CARRAMERICA REALTY CORP
Form 10-Q
August 14, 2001

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 June 30, 2001

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) 729-1000

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 August 3, 2001:

Common Stock, par value $.01 per share: 62,563,351 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 report) 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 reflect 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 in our December 31, 2000 Annual Report on Form 10-K. The results of operations for the six months ended June 30, 2001 are not necessarily indicative of the operating results to be expected for the full year.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets As Of June 30, 2001 and December 31, 2000

(in thousands, except share amounts)

		June 30, 2001	
		(unaudited)	
Assets			
Rental property:			
Land	$	644,799	$
Buildings		1,825,629	
Tenant improvements		338,606	
Furniture, fixtures and equipment		3,521	
		2,812,555	
Less: Accumulated depreciation		(422,617)	
Total rental property		2,389,938	
Land held for development or sale		44,599	
Construction in progress		32,549	
Cash and cash equivalents		14,482	
Restricted deposits		7,288	
Accounts and notes receivable		32,374	
Investments in unconsolidated entities		153,468	
Accrued straight-line rents		59,189	
Tenant leasing costs, net		52,030	
Deferred financing costs, net		9,760	
Prepaid expenses and other assets, net		25,495	
	$	2,821,172	$
Liabilities, Minority Interest, and Stockholders' Equity			
Liabilities:			
Mortgages and notes payable	$	1,109,778	$
Accounts payable and accrued expenses		64,778	
Rents received in advance and security deposits		29,892	
Total liabilities		1,204,448	
Minority interest		85,993	
Stockholders' equity:			
Preferred stock, $.01 par value, authorized 35,000,000 shares:			

Series A Cumulative Convertible Redeemable Preferred Stock, 80,000 and 480,000 shares issued and outstanding at June 30, 2001 and December 31, 2000, respectively, with an aggregate liquidation preference of $2,000 and $12,000 respectively.	1
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 62,082,448 shares at June 30, 2001 and 65,017,623 shares at December 31, 2000.	621
Additional paid-in capital	1,653,396
Cumulative dividends in excess of net income	(123,375)
Total stockholders' equity	1,530,731
Commitments and contingencies	
	$ 2,821,172 $

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 June 30, 2001 and 2000

(Unaudited and in thousands, except per share amounts)

	2001	
Operating revenues:		
Rental revenue:		
Minimum base rent	$ 105,802	$
Recoveries from tenants	14,683	
Parking and other tenant charges	3,338	
Total rental revenue	123,823	
Real estate service revenue	9,703	
Total operating revenues	133,526	
Operating expenses:		
Property expenses:		
Operating expenses	28,433	
Real estate taxes	10,050	
Interest expense	21,136	
General and administrative	11,939	
Depreciation and amortization	30,820	
Total operating expenses	102,378	
Real estate operating income	31,148	

Other income:		
Interest income		1,023
Equity in earnings of unconsolidated entities		3,674
Total other income		4,697
Income from continuing operations before income taxes, minority interest, and (loss) gain on sale of assets and other provisions, net		35,845
Income taxes		(187)
Minority interest		(3,076)
(Loss) gain on sale of assets and other provisions, net		(22)
Income from continuing operations		32,560
Discontinued operations - Income from executive suites operations (net of applicable income tax expense of $1,083)		-
Discontinued operations - Gain on sale of discontinued operations (net of applicable income tax expense of $21,131)		-
Net income	$	32,560
Basic net income per common share:		
Income from continuing operations	$	0.39
Discontinued operations		-
Gain on sale of discontinued operations		-
Net income	$	0.39
Diluted net income per common share:		
Income from continuing operations	$	0.38
Discontinued operations		-
Gain on sale of discontinued operations		-
Net income	$	0.38

See accompanying notes to consolidated financial statements.

