to cost $276.2 million, of which our total investment is expected to be approximately $81.0 million. Through March 31, 2002, approximately $132.3 million or 47.9% of total project costs had been expended on these projects. We have financed our investment in projects under construction at March 31, 2002 primarily from borrowings under our credit facility. We expect that this source and project-specific financing of selected assets will provide additional funds

required to complete development and to finance the costs of additional projects.

We also regularly incur expenditures in connection with the re-leasing of office space, principally in the form of tenant improvements and leasing commissions. The amounts of these expenditures can vary significantly, depending on negotiations with tenants and the willingness of tenants to pay higher base rents over the life of the leases. We expect to pay for these capital expenditures out of excess cash from operations or, to the extent necessary, draws on our line of credit. We believe that a significant portion of these expenditures is recouped in the form of continuing lease payments.

In the future, if, as a result of general economic downturns, a rating downgrade or otherwise, our properties do not perform as expected, or we cannot raise the expected funds from the sale of properties and/or if we are unable to obtain capital from other sources, we may not be able to make required principal and interest payments or make necessary routine capital improvements with respect to our existing portfolio of operating assets. While we believe that we would continue to have sufficient funds to pay our operating and debt service expenses and our regular quarterly dividends, our ability to expand our development activity or to fund additional development in our joint ventures could be adversely affected. In addition, if a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the holder of the mortgage lender could foreclose on the property, resulting in loss of income and asset value. An unsecured lender could also attempt to foreclose on some of our assets in order to receive payment. In many cases, very little of the principal amount that we borrow is repaid prior to the maturity of the loan. We generally expect to refinance that debt when it matures, although in some cases we may pay off the loan. If principal amounts due at maturity cannot be refinanced, extended or paid with proceeds of other capital transaction, such as new equity capital, our cash flow may be insufficient to repay all maturing debt. Prevailing interest rates or other factors at the time of a refinancing (such as possible reluctance of lenders to make commercial real estate loans) may result in higher interest rates and increased interest expense.

Our ability to raise funds through sales of debt and equity securities is dependent on, among other things, general market conditions for REITS, market perceptions about us, our debt rating and the current trading price of our stock. We will continue to analyze which source of capital is most advantageous to us at any particular point in time, but the capital markets may not consistently be available on terms that are attractive.

Our Board of Directors has authorized us to spend up to $325 million to repurchase our common shares, preferred shares and debt securities excluding the 9.2 million shares repurchased from Security Capital in November 2001 which were separately approved. Since the start of this program in mid-2000 through March 31, 2002, we have acquired approximately 8.7 million of our common shares for an aggregate purchase price of approximately $253.4 million. We do not currently anticipate repurchasing any common stock in 2002, although market conditions could cause us to reevaluate this determination at any time.

We pay dividends quarterly. The maintenance of these dividends is subject to various factors, including the discretion of the Board of Directors, the ability to pay dividends under Maryland law, the availability of cash to make the necessary dividend payments and the effect of REIT distribution requirements, which require at least 90% of our taxable income to be distributed to stockholders. In addition, under our line of credit, we generally are restricted from paying dividends that would exceed 90% of our funds from operations during any four-quarter period.

Although we believe our properties are adequately covered by insurance, we cannot predict at this time if we will be able to obtain full coverage at a

reasonable cost in the future. After the events of September 11, 2001, property and casualty insurance markets began to exclude terrorist acts as an insured peril for renewing policies. Although separate terrorist coverage for real estate is now available from a limited number of insurers, available limits, cost, and higher deductibles are a concern not only to us but also to our lenders. Trophy and high-rise properties are expected to be difficult to insure. Through our insurance broker, we are exploring various options for addressing the terrorism risk and will decide upon a method of risk management before our June 30, 2002 renewal date.

On January 20, 2000, we, along with HQ Global Workplaces, Inc. (HQ Global), VANTAS Incorporated (VANTAS) and FrontLine Capital Group ("FrontLine"), entered into several agreements that contemplated several transactions including (i) the merger of VANTAS with and into HQ Global, (ii) the acquisition by FrontLine of shares of HQ Global common stock from us and other stockholders of HQ Global, and (iii) the acquisition by VANTAS of our debt and equity interest in OmniOffices (UK) Limited and OmniOffices LUX 1929 Holding Company S.A. On June 1, 2000, we consummated the transactions.

