AstroNova, Inc.
Form 10-K
April 10, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission file number 0-13200

AstroNova, Inc.

(Exact name of registrant as specified in its charter)

Rhode Island	**05-0318215**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
600 East Greenwich Avenue,	
West Warwick, Rhode Island	**02893**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (401) 828-4000

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

Title of each class	Name of each exchange on which registered
Common Stock, $.05 Par Value	**NASDAQ Global Market**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The aggregate market value of the registrant s voting common equity held by non-affiliates at July 28, 2017 was approximately $94,686,969 based on the closing price on the Nasdaq Global Market on that date.

As of March 28, 2018 there were 6,799,166 shares of Common Stock (par value $0.05 per share) of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s definitive Proxy Statement for the 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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FORM 10-K ANNUAL REPORT

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ASTRONOVA, INC.

Forward-Looking Statements

Information included in this Annual Report on Form 10-K may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, but rather reflect our current expectations concerning future events and results. We generally use the words believes, expects, intends, plans, anticipates, likely, continues, may similar expressions to identify forward-looking statements. Such forward-looking statements, including those concerning our expectations, involve risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. These risks, uncertainties and factors include, but are not limited to, those factors set forth in this Annual Report on Form 10-K under Item 1A. Risk Factors. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The reader is cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Annual Report on Form 10-K.

PART I

Item 1. ***Business***

General

Unless otherwise indicated, references to AstroNova, the Company, we, our, and us in this Annual Report on Form 10-K refer to AstroNova Inc. and its consolidated subsidiaries.

AstroNova designs, develops, manufactures and distributes a broad range of specialty printers and data acquisition and analysis systems, including both hardware and software, which incorporate advanced technologies in order to acquire, store, analyze, and present data in multiple formats. Target markets for hardware and software products of the Company include aerospace, apparel, automotive, avionics, chemicals, computer peripherals, communications, distribution, food and beverage, general manufacturing, packaging and transportation.

The Company s products are distributed through its own sales force and authorized dealers in the United States. We sell to customers outside of the United States primarily through our branch offices in Canada, Europe, and Asia as well as through independent dealers and representatives. In fiscal 2018, 38% of the Company s revenue was from customers located outside the United States.

We operate the business through two operating segments, Product Identification (PI) and Test & Measurement (T&M). Financial information by business segment and geographic area appears in Note 15 to our audited consolidated financial statements included elsewhere in this report.

On September 28, 2017, AstroNova, Inc. entered into an Asset Purchase and License Agreement with Honeywell International, Inc. pursuant to which it acquired an exclusive perpetual world-wide license to manufacture Honeywell s narrow-format flight deck printers for the Boeing 737 and Airbus 320 aircraft. Revenue related to that transaction has been included as part of the aerospace printer product line of the T&M segment since the acquisition date. On February 1, 2017, AstroNova completed its acquisition of TrojanLabel ApS (TrojanLabel) a European manufacturer of digital color label presses and specialty printing systems for a broad range of end user markets. TrojanLabel is reported as part of our PI segment beginning with the first quarter of fiscal year 2018. Additionally, on June 19, 2015, we completed the acquisition of the aerospace printer product line from Rugged Information Technology Equipment Corporation (RITEC). Our aerospace printer product line is part of the T&M product group and is reported as part of the T&M segment. We began shipment of the RITEC products in the third quarter of fiscal 2016. Refer to Note 2, Acquisitions, in our audited consolidated financial statements included elsewhere in this report.

The following description of our business should be read in conjunction with Management s Discussion and Analysis of Financial Conditions and Results of Operations on pages 19 through 29 of this Annual Report on Form 10-K.

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Description of Business

Product Overview

AstroNova leverages its expertise in data visualization technologies to design, manufacture and market specialty printing systems, test and measurement systems and related services for select growing markets on a global basis. The business consists of two segments, Product Identification (PI), which includes specialty printing systems sold under the brand name QuickLabel® and TrojanLabel®; and Test & Measurement (T&M), which includes test and measurement systems sold under the AstroNova® brand name. Refer to Note 15, Nature of Operations, Segment Reporting and Geographical Information, in our audited consolidated financial statements elsewhere in this report for financial information regarding the Company s segments.

Products sold under the QuickLabel and TrojanLabel brands are used in industrial and commercial product packaging, branding and labeling applications to digitally print custom labels and corresponding visual content in house. Products sold under the AstroNova brand enable our customers to acquire and record visual and electronic signal data from local and networked data streams and sensors. The recorded data is processed and analyzed and then stored and presented in various visual output formats. In the aerospace market, the Company has a long history of using its data visualization technologies to provide high-resolution light-weight flight deck and cabin printers.

Product Identification

QuickLabel brand products include tabletop and work cell-ready digital color label printers and specialty OEM printing systems as well as a full line of supplies including labels, tags, inks, toner and thermal transfer ribbons. QuickLabel products are primarily sold to manufacturers, processors, and retailers who label products on a short-run basis. QuickLabel customers benefit from the efficiency, flexibility and cost-savings of digitally printing their own labels in house and on demand. Industry segments that commonly benefit from short-run digital label printing include chemicals, cosmetics, food and beverage, medical products, and pharmaceuticals, among many others.

Current QuickLabel models include the Kiaro! family of high-speed inkjet color label printers, the QL-111 industrial color label printer and the QL-800 wide format color label printer, as well as a family of high-end monochrome printers.

TrojanLabel brand products include tabletop and digital color label presses and specialty printing systems, as well as overprinting solutions. This highly innovative line of presses offers customers the ability to execute smaller runs with an affordable digital solution. It is commonly sold to larger brand owners, label converters, commercial printers and packaging manufacturers.

Current TrojanLabel models include the T2-C, an inkjet table top label press; the T2, the full size parent of the T2-C, allowing larger volumes and with a full-size PC display for comfortable use and fast turnaround; the T4, a complete label finisher which enables print, die cut and lamination all in one machine; and the T3, a highly customizable all-in-one label production and finishing press offered in multiple OEM integration options.

The Product Identification segment also offers a full line of supplies including labels, tags, inks, toner and thermal transfer ribbons. In addition, the Product Identification segment sells various specialized software used to operate the printers and presses, design labels and manage printing on an automated basis and provides worldwide training and support.

T&M

Products sold under the AstroNova T&M brand acquire and record visual data from local and networked data streams and sensors. The recorded data is processed and analyzed and then stored and presented in various visual output formats. The Company supplies a range of products and services that include hardware, software and supplies to customers in a variety of industries.