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
For the Six Months Ended June 30, 2001 and 2000

	2001
Operating revenues:	

Rental revenue:		
Minimum base rent	$ 212,012	$
Recoveries from tenants	28,724	
Parking and other tenant charges	6,876	
Total rental revenue	247,612	
Real estate service revenue	19,840	
Total operating revenues	267,452	
Operating expenses:		
Property expenses:		
Operating expenses	60,474	
Real estate taxes	19,617	
Interest expense	41,996	
General and administrative	26,340	
Depreciation and amortization	61,645	
Total operating expenses	210,072	
Real estate operating income	57,380	
Other income:		
Interest income	2,127	
Equity in earnings of unconsolidated entities	7,028	
Total other income	9,155	
Income from continuing operations before income taxes, minority interest, and gain on sale of assets and other provisions, net	66,535	
Income taxes	(234)	
Minority interest	(4,529)	
Gain on sale of assets and other provisions, net	1,054	
Income from continuing operations	62,826	
Discontinued operations - Income from executive suites operations (net of applicable income tax expense of $1,300)	-	
Discontinued operations - Gain on sale of discontinued operations (net of applicable income tax expense of $21,131)	-	
Net income	$ 62,826	$
Basic net income per common share:		
Income from continuing operations	$ 0.73	$
Discontinued operations	-	
Gain on sale of discontinued operations	-	
Net income	$ 0.73	$
Diluted net income per common share:		
Income from continuing operations	$ 0.71	$
Discontinued operations	-	

Gain on sale of discontinued operations	-	
Net income	$ 0.71	$

See accompanying notes to consolidated financial statements.

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2001 and 2000

(Unaudited and in thousands)

	2001
Cash flows from operating activities:	
Net income	$ 6
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	6
Minority interest	
Equity in earnings of unconsolidated entities	(
Gain on sale of assets and other provisions, net	(
Income and gain on sale of discontinued operations	
Provision for uncollectible accounts	
Stock based compensation	
Other	
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	1
Increase in accrued straight-line rents	(
Additions to tenant leasing costs	(
Increase in prepaid expenses and other assets	(
Decrease in accounts payable and accrued expenses	(3
Increase in rent received in advance and security deposits	
Total adjustments	3
Net cash provided by operating activities	9
Cash flows from investing activities:	
Acquisition and development of rental property	(1
Additions to land held for development or sale	(3
Additions to construction in progress	(1
Acquisition and development of executive suites assets	
Payments on notes receivable	1
Distributions from unconsolidated entities	8
Investments in unconsolidated entities	(1
Acquisition of minority interest	(
Decrease (increase) in restricted deposits	3
Proceeds from the sale of discontinued operations	
Proceeds from sales of properties	10
Net cash provided by investing activities	15

Cash flows from financing activities:	
Repurchase of common stock	(11
Exercises of stock options	1
Net repayments on unsecured credit facility (including $140,500 related to discontinued operations in 2000)	(8
Net repayments of mortgages payable	(1
Proceeds from mortgages	2
Dividends and distributions to minority interests	(8
Contributions from minority interests	
Net cash used by financing activities	(25
(Decrease) increase in unrestricted cash and cash equivalents	(1
Unrestricted cash and cash equivalents, beginning of the period	2
Unrestricted cash and cash equivalents, end of the period	$ 1
Supplemental disclosure of cash flow information:	
Cash paid for interest (net of capitalized interest of $3,837 and $7,229 for the six months ended June 30, 2001 and 2000, respectively)	$ 4

See accompanying notes to consolidated financial statements.

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

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(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 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, determination of useful lives of assets subject to depreciation or amortization 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 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. We adopted this statement as of January 1, 2001 and the adoption had no effect on the financial statements. We had no derivative instruments as of June 30, 2001.

(e) Earnings Per Share

The following table sets forth information relating to the computations of our basic and diluted earnings per share for income from continuing operations:

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

	Three Months Ended June 30, 2001			
(In thousands, except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)
Basic EPS	$ 23,815	61,840	$ 0.39	$ 21,080
Effect of Dilutive Securities				
Stock options	-	1,200		-
Diluted EPS	$ 23,815	63,040	$ 0.38	$ 21,080

Income from continuing operations has been reduced by preferred stock dividends of approximately $8,745,000 and approximately $8,745,000 for the three months ended June 30, 2001 and 2000, respectively.