On March 13, 2002, HQ Global filed for bankruptcy protection under Chapter 11 of the federal bankruptcy laws. During 1997 and 1998, to assist HQ Global as it grew its business, we provided guarantees of HQ Global's performance under four office leases that it signed. In connection with the HQ Global/VANTAS merger transaction, FrontLine agreed to indemnify us against any losses incurred with respect to these guarantees. However, at this time, FrontLine's principal asset is its interest in HQ Global, and therefore our ability to recover any resulting losses from FrontLine under this indemnity likely will be limited. To our knowledge, all monthly rent payments were made by HQ Global under two of these leases through January 2002, and rental payments under the other two leases were made through February 2002. As a result, we may be liable to the lessors with respect to payments due under two of these leases from and after February 2002 and under the other two leases from and after March 2002.

In the course of the bankruptcy proceedings, HQ Global has filed motions to reject two of these four leases. One lease is for space in San Jose, California. This lease is for approximately 22,000 square feet of space at two adjacent buildings and runs through October 2008. Total aggregate remaining payments under this lease as of February 1, 2002 were approximately $6.2 million (approximately $0.7 million of which is payable in 2002); however, our liability under this guarantee is limited to approximately $2.0 million. Although we have not yet determined the extent to which we will be able to mitigate any potential exposure we may have through subletting the space or otherwise, we have recognized an expense of $2.0 million, our maximum potential exposure under the guarantee, in the first quarter of 2002. As of March 31, 2002, we had not made any payments under this guarantee.

The second lease is a sublease for space in downtown Manhattan. This lease is for approximately 26,000 square feet of space and runs through March 2008, with total aggregate remaining lease payments as of February 1, 2002 of approximately $5.4 million (approximately $0.8 million of which is payable in 2002). In light of defenses against payment that may be available to us, we have not recognized any expense on this guarantee. As of March 31, 2002, we had not made any payments under this guarantee.

HQ Global has not filed a motion seeking to reject the remaining two leases that we have guaranteed, although it could do so in the future. Even if the leases are not rejected, we may ultimately be liable to the lessors for payments due under the leases. In one case, the lease is for approximately 25,000 square feet of space in midtown Manhattan, and our liability is currently capped at approximately $0.6 million, which liability reduces over the life of the lease until its expiration in September 2007. We have not accrued any expense as of March 31, 2002. As of March 31, 2002, we had not made any payments under this guarantee.

The remaining lease is for space in San Mateo, California. This lease is for approximately 19,000 square feet of space and runs through January 2013, with total aggregate remaining lease payments as of March 1, 2002 of approximately $10.4 million (approximately $0.6 million of which is payable in 2002). We are in negotiations with HQ Global with respect to this lease and are considering terms that would result in cash losses to us of up to $0.4 million. Based on the status of these negotiations, we have recognized an expense of $0.4 million under this guarantee in the first quarter of 2002. Any agreement with HQ Global will have to be approved by the bankruptcy court. Even if approved, there can be no assurance that we will not be required to recognize further expense or to make full payment under the guarantee. As of March 31, 2002, we had not made any payments under this guarantee.

We have investments in real estate joint ventures in which we hold 15%-50% interests. These investments are accounted for using the equity or cost method, as appropriate, and therefore, the assets and liabilities of the joint ventures are not included in our consolidated financial statements. Most of these joint ventures own and operate office buildings financed by non-recourse debt obligations that are secured only by the real estate and other assets of the joint ventures. We have no obligation to repay this debt and the lenders have no recourse to our other assets. As of March 31, 2002, we guaranteed $34.5 million of debt related to joint ventures and $5.2 million of debt related to a development project we have undertaken with a third party.

Our investments in these joint ventures are subject to risks not inherent in our majority owned properties, including:

* Absence of exclusive control over the development, financing, leasing, management and other aspects of the project;
* Possibility that our co-venturer or partner might:
  * become bankrupt;
  * have interests or goals that are inconsistent with ours;
  * take action contrary to our instructions, requests or interests (including those related to our qualification as a REIT for tax purposes); or
  * otherwise impede our objectives; and
* Possibility that we, together with our partners, may be required to fund losses of the investee which losses would not necessarily appear on our consolidated financial statements (e.g. for cost method investments).

In addition to making investments in these ventures, we provide

construction management, leasing, development and architectural and other services to them. We earned fees for these services of $2.1 million for the three months ended March 31, 2002 and $5.1 million for the three months ended March 31, 2001.

We also earn fees for services provided to third party properties. Some members of our Board of Directors have ownership interests in these third party properties. During the first quarter of 2002 and 2001, we earned fees of $0.5 million and $0.8 million, respectively from properties in which members of our Board of Directors, Mr. A. J. Clark and Mr. O. Carr, had an interest.