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Our T&M products include the Daxus® distributed data acquisition system; TMX® high-speed data acquisition system; DDX100 SmartCorder® portable data acquisition system; EV-500 digital strip chart recording system; ToughWriter®, Miltope-brand and RITEC-brand airborne printers; the PTA-45B cockpit printer that is subject to the Asset Purchase and Licenses Agreement with Honeywell and ToughSwitch® ruggedized Ethernet switches.

AstroNova airborne printers are used in the flight deck and in the cabin of military, commercial and business aircraft to print hard copies of data required for the safe and efficient operation of aircraft, including navigation maps, arrival and departure procedures, flight itineraries, weather maps, performance data, passenger data, and various air traffic control data. ToughSwitch Ethernet switches are used in military aircraft and military vehicles to connect multiple computers or Ethernet devices. The airborne printers and Ethernet switches are ruggedized to comply with rigorous military and commercial flightworthiness standards for operation under extreme environmental conditions. The Company is currently furnishing ToughWriter airborne printers for numerous aircraft made by Airbus, Boeing, Embraer, Bombardier, Lockheed, Gulfstream and others.

The Company s family of portable data acquisition systems is used in research and development (R&D), field testing, production and maintenance applications in a wide range of industries including aerospace and defense, energy, industrial and transportation. The TMX data acquisition system is an all-in-one solution for applications in which the ability to monitor high channel counts and view a wide variety of input signals, including time-stamped and synchronized video capture data and audio notation is essential. The DDX100 SmartCorder is an ultra-portable all-in-one solution for facilities maintenance and field testing. The Daxus is a distributed data acquisition platform that can be connected to the DDX100 SmartCorder to increase channel count or networked as part of a distributed measurement system spanning large distances.

Technology

Our core technologies are data visualization technologies that relate to (1) acquiring data, (2) conditioning the data, (3) displaying the data on hard copy, monitor or electronic storage media, and (4) analyzing the data.

Patents and Copyrights

We hold a number of product patents in the United States and in foreign countries. We rely on a combination of copyright, patent, trademark and trade secret laws in the United States and other jurisdictions to protect our technology and brand name. While we consider our intellectual property to be important to the operation of our business, we do not believe that any existing patent, license, trademark or other intellectual property right is of such importance that its loss or termination would have a material adverse effect on the Company s business taken as a whole.

Manufacturing and Supplies

We manufacture many of the products that we design and sell. Raw materials and supplies are typically available from a wide variety of sources. We manufacture many of the sub-assemblies and parts in-house including printed circuit board assemblies, harnesses, machined parts and general final assembly. Many not manufactured in-house parts are standard electronic items available from multiple sources. Other parts are designed by us and manufactured by outside vendors. We purchase certain components, assembled products and supplies used in the manufacture of our products from a single source or limited supplier source, but these components, products and supplies could be sourced elsewhere with appropriate changes in the design of our products.

Product Development

We maintain an active program of product research and development. During fiscal 2018, 2017 and 2016, we spent $7.5 million, $6.3 million and $6.9 million, respectively, on Company-sponsored product development. We are committed to continuous product development as essential to our organic growth and expect to continue our focus on research and development efforts in fiscal 2019 and beyond.

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Marketing and Competition

The Company competes worldwide in multiple markets. In the specialty printing field, we believe we are a market leader in tabletop digital color label printing technology and in aerospace printers. In the data acquisition area, we believe that we are one of the leaders in portable high speed data acquisition systems.

We retain a leadership position by virtue of proprietary technology, product reputation, delivery, technical assistance, and service to customers. The number of competitors varies by product line. Our management believes that we have a market leadership position in many of the markets we serve. Key competitive factors vary among our product lines, but include technology, quality, service and support, distribution network, and breadth of product and service offerings.

Our products are sold by direct field salespersons as well as independent dealers and representatives. In the United States, the Company has factory-trained direct field salespeople located in major cities from coast to coast specializing in either Product Identification or AstroNova T&M products. We also have direct field sales or service centers in Canada, China, Denmark, France, Germany, India, Malaysia, Mexico, Singapore, Spain and the United Kingdom staffed by our own employees and dedicated third party contractors. Additionally, we utilize over 200 independent dealers and representatives selling and marketing our products in over 75 countries.

No single customer accounted for 10% or more of our net revenue in any of the last three fiscal years.

International Sales

In fiscal 2018, 2017 and 2016, revenue from customers in various geographic areas outside the United States, primarily in Canada and Western Europe, amounted to $43.6 million, $28.6 million and $26.3 million, respectively. Refer to Note 15, Nature of Operations, Segment Reporting and Geographical Information, in our audited consolidated financial statements elsewhere in this report for further financial information by geographic areas.

Order Backlog

Our backlog varies regularly. It consists of a blend of orders for end-user customers as well as original equipment manufacturer customers. Manufacturing production is designed to meet forecasted demands and customer requirements. Accordingly, the amount of order backlog may not indicate future sales trends. Backlog at January 31, 2018, 2017 and 2016 was $21.4 million, $17.6 million and $18.2 million, respectively.

Employees

As of January 31, 2018, we employed 352 people. We are generally able to satisfy our employment requirements. No employees are represented by a union. We believe that employee relations are good.

Other Information

The Company s business is not seasonal in nature. However, our revenue is impacted by the size of certain individual transactions, which can cause fluctuations in revenue from quarter to quarter.

Available Information

We make available on our website (www.astronovainc.com) the Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and, if applicable, amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (SEC). These filings are also accessible on the SEC s website at http://www.sec.gov.

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Item 1A. ***Risk Factors***

The following risk factors should be carefully considered in evaluating AstroNova, because such factors may have a significant impact on our business, operating results, liquidity and financial condition. As a result of the risk factors set forth below, actual results could differ materially from those projected in any forward-looking statements. Additional risks and uncertainties not presently known to us, or that we currently consider to be immaterial, may also impact our business operations.

AstroNova s operating results and financial condition could be harmed if the markets into which we sell our products decline or do not grow as anticipated.

Any decline in our customers markets or in their general economic conditions would likely result in a reduction in demand for our products. For example, although we have continued to experience measured progress, as sales have increased steadily from prior years, we are still affected by the continued global economic uncertainty. Some of our customers may be reluctant to make capital equipment purchases or may defer certain of these purchases to future quarters. Some of our customers may also limit consumable product purchases to quantities necessary to satisfy immediate needs with no provisions to stock supplies for future use. Also, if our customers markets decline, we may not be able to collect on outstanding amounts due to us. Such declines could harm our results of operations, financial position and cash flows and could limit our ability to continue to remain profitable.