(In thousands, except per share amounts)	Six Months Ended June 30, 2001 Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)
Basic EPS	$ 45,432	62,509	$ 0.73	$ 45,455
Effect of Dilutive Securities				
Stock options	-	1,340		-
Convertible partnership units	4,304	6,068		-
Diluted EPS	$ 49,736	69,917	$ 0.71	$ 45,455

Income from continuing operations has been reduced by preferred stock dividends of approximately $17,394,000 and approximately $17,522,000 for the six months ended June 30, 2001 and 2000, 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 the 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) Discontinued Operations

On January 20, 2000, we, along with HQ Global Workplaces, Inc. (HQ Global), VANTAS Incorporated (VANTAS) and FrontLine Capital Group, entered into several agreements that contemplated several transactions including (i) the merger of VANTAS with and into HQ Global, (ii) the acquisition by FrontLine Capital Group 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.

As part of the HQ Global/VANTAS transactions, we received put rights with respect to our continuing interest in HQ Global. These rights can be exercised at specified times at our option if HQ Global has not completed an initial public offering. A portion of the put is exercisable in late 2001, with the balance exercisable in June 2002. Payment for our HQ Global stock will be based on the fair market value of our investment and can be made either in cash, a short-term note (in case of the 2001 put right) or delivery of common stock of FrontLine Capital Group, a NASDAQ-listed company and the majority shareholder of HQ Global.

(4) Gain 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 June 30, 2001, we disposed of a parcel of land held for development. We recognized a loss of $22,000 on this transaction. During the three months ended June 30, 2000, we disposed of three operating properties. We recognized a gain of $2.4 million, net of taxes of $0.9 million on these properties.

During the six months ended June 30, 2001, we disposed of seven operating properties, one property under development and two parcels of land held for development. We recognized a gain of $2.0 million, net of taxes of $2.0 million. We also recognized an impairment loss of $0.9 million on a parcel of land held for development during the six months ended June 30, 2001. During the six months ended June 30, 2000, we disposed of five operating properties. We recognized a gain of $7.7 million, net of taxes of $1.3 million on these properties.

(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 unaffiliated 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 generally accepted accounting principles (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 and six months ended June 30, 2001 and 2000 are summarized and reconciled to net income for the applicable period as follows:

For the three months ended June 30, 2001

(In millions)	Real Estate Property Operations	Development Operations	Other Operations	Total
Operating revenue	$ 123.8	4.6	5.1	$ 133.
Segment expense	38.4	1.1	10.8	50.
Net segment revenue (expense)	85.4	3.5	(5.7)	83.
Interest expense	11.3	-	9.8	21.
Other income (expense), net	5.4	0.1	(0.4)	5.
Funds from operations	$ 79.5	3.6	(15.9)	67.
Depreciation and amortization				(31.
Income from continuing operations before minority interest and loss on sale of assets and other provisions, net				35.
Minority interest and loss on sale of assets and other provisions, net				(3.
Net income				$ 32.

For the three months ended June 30, 2000

(In millions)	Real Estate Property Operations	Development Operations	Other Operations	Total
Operating revenue	$ 139.1	2.1	3.2	$ 144.
Segment expense	44.5	1.4	10.6	56.
Net segment revenue (expense)	94.6	0.7	(7.4)	87.
Interest expense	12.1	-	13.0	25.
Other income (expense), net	3.9	-	(2.7)	1.
Funds from operations	$ 86.4	0.7	(23.1)	64.
Depreciation and amortization				(34.
Income from continuing operations before minority interest and gain on sale of assets and other provisions, net				29.
Minority interest and gain on sale of assets and other provisions, net				
Discontinued operations, net of applicable income tax expense				1.
Gain on sale of discontinued operations, net of applicable income tax expense				31.