Other material related party transactions include general contracting and other services from Clark Enterprises, Inc., an entity in which one of our directors is the majority stockholder. We, including our unconsolidated affiliates, paid $4.1 million and $4.7 million in the first quarter of 2002 and 2001, respectively, to Clark Enterprises, Inc. for these services. Substantially all of the payments are related to our unconsolidated affiliates.

Funds From Operations

We believe that funds from operations is helpful to investors as a measure of the performance of an equity REIT. Based on our experience, funds from operations, along with information about cash flows from operating activities, investing activities and financing activities, provides investors with an indication of our ability to incur and service debt, to make capital expenditures and to fund other cash needs. Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) as follows:

* Net income (loss) - computed in accordance with accounting principles generally accepted in the United States of America (GAAP);
* Less gains (or plus losses) from sales of depreciable operating properties and items that are classified as extraordinary items under GAAP;
* Plus depreciation and amortization of assets uniquely significant to the real estate industry;
* Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis).

Our funds from operations may not be comparable to funds from operations reported by other REITs. These other REITs may not define the term in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently than us. Funds from operations does not represent net income or cash flow generated from operating activities in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our performance or to cash flows as a measure of our liquidity or our ability to make distributions.

The following table provides the calculation of our funds from operations for the periods presented:

	Three Months E March 31,
(In thousands)	2002

Net income from continuing operations before minority interest	$ 20,123	$
Adjustments to derive funds from operations:		
Add depreciation and amortization	35,903	
Deduct:		
Minority interests' (non Unitholders) share of depreciation, amortization and net income	(226)	
(Gain) loss on sale of assets and other provisions, net	860	
Funds from operations before allocations to the minority Unitholders	56,660	
Less: Funds from operations allocable to the minority Unitholders	(4,321)	
Funds from operations allocable to CarrAmerica Realty Corporation	52,339	
Less: Preferred stock dividends	(8,548)	
Funds from operations allocable to common shareholders	$ 43,791	$

FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our, and our affiliates, or the industry's actual results, performance, achievements or transactions to be materially different from any future results, performance, achievements or transactions expressed or implied by such forward-looking statements. Such factors include, among others, the following:

* National and local economic, business and real estate conditions that will, among other things, affect:
  * Demand for office properties
  * The ability of the general economy to recover timely from the current economic conditions
  * The availability and creditworthiness of tenants
  * The level of lease rents
  * The availability of financing for both tenants and us;
* Adverse changes in the real estate markets, including, among other things:
  * Competition with other companies, and
  * Risks of real estate acquisition and development (including the failure of pending developments to be completed on time and within budget);
* Possible charges or payments resulting from our guarantees of certain leases of HQ Global Workplaces, Inc;
* Actions, strategies and performance of affiliates that we may not control or companies in which we have made investments;
* Ability to maintain our status as a REIT for federal and state income tax purposes;
* Governmental actions and initiatives; and
* Environmental/safety requirements.

For further discussion of these and other factors that could impact our future results, performance, achievements or transactions, see the documents we file from time to time with the Securities and Exchange Commission, and in particular, the section titled "The Company - Risk Factors" in our Annual Report on Form 10-K.

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Quantitative and Qualitative Disclosures About Market Risk

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Any significant changes in our market risk that have occurred since the filing of our Annual Report on Form 10-K for the year ended December 31, 2001 are summarized in the Liquidity and Capital Resources section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

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Part II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Retirement agreement by and between CarrAmerica Realty Corporation and Richard F. Katchuk dated March 8, 2002.

10.2 Change of control employment agreement by and between CarrAmerica Realty Corporation and Stephen E. Riffee dated April 1, 2002.

(b) Reports on Form 8-K

Current Report on Form 8-K filed on January 11, 2002 regarding underwriting agreement between CarrAmerica Realty Corporation and J.P. Morgan Securities Inc. in connection with a proposed public offering of $400,000,000 of 7.125% Senior Notes due 2012.

Current Report on Form 8-K filed on March 18, 2002 regarding lease guarantees given by CarrAmerica Realty Corporation for the benefit of HQ Global Workplaces, Inc.

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SIGNATURES

Pursuant to the requirements 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.

CARRAMERICA REALTY CORPORATION

/s/ Stephen E. Riffee

Stephen E. Riffee, Chief Financial Officer, Controller/Treasurer

Date: May 10, 2002

Exhibit Index

10.2 Retirement agreement by and between CarrAmerica Realty Corporation and Richard F. Katchuk dated March 8, 2002.

10.2 Change of control employment agreement by and between CarrAmerica Realty Corporation and Stephen E. Riffee dated April 1, 2002