AstroNova s future revenue growth depends on our ability to develop and introduce new products and services on a timely basis and achieve market acceptance of these new products and services.

The markets for our products are characterized by rapidly changing technologies and accelerating product introduction cycles. Our future success depends largely upon our ability to address the rapidly changing needs of our customers by developing and supplying high-quality, cost-effective products, product enhancements and services on a timely basis and by keeping pace with technological developments and emerging industry standards. The success of our new products will also depend on our ability to differentiate our offerings from our competitors offerings, price our products competitively, anticipate our competitors development of new products, and maintain high levels of product quality and reliability. AstroNova spends a significant amount of time and effort related to the development of our airborne and color printer products as well as our Test and Measurement data recorder products. Failure to further develop any of our new products and their related markets as anticipated could adversely affect our future revenue growth and operating results.

As we introduce new or enhanced products, we must also successfully manage the transition from older products to minimize disruption in customers ordering patterns, avoid excessive levels of older product inventories and provide sufficient supplies of new products to meet customer demands. The introduction of new or enhanced products may shorten the life cycle of our existing products, or replace sales of some of our current products, thereby offsetting the benefit of even a successful product introduction and may cause customers to defer purchasing existing products in anticipation of the new products. Additionally, when we introduce new or enhanced products, we face numerous risks relating to product transitions, including the inability to accurately forecast demand, manage excess and obsolete inventories, address new or higher product cost structures, and manage different sales and support requirements due to the type or complexity of the new products. Any customer uncertainty regarding the timeline for rolling out new products or AstroNova s plans for future support of existing products may cause customers to delay purchase decisions or purchase competing products which would adversely affect our business and operating results.

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AstroNova is dependent upon contract manufacturers for some of our products. If these manufacturers do not meet our requirements, either in volume or quality, then we could be materially harmed.

We subcontract the manufacturing and assembly of certain of our products to independent third parties at facilities located in various countries. Relying on subcontractors involves a number of significant risks, including:

- Limited control over the manufacturing process;
- Potential absence of adequate production capacity;
- Potential delays in production lead times;
- Unavailability of certain process technologies; and
- Reduced control over delivery schedules, manufacturing yields, quality and costs.

If one of our significant subcontractors becomes unable or unwilling to continue to manufacture these products in required volumes or fails to meet our quality standards, we will have to identify qualified alternate subcontractors or we will have to take over the manufacturing ourselves. Additional qualified subcontractors may not be available, or may not be available on a timely or cost competitive basis. Any interruption in the supply or increase in the cost of the products manufactured by third party subcontractors or failure of a subcontractor to meet quality standards could have a material adverse effect on our business, operating results and financial condition.

For certain components, assembled products and supplies, AstroNova is dependent upon single or limited source suppliers. If these suppliers do not meet demand, either in volume or quality, then we could be materially harmed.

Although we use standard parts and components for our products where possible, we purchase certain components, assembled products and supplies used in the manufacture of our products from a single source or limited supplier sources. If the supply of a key component, assembled products or certain supplies were to be delayed or curtailed or, in the event a key manufacturing or sole supplier delays shipment of such components or assembled products, our ability to ship products in desired quantities and in a timely manner would be adversely affected. Our business, results of operations and financial position could also be adversely affected, depending on the time required to obtain sufficient quantities from the original source or, if possible, to identify and obtain sufficient quantities from an alternative source. Additionally, if any single or limited source supplier becomes unable or unwilling to continue to supply these components, assembled products or supplies in required volumes, we will have to identify and qualify acceptable replacements or redesign our products with different components. Alternative sources may not be available, or product redesign may not be feasible on a timely basis. Any interruption in the supply of or increase in the cost of the components, assembled products and supplies provided by single or limited source suppliers could have a material adverse effect on our business, operating results and financial condition.

AstroNova faces significant competition, and our failure to compete successfully could adversely affect our results of operations and financial condition.

We operate in an environment of significant competition, driven by rapid technological advances, evolving industry standards, frequent new product introductions and the demands of customers to become more efficient. Our competitors range from large international companies to relatively small firms. We compete on the basis of technology, performance, price, quality, reliability, brand, distribution and customer service and support. Our success in future performance is largely dependent upon our ability to compete successfully in the markets we currently serve and to expand into additional market segments. Additionally, current competitors or new market entrants may develop new products with features that could adversely affect the competitive position of our products. To remain competitive, we must develop new products, services and applications and periodically

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enhance our existing offerings. If we are unable to compete successfully, we could lose market share and important customers to our competitors which could materially adversely affect our business, results of operations and financial position.

AstroNova s profitability is dependent upon our ability to obtain adequate pricing for our products and to control our cost structure.

Our success depends on our ability to obtain adequate pricing for our products and services which provides a reasonable return to our shareholders. Depending on competitive market factors, future prices we obtain for our products and services may decline from previous levels. In addition, pricing actions to offset the effect of currency devaluations may not prove sufficient to offset further devaluations or may not hold in the face of customer resistance and/or competition. If we are unable to obtain adequate pricing for our products and services, our results of operations and financial position could be materially adversely affected.

We are continually reviewing our operations with a view towards reducing our cost structure, including but not limited to downsizing our employee base, improving process and system efficiencies and outsourcing some internal functions. From time to time we also engage in restructuring actions to reduce our cost structure. If we are unable to maintain process and systems changes resulting from cost reduction and prior restructuring actions, our results of operations and financial position could be materially adversely affected.

AstroNova has significant inventories on hand.

We maintain a significant amount of inventory. Although we have provided an allowance for slow-moving and obsolete inventory, any significant unanticipated changes in future product demand or market conditions, including obsolescence or the uncertainty in the global market, could have an impact on the value of inventory and adversely impact our business, operating results and financial condition.

Economic, political and other risks associated with international sales and operations could adversely affect AstroNova s results of operations and financial position.