Net income	$ 63.

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

(In millions)	Real Estate Property Operations	Development Operations	Other Operations	Total
	For the six months ended June 30, 2001			
Operating revenue	$ 247.6	10.8	9.0	$ 267.
Segment expense	80.1	2.6	23.7	106.
Net segment revenue (expense)	167.5	8.2	(14.7)	161.
Interest expense	22.4	-	19.6	42.
Other income (expense), net	12.4	0.3	(1.4)	11.
Funds from operations	$ 157.5	8.5	(35.7)	130.
Depreciation and amortization				(64.
Income from continuing operations before minority interest and gain on sale of assets and other provisions, net				66.
Minority interest and gain on sale of assets and other provisions, net				(3.
Net income				$ 62.

(In millions)	Real Estate Property Operations	Development Operations	Other Operations	Total
	For the six months ended June 30, 2000			
Operating revenue	$ 275.7	4.0	6.3	$ 286.
Segment expense	88.7	2.4	19.4	110.
Net segment revenue (expense)	187.0	1.6	(13.1)	175.
Interest expense	24.9	-	27.1	52.
Other income (expense), net	5.1	-	(2.6)	2.
Funds from operations	$ 167.2	1.6	(42.8)	126.

Depreciation and amortization	(65.
Income from continuing operations before minority interest and gain on sale of assets and other provisions, net	60.
Minority interest and gain on sale of assets and other provisions, net	2.
Discontinued operations, net of applicable income tax expense	0.
Gain on sale of discontinued operations, net of applicable income tax expense	31.
Net income	$ 95.

(6) Supplemental Cash Flow Information

In April 2001, we exercised an option under a loan agreement to acquire two office buildings and related land located in the San Francisco Bay area. For financial reporting purposes, we had classified the loan as an investment in an unconsolidated entity and accounted for it using the equity method. The investment, which had a carrying value of approximately $50.3 million at the date the option was exercised, was reclassified to rental property in connection with this transaction.

On June 29, 2001, we contributed land subject to a note payable of approximately $26.0 million to a joint venture in exchange for a 30% ownership interest. Our investment in the joint venture amounted to $7.3 million, the net book value of the asset and liability contributed.

In the second quarter of 2001, 400,000 shares of our Series A Cumulative Convertible Redeemable Preferred Stock were converted to shares of common stock.

Independent Accountants' Review Report

The Board of Directors and Stockholders
CarrAmerica Realty Corporation:

We have reviewed the condensed consolidated balance sheet of CarrAmerica Realty Corporation and subsidiaries as of June 30, 2001, the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2001 and 2000, and the related condensed consolidated statements of cash flows for the six-month periods ended June 30, 2001 and 2000. These condensed consolidated financial statements are the responsibility of the Company's management.

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 of America, 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, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of CarrAmerica Realty Corporation and subsidiaries as of December 31, 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 2, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/KPMG LLP

Washington, D.C.
July 26, 2001

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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 June 30, 2001 and December 31, 2000 and for the three months and six months ended June 30, 2001 and 2000 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.

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. Executive office suites operations are presented as discontinued operations in our financial statements.

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 generally accepted accounting principles (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.

RESULTS OF OPERATIONS

Real Estate Property Operations

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

	For the three months ended June 30,		Variance	For the six months e June 30,	
(in millions)	2001	2000	2001 vs. 2000	2001	
Operating revenue	$ 123.8	$ 139.1	$ (15.3)	$ 247.6	$ 2
Segment expense	38.4	44.5	(6.1)	80.1	
Interest expense	11.3	12.1	(0.8)	22.4	
Other income, net	5.4	3.9	1.5	12.4	

Real estate operating revenues decreased $15.3 million (11.0%) for the three months ended June 30, 2001 as compared to 2000. This decrease resulted from the dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C. In August 2000, we contributed properties to Carr Office Park, L.L.C., a joint venture in which we have a 35% interest. The decrease in revenues was partially offset by development properties being placed in service and "same store" rental growth. Same store rental revenues grew by approximately 4.0% (approximately $4.2 million). This increase was due primarily to an increase in average rental rates in properties in the Northern and Southern California markets.