Because we sell our products worldwide, our business is subject to risks associated with doing business internationally. Revenue from international operations, which includes both direct and indirect sales to customers outside the U.S., accounted for 38% of our total revenue for fiscal year 2018, and we anticipate that international sales will continue to account for a significant portion of our revenue. In addition, we have employees, suppliers, job functions and facilities located outside the U.S. Accordingly, our business, operating results and financial condition could be harmed by a variety of factors, including:

Interruption to transportation flows for delivery of parts to us and finished goods to our customers;

Customer and vendor financial stability;

Fluctuations in foreign currency exchange rates;

Changes in a specific country s or region s environment including political, economic, monetary, regulatory or other conditions;

Trade protection measures and import or export licensing requirements;

Negative consequences from changes in tax laws;

Difficulty in managing and overseeing operations that are distant and remote from corporate headquarters;

Difficulty in obtaining and maintaining adequate staffing;

Differing labor regulations;

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Differing protection of intellectual property;

Unexpected changes in regulatory requirements; and

Geopolitical turmoil, including terrorism and war.

AstroNova could incur liabilities as a result of installed product failures due to design or manufacturing defects.

AstroNova has incurred and could incur additional liabilities as a result of installed product failures due to design or manufacturing defects. Our products may have defects despite testing internally or by current or potential customers. These defects could result in among other things, a delay in recognition of sales, loss of sales, loss of market share, failure to achieve market acceptance or substantial damage to our reputation. We could be subject to material claims by customers, and may incur substantial expenses to correct any product defects.

In addition, through our acquisitions, we have assumed, and may in the future assume, liabilities related to products previously developed by an acquired company that have not been subjected to the same level of product development, testing and quality control processes used by us, and may have known or undetected errors. Some types of errors may not be detected until the product is installed in a user environment. This may cause AstroNova to incur significant warranty and repair or re-engineering costs, may divert the attention of engineering personnel from product development efforts, and may cause significant customer relations problems such as reputational problems with customers resulting in increased costs and lower profitability.

Certain of our products require certifications by regulators or standards organizations, and our failure to obtain or maintain such certifications could negatively impact our business.

In certain industries and for certain products, such as those used in aircraft, we must obtain certifications for our products by regulators or standards organizations. If we fail to obtain required certifications for our products, or if we fail to maintain such certifications on our products after they have been certified, our business, financial condition, results of operations and cash flows could be materially and adversely affected.

Changes in our tax rates or exposure to additional income tax liabilities or assessments could affect our profitability. In addition, audits by tax authorities could result in additional tax payments for prior periods.

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA or Tax Act) was signed into law. The Tax Act significantly revises the U.S. federal corporate income tax law and includes a broad range of tax reform measures affecting business including among other things, the reduction of the corporate income tax rate from 35% to 21%, the loss of certain business deductions, the acceleration of first-year expensing of certain capital expenditures and a one-time tax imposed on unremitted cumulative non-U.S. earnings of foreign subsidiaries. The U.S. Treasury Department and IRS have not yet issued regulations with respect to the Tax Act.

Changes to tax laws and regulations or changes to the interpretation thereof (including regulations and interpretations pertaining to the Tax Act), the ambiguity of tax laws and regulations, the subjectivity of factual interpretations, uncertainties regarding the geographic mix of earnings in any particular period, and other factors, could have a material impact on our estimates of the effective tax rate and deferred tax assets and liabilities. For example, our estimate of the net one-time charge we have incurred related to the Tax Act could differ materially from our actual liability, due to, among other things, further refinement of our calculations, changes in interpretations and assumptions that we have made, additional guidance that may be issued by the U.S. Treasury Department and IRS, and actions we may take as a result of the Tax Act. The impact of the factors referenced in the first sentence of this paragraph may be substantially different from period-to-period.

In addition, the amount of income taxes we pay is subject to ongoing audits by U.S. federal, state and local tax authorities. If audits result in payments or assessments different from our reserves, our future results may include

unfavorable adjustments to our tax liabilities and our financial statements could be adversely affected. Any further significant changes to the tax system in the United States or in other jurisdictions (including changes in the taxation of international income as further described below) could adversely affect our financial statements.

The agreements governing our indebtedness subject us to various restrictions that may limit our ability to pursue business opportunities.

The agreement governing our current credit facility contains, and any future debt agreements may include, a number of restrictive covenants that impose significant operating and financial restrictions on us and our subsidiaries. Such restrictive covenants may significantly limit our ability to:

- Incur future indebtedness;
- Place liens on assets;
- Pay dividends or distributions on our and our subsidiaries capital stock;
- Repurchase or acquire our capital stock;
- Conduct mergers or acquisitions;
- Sell assets; and/or
- Alter our or our subsidiaries capital structure, to make investments and loans, to change the nature of their business, and to prepay subordinated indebtedness.

Such agreements also require us to satisfy other requirements, including maintaining certain financial ratios and condition tests. Our ability to meet these requirements can be affected by events beyond our control, and we may be unable to meet them. To the extent we fail to meet any such requirements and are in default under our debt obligations, our financial condition may be materially adversely affected. These restrictions may limit our ability to engage in activities that could otherwise benefit us. To the extent that we are unable to engage in activities that support the growth, profitability and competitiveness of our business, our business, results of operations and financial condition could be adversely affected.

AstroNova may not realize the anticipated benefits of past or future acquisitions, divestitures and strategic partnerships, and integration of acquired companies or divestiture of businesses may negatively impact AstroNova s overall business.

We have made strategic investments in other companies, products and technologies, including our September 2017 Asset Purchase and License Agreement with Honeywell International, Inc.; our February 2017 acquisition of the digital color label press and specialty printing systems business of the Danish company, TrojanLabel and the June 2015 acquisition of the aerospace printer business from RITEC. We may continue to identify and pursue acquisitions of complementary companies and strategic assets, such as customer bases, products and technology. However, there can be no assurance that we will be able to identify suitable acquisition opportunities. In any acquisition that we complete we cannot be certain that:

- We will successfully integrate the operations of the acquired business with our own;

All the benefits expected from such integration will be realized;

Management s attention will not be diverted or divided, to the detriment of current operations;

Amortization of acquired intangible assets or possible impairment of acquired intangibles will not have a negative effect on operating results or other aspects of our business;

Delays or unexpected costs related to the acquisition will not have a detrimental effect on our business, operating results and financial condition;

Customer dissatisfaction with, or performance problems at, an acquired company will not have an adverse effect on our reputation; and

Respective operations, management and personnel will be compatible.

In certain instances as permitted by applicable law and NASDAQ rules, acquisitions may be consummated without seeking and obtaining shareholder approval, in which case shareholders will not have an opportunity to consider and vote upon the merits of such an acquisition. Although we will endeavor to evaluate the risks inherent in a particular acquisition, there can be no assurance that we will properly ascertain or assess such risks.