Real estate operating revenues decreased $28.1 million (10.2%) for the six months ended June 30, 2001 as compared to 2000. This decrease was attributable to the factors mentioned above. Same store rental revenues grew by approximately 4.0% (approximately $8.2 million). This increase was due primarily to an increase in average rental rates in properties in the Northern California market.

Real estate operating expenses decreased $6.1 million (13.7%) for the second quarter of 2001 as compared to the same period in 2000. This decrease was due primarily to the dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C., partially offset by an increase in same store operating expenses of approximately $1.5 million (4.7%).

Real estate operating expenses decreased $8.6 million (9.7%) for the first six months 2001 as compared to the same period in 2000. This decrease was also due primarily to the dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C., partially offset by an increase in same store operating expenses of approximately $4.4 million (7.1%). The increase in expenses includes an increase in the provision for uncollectible accounts of approximately $3.2 million due to tenant bankruptcies and collection issues.

Real estate interest expense decreased $0.8 million (6.6%) in the second quarter of 2001 as compared to the same period in 2000. This decrease was principally the result of the retirement of mortgages following certain property dispositions.

Real estate interest expense decreased $2.5 million (10.0%) for the first half of 2001 as compared to the first half of 2000. This decrease was principally the result of the retirement of mortgages following certain property dispositions.

Real estate other income increased $1.5 million (38.5%) for the three months ended June 30, 2001 as compared to the three months ended June 30, 2000. This increase was primarily the result of equity in earnings of unconsolidated entities (excluding depreciation), primarily from the investment in Carr Office Park, L.L.C. For the six months ended June 30, 2001, real estate other income increased $7.3 million (143.1%) for the same reason.

During the first half of 2001, demand for office space in each of our markets, except for downtown Washington, D.C., declined in response to an overall decline in these markets. Our results of operations for the second quarter of 2001 were not adversely impacted by the increased market vacancy levels, for several reasons. First, notwithstanding increased vacancies in our markets generally, the occupancy in our portfolio of properties remained strong, as it increased to 97.2% at June 30, 2001, as compared to 97.0% at March 31, 2001. Second, rental rates on space that was re-leased in the second quarter increased an average of 42.2% over the rates that were in effect under the expiring leases.

We expect vacancy rates to continue to increase in most of our markets through the balance of the year due to expected weak demand. As a result, we expect occupancy in our portfolio to decline 1% to 2% between June 30, 2001 and the end of 2001. Should demand weaken beyond 2001 or worsen, occupancy levels may decline further. We do not expect the softened market conditions to have a material adverse affect on our operating results for the remainder of 2001. We continue to expect that space that is re-leased should be re-leased at rental rates in excess of the rates in effect under the expiring leases.

Development Operations

Operating results of development operations are summarized as follows:

	For the three months ended	Variance	For the six months e

(in millions)	June 30, 2001	June 30, 2000	2001 vs. 2000	June 30, 2001	June 30, 200
Operating revenue	$ 4.6	$ 2.1	$ 2.5	$ 10.8	$
Segment expense	1.1	1.4	(0.3)	2.6	
Interest expense	-	-	-	-	
Other income, net	0.1	-	0.1	0.3	

Revenue from our development operations increased $2.5 million (119.0%) for the second quarter of 2001 compared to the second quarter of 2000. This increase resulted primarily from our expanded operations in this area, including services provided to Carr Office Park, L.L.C. and other unconsolidated joint ventures in connection with their development of new properties. Revenues from development operations increased $6.8 million (170.0%) for the first six months of 2001 compared to the same period a year ago for the same reasons.

Other Operations

Operating results of other operations are summarized as follows:

(in millions)	For the three months ended June 30, 2001	2000	Variance 2001 vs. 2000	For the six months June 30, 2001	20
Operating revenue	$ 5.1	$ 3.2	$ 1.9	$ 9.0	$
Segment expense	10.8	10.6	0.2	23.7	1
Interest expense	9.8	13.0	(3.2)	19.6	2
Other (expense) income, net	(0.4)	(2.7)	2.3	(1.4)	(

Revenues from our other operations increased $1.9 million (59.4%) in the second quarter of 2001 as compared to the second quarter of 2000. The increase in 2001 resulted primarily from expansion of our operations in the area of managing rental properties for affiliates and others. In particular, in August 2000, we began providing leasing and management services to Carr Office Park, L.L.C. Revenues from other operations for the six months ended June 30, 2001 increased $2.7 million (42.9%) from the same period in 2000 for the same reason

Expenses of our other operations increased $0.2 million (1.9%) in the three months ended June 30, 2001 compared to the three months ended June 30, 2000. The increase was due primarily to our expanded property management operations discussed above and professional fees associated with internal process improvement efforts and other initiatives. For the six months ended June 30, 2001, expenses of our other operations increased $4.3 million (22.2%) from the same period in 2001 for the same reasons.

Interest expense decreased $3.2 million (24.6%) during the second quarter of 2001 compared to the second quarter of 2000 due primarily to lower debt levels partially offset by a decrease in capitalized interest due to a lower level of development activity. Interest expense decreased $7.5 million (27.7%) for the first six months of 2001 compared to the first six months of 2000 for the same reasons.

During the second quarter of 2001, one of our strategic partners, Broadband Office, Inc. filed for Chapter 11 bankruptcy protection. The bankruptcy of Broadband Office, Inc. had no material impact on our operating results nor our strategic plan. Broadband Office, Inc. had provided some telecommunications related services to us. We arranged with other providers for the same services with no significant impact on our business.

Depreciation and Amortization

Depreciation and amortization decreased $2.6 million (7.6%) in the second quarter of 2001 compared to the second quarter of 2000. This decrease was due primarily to dispositions of interests in properties, including the properties contributed to Carr Office Park, L.L.C., partially offset by development properties being placed in service. For the six months ended June 30, 2001, depreciation and amortization decreased $1.4 million (2.1%) from the same period a year ago due to the reasons previously stated.

Gain 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 June 30, 2001, we disposed of a parcel of land held for development. We recognized a net loss of $22,000 on this transaction. During the three months ended June 30, 2000, we disposed of three operating properties. We recognized a gain of $2.4 million, net of taxes of $0.9 million.

During the six months ended June 30, 2001, we disposed of seven operating properties, one property under development and two parcels of land held for development. We recognized a gain of $2.0 million, net of taxes of $2.0 million. We also recognized an impairment loss of $0.9 million on a parcel of land held for development during the six months ended June 30, 2001. During the six months ended June 30, 2000, we disposed of five operating properties. We recognized a gain of $7.7 million, net of taxes of $1.3 million.

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Management's Discussion and Analysis

Consolidated Cash Flows

Consolidated cash flow information is summarized as follows:

	For the six months ended	Variance

(in millions)	June 30, 2001	June 30, 2000	2001 vs. 2000
Cash provided by operating activities	$ 93.8	$ 94.2	$ (0.4)
Cash provided by investing activities	154.8	334.2	(179.4)
Cash used by financing activities	(258.8)	(427.4)	168.6

Operations generated $93.8 million of net cash in 2001 compared to $94.2 million in 2000. 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, including in 2001, income taxes relating to sales of certain assets and discontinued operations in 2000.

Our investing activities provided net cash of $154.8 million in 2001 and $334.2 million in 2000. The decrease in net cash provided by investing activities in 2001 is due primarily to the fact that in 2000, we sold our investment in HQ Global, generating $377.3 million of cash. This decrease was partially offset by a reduction in development activities ($21.1 million), receipt of a distribution from Carr Office Park, L.L.C. from proceeds of third party financing of its properties ($77.9 million), an increase in proceeds from sales of properties ($37.6 million), and a release of restricted deposits ($32.5 million).