We may also divest certain businesses from time to time. Divestitures will likely involve risks, such as difficulty splitting up businesses, distracting employees, potential loss of revenue and negatively impacting margins, and potentially disrupting customer relationships. A successful divestiture depends on various factors, including our ability to:

- Effectively transfer assets, liabilities, contracts, facilities and employees to the purchaser;
- Identify and separate the intellectual property to be divested from the intellectual property that we wish to keep; and
- Reduce fixed costs previously associated with the divested assets or business.

All of these efforts require varying levels of management resources, which may divert our attention from other business operations. Further, if market conditions or other factors lead us to change our strategic direction, we may not realize the expected value from such transactions.

If we are not able to successfully integrate or divest businesses, products, technologies or personnel that we acquire or divest, or able to realize expected benefits of our acquisitions, divestitures or strategic partnerships, AstroNova s business, results of operations and financial condition could be adversely affected.

Adverse conditions in the global banking industry and credit markets may adversely impact the value of our investments or impair our liquidity.

At the end of fiscal 2018, we had approximately $11.7 million of cash, cash equivalents and investments held for sale. Our cash and cash equivalents are held in a mix of money market funds, bank demand deposit accounts and foreign bank accounts. Disruptions in the financial markets may, in some cases, result in an inability to access assets such as money market funds that traditionally have been viewed as highly liquid. Any failure of our counterparty financial institutions or funds in which we have invested may adversely impact our cash and cash equivalent positions and, in turn, our financial position. Our investment portfolio consists of state and municipal securities with various maturity dates, all of which have a credit rating of AA or above at the original purchase date; however, defaults by the issuers of any of these securities may result in an adverse impact on our portfolio.

AstroNova could experience disruptions in, or breach in security of our information technology system or fail to implement new systems or software successfully which could harm our business and adversely affect our results of operations.

We employ information technology systems to support our business. Any security breaches or other disruptions to our information technology infrastructure could interfere with operations, compromise our information and that of our customers and suppliers, and expose us to liability which could adversely impact our business and reputation. In the ordinary course of business, we rely on information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. While we continually work to safeguard our systems and mitigate potential risks, there is no assurance that such actions will be sufficient to prevent cyber attacks or security breaches and our information technology networks and infrastructure may still be vulnerable to damage, disruptions or shutdowns due to attack by hackers or breaches, employee error, power outages, computer viruses, telecommunication or utility failures, systems failures, natural disasters, catastrophic events or other unforeseen events. While we have experienced, and expect to continue to experience, these types of threats to our information technology networks and infrastructure, none of them to date has had a material impact. Any

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such events could result in legal claims or proceedings, liability or penalties under privacy laws, disruption in operations, and damage to the Company s brand and reputation, which could adversely affect our business, operating results and financial condition.

AstroNova depends on our key employees and other highly qualified personnel and our ability to attract and develop new, talented professionals. Our inability to attract and retain key employees could compromise our future success and our business could be harmed.

Our future success depends upon our ability to attract and retain professional and executive employees, including sales, operating, marketing, and financial management personnel. There is substantial competition for skilled personnel, and the failure to attract, develop, retain and motivate qualified personnel could negatively impact our business, financial condition, results of operations and future prospects. In order to retain or replace our key personnel, we may be required to increase compensation, which would decrease net income. Additionally, a number of key employees have special knowledge of customers, supplier relationships, business processes, manufacturing operations, and financial management issues and the loss of any of these employees could harm the company s ability to perform efficiently and effectively until their knowledge and skills are replaced, which might be difficult to do quickly, and as a result could have a material adverse effect on our business, financial condition, and results of operations.

AstroNova is subject to laws and regulations; failure to address or comply with these laws and regulations could harm our business and adversely affect our results of operations.

Our operations are subject to laws, rules, regulations, including environmental regulations, government policies and other requirements in each of the jurisdictions in which we conduct business. Changes in laws, rules, regulations, policies or requirements could result in the need to modify our products and could affect the demand for our products, which may have an adverse impact on our future operating results. In addition, we must comply with regulations restricting our ability to include lead and certain other substances in our products. If we do not comply with applicable laws, rules and regulations we could be subject to costs and liabilities and our business may be adversely impacted.

Certain of our operations and products are subject to environmental, health and safety laws and regulations, which may result in substantial compliance costs or otherwise adversely affect our business.

Our operations are subject to numerous federal, state, local and foreign laws and regulations relating to protection of the environment, including those that impose limitations on the discharge of pollutants into the air and water, establish standards for the use, treatment, storage and disposal of solid and hazardous materials and wastes, and govern the cleanup of contaminated sites. We have used and continue to use various substances in our products and manufacturing operations, and have generated and continue to generate wastes, which have been or may be deemed to be hazardous or dangerous. As such, our business is subject to and may be materially and adversely affected by compliance obligations and other liabilities under environmental, health and safety laws and regulations. These laws and regulations affect ongoing operations and require capital costs and operating expenditures in order to achieve and maintain compliance.

Our operations are subject to anti-corruption laws, including the U.S. Foreign Corrupt Practices Act, and any determination that the Company or any of its subsidiaries has violated the Foreign Corrupt Practices Act could have a material adverse effect on our business.

The U.S. Foreign Corrupt Practices Act (FCPA), the UK Bribery Act and similar worldwide anti-corruption laws generally prohibit companies and their intermediaries from making improper payments to government officials and others for the purpose of obtaining or retaining business. Our internal policies mandate compliance with these anti-corruption laws. We operate in parts of the world that have experienced governmental corruption to some degree, and in certain circumstances, strict compliance with anti-corruption laws may conflict with local

customs and practices. Despite our training and compliance programs, there can be no assurance that our internal control policies and procedures will protect us from reckless or criminal acts committed by those of our employees or agents who violate our policies.

Unauthorized access of personal data could give rise to liabilities as a result of governmental regulation, conflicting legal requirements or differing views of personal privacy rights and compliance with laws designed to prevent unauthorized access of personal data could be costly.

AstroNova collects and stores certain data, including proprietary business information, and may have access to confidential or personal information that is subject to privacy and security laws, regulations and customer-imposed controls. Security breaches or other unauthorized access to, or the use or transmission of, personal user information could result in a variety of claims against us, including privacy-related claims. There are numerous laws in the countries in which we operate regarding privacy and the storage, sharing, use, processing, disclosure and protection of this kind of information, the scope of which are changing, inconsistent and conflicting and subject to differing interpretations, and new laws of this nature are adopted from time to time. For example, in 2016 the European Commission adopted the General Data Protection Regulation, a comprehensive privacy and data protection reform that becomes enforceable in May 2018. At the same time, certain developing countries in which we do business are also currently considering adopting privacy and data protection laws and regulations and legislative proposals concerning privacy and the protection of user information are often pending before the U.S. Congress and various U.S. state legislatures.