Our financing activities used net cash of $258.8 million in 2001 and $427.4 million in 2000. The decrease in net cash used by financing activities in 2001 is due primarily to lower repayments on unsecured credit facilities ($231.5 million) and increased proceeds from new mortgage debt ($26.6 million). The effect of the changes was partially offset by increased stock repurchase activities ($90.8 million) and increased mortgage repayments ($7.7 million).

LIQUIDITY AND CAPITAL RESOURCES

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 June 30, 2001, Duff & Phelps Credit Rating Co. 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 its Baa2 rating to our prospective senior unsecured debt offerings and its Ba2 rating to our prospective cumulative preferred stock offerings.

Our total debt at June 30, 2001 was approximately $1.1 billion, of which $90.0 million (8.2%) bore a LIBOR-based floating interest rate. The interest rate on borrowings on our unsecured credit facility at June 30, 2001 was 4.54%. The interest rate of the unsecured credit facility is 70 basis points over 30-day LIBOR. Our fixed rate mortgage payable debt bore an effective weighted average interest rate of 8.09% at June 30, 2001. The weighted average term of this debt is 6.1 years. At June 30, 2001, our debt represented 31.0% of our total market capitalization of $3.6 billion.

In June 2001, we closed on a new three year $500 million unsecured credit facility 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 LIBOR. The new credit facility has substantially similar terms as our previous facility. As of June 30, 2001, $90.0 million was drawn on the credit facility, $1.8 million in letters of credit were outstanding and we had $408.2 million available for borrowing.

Rental revenue and real estate service revenue have been our principal sources of cash to pay our operating expenses, debt service and capital expenditures, excluding non-recurring capital expenditures. We believe that our current sources of revenue will continue to provide the necessary funds for our operating expenses and debt service.

We and our affiliates also require capital to invest in our existing portfolio of operating assets for capital projects. These capital projects include such things as large-scale renovations, routine capital expenditures, deferred maintenance on properties we have recently acquired and tenant related matters, including tenant improvements, allowances and leasing commissions. We believe that operations along with borrowings under our credit facility will continue to provide the necessary funds for these capital projects.

We will require a substantial amount of capital for development projects currently underway and in the future. As of June 30, 2001, we had approximately 0.4 million square feet of office space in three development projects in progress. Our total expected investment on these projects is $54.7 million. Through June 30, 2001, we had invested $32.5 million or 59.4% of the total expected investment for these projects. As of June 30, 2001, we also had 0.9 million square feet of office space under construction in seven projects in which we own minority interests. These projects are expected to cost $198.1 million, of which our total investment is expected to be approximately $60.7 million. Through June 30, 2001, approximately $99.1 million or 50.0% of total project costs had been expended on these projects. We have financed our investment in projects under construction at June 30, 2001 primarily from the proceeds of asset dispositions and borrowings under our credit facility. We expect that these sources and project-specific financing of selected assets will provide additional funds required to complete the development and to finance the costs of additional projects.

Prior to the second quarter of 1998, we primarily met our capital requirements by accessing the public debt and equity markets. As a general matter, conditions in the public equity markets for most REITs have not been favorable since that time. In response to these unfavorable conditions, we had curtailed our acquisition program and satisfied our capital requirements through the disposition of selected assets, the refinancing of selected assets, prudent use of joint ventures to reduce our investment requirements and use of our credit facility.

In the future, if the debt and equity markets are not favorable, if we cannot raise the expected funds from the sale of properties and/or if we are unable to obtain capital from other sources, we believe that we would continue to have sufficient funds to pay our operating and debt service expenses, our regular quarterly dividends, to make necessary routine capital improvements with respect to our existing portfolio of operating assets, and to continue to fund all of our current development projects. However, our ability to expand our development activities or fund additional development in our joint ventures could be adversely affected if it is necessary for us to access either the public equity or debt markets at a time when those markets may not be the best source of capital for us.

Our Board of Directors has authorized us to spend up to $325 million to repurchase our common shares, preferred shares, and debt securities. Since the start of this program in mid-2000 through June 30, 2001, we have acquired approximately 7.2 million common shares for $209.4 million, representing an average price of $28.94 per share.

We pay dividends quarterly. Funds which we accumulate for distribution are invested primarily in short-term investments collateralized by securities if the United States Government or one of its agencies.

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 generally accepted accounting principles (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:

(In thousands)	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000

Net income from continuing operations before minority interest	$ 35,636	$ 32,178	$
Adjustments to derive funds from operations:			
Add depreciation and amortization	31,751	34,381	
Deduct:			
Minority interests' (non Unitholders) share of depreciation, amortization and net income	(219)	(218)	
Loss (gain) on sale of assets and other provisions, net	22	(2,387)	
Funds from operations before allocations to the minority Unitholders	67,190	63,954	
Less: Funds from operations allocable to the minority Unitholders	(4,507)	(3,794)	
Funds from operations allocable to CarrAmerica Realty Corporation	62,683	60,160	
Less: Preferred stock dividends	(8,745)	(8,745)	
Funds from operations attributable to common shareholders	$ 53,938	$ 51,415	$

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 or achievements to be materially different from any future results, performance or achievements 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
  - Availability and creditworthiness of tenants
  - Level of lease rents
  - Availability of financing for both tenants and us;
- Adverse changes in the real estate markets, including, among other things:
  - Competition with other companies
  - Risks of real estate acquisition and development
  - Failure of pending developments to be completed on time and on budget;
- Actions, strategies and performance of affiliates that we may not control;
- Governmental actions and initiatives; and
- Environmental/safety requirements.

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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, 2000 are summarized in the Liquidity and Capital Resources section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

Part II

OTHER INFORMATION

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

The 2001 annual meeting of stockholders was held on May 3, 2001. We solicited proxies for the meeting pursuant to Regulation 14 under the Securities Exchange Act of 1934, as amended; there was no solicitation in opposition to our management's nominees as listed in the proxy statement and all nominees were elected.

Proposal One: Election of Directors

(a) 58,424,019 votes were cast for the election of Thomas A. Carr as a Director; 3,136,369 votes were withheld.

(b) 58,423,669 votes were cast for the election of Caroline S. McBride as a Director; 3,136,719 votes were withheld.

(c) 58,515,314 votes were cast for the election of Wesley S. Williams, Jr. as a Director; 3,045,074 votes were withheld.

Proposal Two: To instate the election of directors annually.

FOR	AGAINST	ABSTAIN
21,129,885	34,078,373	92,606

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Revolving Credit Agreement dated June 28, 2001 among CarrAmerica Realty Corporation, as Borrower, The Chase Manhattan Bank, as Bank and as Administrative Agent for the Banks, J.P. Morgan Securities Inc., as Lead Arranger, Exclusive Advisor and Sole Bookrunner, Bank of America, N.A. as Syndication Agent, PNC Bank, National Association, as Documentation Agent, Commerzbank AG, New York Branch, as Documentation Agent, First Union National Bank, as Documentation Agent, and the Banks Listed in the Revolving Credit Agreement.

10.2 Guaranty of Payment dated June 28, 2001 by CarrAmerica Realty L.P. in favor of Chase Manhattan Bank.

15 Letter from KPMG LLP, dated August 14, 2001.

(b) Reports on Form 8-K

Current Report on Form 8-K filed on May 4, 2001 regarding certain supplemental data included in the Company's press release dated May 4, 2001.

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/Richard F. Katchuk

Richard F. Katchuk, Chief Financial Officer

/s/ Stephen E. Riffee

Stephen E. Riffee, Senior Vice President, Controller and Treasurer
(Principal Accounting Officer)

Date: August 14, 2001