While we believe that we comply with industry standards and applicable laws and industry codes of conduct relating to privacy and data protection in all material respects, there is no assurance that we will not be subject to claims that we have violated applicable laws or codes of conduct, that we will be able to successfully defend against such claims or that we will not be subject to significant fines and penalties in the event of non-compliance.

Any failure or perceived failure by us (or any third parties with whom we have contracted to store such information) to comply with applicable privacy and security laws, policies or related contractual obligations or any compromise of security that results in unauthorized access to personal information may result in governmental enforcement actions, significant fines, litigation, claims of breach of contract and indemnity by third parties and adverse publicity. In the case of such an event, our reputation may be harmed, we could lose current and potential users and the competitive positions of our various brands could be diminished, any or all of which could adversely affect our business, financial condition and results of operations.

We may record future goodwill impairment charges or other intangible asset impairment charges related to one or more of our reporting units, which could materially adversely impact our results of operations.

We test our goodwill balances annually, or more frequently if indicators are present or changes in circumstances suggest that impairment may exist. We assess goodwill for impairment at the reporting unit level and, in evaluating the potential for impairment of goodwill, we make assumptions regarding estimated revenue projections, growth rates, cash flows and discount rates. We monitor the key drivers of fair value to detect events or other changes that would warrant an interim impairment test of our goodwill and intangible assets. Relatively small declines in the future performance and cash flows of a reporting unit or asset group, changes in our reporting units or in the structure of our business as a result of future reorganizations, acquisitions or divestitures of assets or businesses, or small changes in other key assumptions, may result in the recognition of significant asset impairment charges, which could have a material adverse impact on our results of operations.

Changes in accounting standards and subjective assumptions, estimates, and judgments by management related to complex accounting matters could significantly affect our financial results or financial condition.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines, and interpretations with regard to a wide range of matters that are relevant to our business, such as

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revenue recognition, asset impairment and fair value determinations, inventories, business combinations and intangible asset valuations, leases, and litigation, are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates, or judgments could significantly change our reported or expected financial performance or financial condition.

Compliance with rules governing conflict minerals could adversely affect the availability of certain product components and our costs and results of operations could be materially harmed.

SEC rules require disclosures regarding the use of conflict minerals mined from the Democratic Republic of the Congo and adjoining countries necessary to the functionality or production of products manufactured or contracted to be manufactured. We have determined that we use gold, tin and tantalum, each of which is considered a conflict mineral under the SEC rules, as they occur in electronic components supplied to us in the manufacture of our products. Because of this finding, we are required to conduct inquiries designed to determine whether any of the conflict minerals contained in our products originated or may have originated in the conflict region or come from recycled or scrap sources. There are costs associated with complying with these disclosure requirements, including performing due diligence in regards to the source of any conflict minerals used in our products, in addition to the cost of remediation or other changes to products, processes or services of supplies that may be necessary as a consequence of such verification activities. As we use contract manufacturers for some of our products, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we implement. We may also encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free, which could place us at a competitive disadvantage if we are unable to do so. As a result, our business, operating results and financial condition could be harmed.

The decision by British voters to exit the European Union may negatively impact our operations.

In June 2016 the United Kingdom held a referendum in which the British voted in favor of exiting the European Union. This referendum has caused and may continue to cause political and economic uncertainty, including significant volatility in global stock markets and currency exchange rate fluctuations. Although it is unknown what the full terms of the United Kingdom s future relationship with the EU will be, it is possible that there will be greater restrictions on imports and exports between the United Kingdom and other countries, including the United States, and increased regulatory complexities. Any of these factors could adversely affect customer demand, our relationships with customers and suppliers and our business and financial statements.

Item 1B. ***Unresolved Staff Comments***

None.

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Item 2. ***Properties***

The following table sets forth information regarding the Company s principal owned properties, all of which are included in the consolidated balance sheet appearing elsewhere in this annual report.

Location	Approximate Square Footage	Principal Use
West Warwick, Rhode Island, USA	135,500	Corporate headquarters, research and development, manufacturing, sales and service

AstroNova also leases facilities in various other locations. The following information pertains to each location:

Location	Approximate Square Footage	Principal Use
Dietzenbach, Germany	Downturns in the national, regional and local economic conditions where our properties are located, which generally will negatively impact the demand for office space and rental rates;	

Local conditions such as an oversupply of office properties, including space available by sublease, or a reduction in demand for high rise and other office properties, making it more difficult for us to lease space at attractive rental rates, or at all;

Competition from other available office properties, which could cause us to lose current or prospective tenants to other properties or cause us to reduce our rental rates;

Changes in market rental rates and our ability to fund repair and maintenance costs;

Our ability to fund the cost of tenant improvements, leasing commissions and other costs associated with leasing or re-letting space;

Earthquakes and other natural disasters, terrorist acts, civil disturbances or acts of war which may result in uninsured or underinsured losses;

Our ability to collect rent from tenants; and

Our ability to pay for adequate maintenance, insurance, utility, security and other operating costs, including real estate taxes and debt service payments, that are not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from a property.

Further declines in overall economic activity, particularly in our Northern California, Washington, DC Metro Area, Southern California and Seattle core markets, could adversely affect our operating results

As a result of the weak economic climate over the last several years, the office real estate markets were materially affected. The contraction of office workforces reduced demand for office space and overall vacancy rates for office properties increased in all of our markets through 2002 and our operations were adversely impacted.

Rental rates on space that was re-leased in 2004 decreased an average of 14.4% in comparison to rates that were in effect under expiring leases. While market rental rates have stabilized in our markets, rental rates on in-place leases in certain markets remain significantly above current market rental rates. We estimate that market rental rates on leased space expiring in 2005 will be, on average, approximately 8%-12% lower than straight-lined rents on expiring leases. We have 1.6 million square feet of space on which leases are currently scheduled to expire in 2005.

We are particularly subject to the economic risks in our Northern California, Washington, DC Metro Area, Southern California and Seattle core markets. These markets represented approximately 34.3%, 29.6%, 15.0% and 5.2%, respectively, of our property operating income in 2004. A downturn in the economies of these markets, or the impact of a continued national economic downturn on these markets, could result in reduced demand for office space and decreasing rental rates.

One of the factors contributing to the decline in occupancy for our office properties was the increased level of early lease terminations. Future rental income may be affected by future lease terminations as we are unlikely to be able to collect upon termination the full contracted amount payable under the leases as well as the additional cost of re-leasing the space.

Further decreases in occupancy rates and/or further declines in rental rates, particularly in our Northern California, Washington, DC Metro Area, Southern California and Seattle core markets, may adversely affect our revenues and results of operations in subsequent periods, which could have a material adverse effect on our liquidity and financial condition, our ability to make distributions to our securityholders and result in a decline in the market value of our securities.

We may be unable to renew leases or relet space on similar terms, or at all, as leases expire or are terminated, or may expend significant capital in our efforts to relet space

From 2005 through 2009, leases on our office properties will expire on a total of approximately 62.6% of our rentable square feet at our currently stabilized properties, with leases on over 8.3% of our rentable square feet expiring in each of those years. We may not be able to renew leases with our existing tenants or we may be unable to relet space to new tenants if our current tenants do not renew their leases or terminate their leases early. Even if our tenants renew their leases or we are able to relet the space, the terms and other costs of renewal or reletting, including the cost of required renovations, increased tenant improvement allowances, leasing commissions, declining rental rates and other potential concessions may be less favorable or more costly than the terms of our current leases or than we anticipate and could require the expenditure of significant amounts of capital. If we are unable to renew leases or relet space in a reasonable time, or if rental rates decline or tenant improvement, leasing commissions and other costs increase, it could have a material adverse effect on our results of operations, liquidity and financial condition and result in a decline in the value of our securities.

Our properties face significant competition

We face significant competition from other owners, operators and developers of office properties. Substantially all of our properties face competition from similar properties in the same markets. Such competition may affect our ability to attract and retain tenants and reduce the rents we are able to charge. These competing properties may have vacancy rates higher than our properties, which may result in their owners being willing to rent space at lower rental rates than we or in their owners providing greater tenant improvement allowances or other leasing concessions. This combination of circumstances could adversely affect our results of operations, liquidity and financial condition, which could cause a decline in the value of our securities.

We face potential adverse effects from tenant delinquencies, bankruptcies or insolvencies

The bankruptcy or insolvency or other failure to pay of our tenants is likely to adversely affect the income produced by our properties. If a tenant defaults, we may experience delays and incur substantial costs in enforcing our rights as landlord. If a tenant files for bankruptcy, we may not be able to evict the tenant solely because of such bankruptcy or failure to pay. A court, however, may authorize a tenant to reject and terminate its lease with us. In such a case, our claim against the tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent owed under the lease. In addition, certain amounts paid to us within 90 days prior to the tenant s bankruptcy filing could be required to be returned to the tenant s bankruptcy estate. In any event, it is highly unlikely that a bankrupt or insolvent tenant would pay in full amounts it owes us under a lease. In other circumstances, where a tenant s financial condition has become impaired, we have agreed to partially or wholly terminate the lease in advance of the termination date in consideration for a lease termination fee that is less than the agreed rental amount. Without regard to the manner in which the lease termination occurs, we are likely to incur additional costs in the form of tenant improvements and leasing commissions in our efforts to lease the space to a new tenant. In any of the foregoing circumstances, our results from operations, liquidity and financial condition could be adversely affected, which could result in a decline in the value of our securities.

New developments and acquisitions may fail to perform as expected

We continue to develop and acquire office properties. New office property developments are subject to a number of risks, including construction delays, complications in obtaining necessary zoning, occupancy and other governmental permits, cost overruns, financing risks, and the possible inability to meet expected occupancy and rent levels. If any of these problems occur, development costs for a project may increase, and there may be costs incurred for projects that are not completed. In deciding whether to acquire or develop a particular property, we make certain

assumptions regarding the expected future performance of that property. We may underestimate the costs necessary to bring an acquired property up to standards established for its intended market position, or may be unable to increase occupancy at a newly acquired property as quickly as expected, or at all. If newly acquired properties or development projects are not completed in the timing or at the costs expected or do not perform as expected, our results of operations, liquidity and financial condition may be adversely affected, which could result in a decline in the value of our securities.

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Competition for acquisitions or an oversupply of properties for sale could adversely affect us

Generally, other major real estate investors with significant capital compete with us for attractive investment opportunities. These competitors include publicly traded REITs, private REITs, investment banking firms and private institutional investment funds. This competition has caused and may continue to cause increased prices for office properties. We also face competition with other property owners in our efforts to dispose of assets, which may result in lower sales prices. This increase in competition for acquisitions over the last several years has caused a significant increase in prices for Class A office buildings in our markets. As a result we may be unable to acquire office properties which are accretive to our earnings. A continuation of an increase in prices for acquired office properties at current levels or decrease in prices for properties to be sold by us could impair our growth prospects or reduce our available capital, either of which could have an adverse effect on our liquidity and financial condition, which could result in a decline in the value of our securities.

We may not be able to sell properties when appropriate or on attractive terms

Real estate investments generally cannot be sold quickly. In addition, there are limitations under the federal income tax laws applicable to REITs and agreements that we have entered into in connection with the acquisition of some of our properties that may limit our ability to sell our assets. In addition, we are subject to income taxes on the sale of any properties owned by any of our taxable REIT subsidiaries. Our inability to sell our properties in the time frame expected or at attractive prices could limit our ability to make acquisitions or other capital expenditures necessary to upgrade our portfolio or to recycle our capital to more productive markets, which could have an adverse effect on our liquidity and financial condition and our ability to service debt and make distributions to our securityholders, which could result in a decline in the value of our securities.

Our use of debt subjects us to various financing risks

We regularly borrow money to finance our operations, particularly the acquisition and development of properties. We generally incur unsecured debt, although in some cases we will incur mortgage debt that is secured by one or more of our office buildings. In the future, our financial condition could be materially and adversely affected by our use of debt financing, in part due to the following risks:

No Limitation on Debt Incurrence. Our organizational documents do not limit the amount of debt we can incur. Our leverage could have important consequences to our securityholders, including affecting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general corporate purposes and making us more vulnerable to a downturn in business or the economy generally. In addition, as a result of the financial and operating covenants described below, our leverage could reduce our flexibility in conducting our business and planning for, or reacting to, changes in our business and in the real estate industry. Any such reduction in our ability to obtain additional financing or our flexibility to conduct our business could adversely affect our financial condition and results of operations. This could result in a decline in the market value of our securities.

Possible Inability to Meet Scheduled Debt Payments; Potential Foreclosure. If our properties do not perform as expected, the cash flow from our properties may not be enough to make required principal and interest payments. If a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the holder of the mortgage or 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.

Inability to Refinance Debt. In most 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 as a result of general economic downturns, if our credit rating is downgraded, if our properties do not perform as expected, or otherwise, or extended or paid with proceeds of other capital transactions, such as property sales or new equity capital, our cash flow could 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 which could adversely affect our results of operations, liquidity, financial condition, ability to service debt and make distributions to our securityholders.

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Financial Covenants Could Adversely Affect Our Financial Condition. Our credit facilities and the indentures under which our senior unsecured indebtedness are issued contain financial and operating covenants, including coverage ratios and other limitations on our ability to incur secured and unsecured indebtedness, sell all or substantially all of our assets and engage in mergers, consolidations and certain acquisitions. Failure to meet our financial covenants could result from, among other things, changes in our results of operations or general economic changes. These covenants may restrict our ability to engage in transactions that would otherwise be in our best interests. Failure to comply with any of the covenants under our unsecured credit facility or other debt instruments could result in a default under one or more of our debt instruments. This could cause our lenders to accelerate the timing of payments and would therefore have a material adverse effect on our business, operations, financial condition or liquidity.

As of December 31, 2004, we are in compliance with all debt covenants, however, our ability to draw on our unsecured credit facility or incur other unsecured debt in the future could be restricted by the covenants. Our maximum ratio of total debt to tangible fair market value of our assets cannot exceed 55%. As of December 31, 2004, our total debt to tangible fair market value was 53.2% and could restrict our ability to draw the full amount available to us under our credit facility or to incur significant other debt. If our total debt ratio increases further, it could impact our business and operations, including limiting our ability to incur additional unsecured debt, including drawing on our unsecured line of credit which is our primary source of liquidity, or to invest in properties.

Variable Interest Rates Could Increase the Cost of Borrowing. As of December 31, 2004, approximately 29.2% of our total financing was subject to variable interest rates, including our line of credit and debt related to interest rate swap agreements excluding the impact of interest rate cap agreements. Because we have not hedged significantly against interest fluctuations, significant increases in interest rates could dramatically increase our costs of borrowing. Additionally, interest rates on certain types of our debt are based on the credit rating of our debt by independent agencies, and would be substantially increased in the event that the credit ratings are downgraded.

Derivatives. We may use derivative financial instruments at times to limit market risk only for hedging purposes, not for speculation or trading purposes. Interest rate protection agreements may be used to convert variable rate debt to a fixed rate basis, to convert fixed rate debt to a variable rate basis or to hedge anticipated financing transactions. However, these arrangements may expose us to additional risks. Although our interest rate risk management policy establishes minimum credit ratings for counterparties, this does not eliminate the risk that a counterparty may fail to honor its obligations. Developing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. In addition, hedging agreements may involve costs, such as transaction fees or breakage costs, if we terminate them. Any failure by us to effectively manage our exposure to interest rate risk through hedging agreements or otherwise, and any costs associated with hedging arrangements, could adversely affect our results of operations or financial condition. This could cause the market value of our securities to decline.

We may need to borrow funds in order to pay distributions necessary to maintain our REIT status. In order to maintain our REIT status, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements, even if the then prevailing market conditions are not favorable for these borrowings. To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our REIT taxable income, excluding capital gains. In order to eliminate federal income tax, we must distribute 100% of our net taxable income, including capital gains. We may need to incur debt to fund required distributions if our cash flows from operations are insufficient to make such distributions, as a result of differences in timing between the actual receipt of income and the recognition of income for federal income tax purposes, or as a result of the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments. Any such incurrence, particularly during unfavorable market conditions, could adversely affect our results of operations or financial condition. As a result, the market value of our securities could decline.

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An earthquake or terrorist act could adversely affect our business

Over 55.4% of our property operating income in 2004 was generated by properties located in California, Oregon and the State of Washington, which are high risk geographical areas for earthquakes. In addition, a significant portion of our properties is located in Washington, DC and other major urban areas which could be the targets of future terrorist acts. Depending upon its magnitude, an earthquake or terrorist act could severely damage one or more of our properties or otherwise cause a loss of tenants or other economic downturn in the market in which the event occurs, which could adversely affect our business. Although we maintain earthquake and terrorism insurance for our properties and the resulting business interruption, any earthquake or terrorist attack, whether or not insured, could have a material adverse effect on our results of operations, liquidity and financial condition, and result in a decline in the value of our securities.

Our insurance may not be adequate to cover losses, including those that result from earthquakes or terrorist acts

Although we believe our properties are adequately covered by insurance, we cannot predict at this time if we will be able to obtain appropriate coverage at a reasonable cost in the future. Our insurance costs have fluctuated significantly in recent years, increasing significantly in mid-2002, while decreasing in connection with our 2004-2005 renewal.

In May 2004, we formed a wholly-owned captive insurance company which provides $490 million in coverage against losses due solely to biological, chemical or radioactive contamination arising out of a certified terrorist act. In the event of a covered loss, we expect our captive insurance company to recover 90% of its losses, less certain deductibles, from the United States government, but it has not reinsured its remaining exposure and may have insufficient capital to fully pay our claim.

Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. Nevertheless, we might remain obligated for any mortgage debt or other financial obligations related to the property. It is also possible that third-party insurance carriers will not be able to maintain reinsurance sufficient to cover any losses that may be incurred.

In addition, if any of our properties were to experience a catastrophic loss that was insured, there can be no assurance that such coverage will adequately compensate us for any loss, that our coverage would continue after a loss, or that a loss, even if covered, would not have a material adverse effect on our business, financial condition or results of operations. It could still seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Also, due to inflation, changes in codes and ordinances, environmental considerations and other factors, it may not be feasible to use insurance proceeds to replace a building after it has been damaged or destroyed.

Also, we have to renew our policies in most cases on an annual basis and negotiate acceptable terms for coverage, exposing us to the volatility of the insurance markets, including the possibility of rate increases. Any material increase in insurance rates or decrease in available coverage in the future could adversely affect our results of operations and financial condition, which could cause a decline in the market value of our securities.

Increases in taxes and regulatory compliance costs, including compliance with the Americans with Disabilities Act, may adversely affect our results of operations

We may not be able to pass all real estate tax increases through to our tenants. Therefore, any tax increases may adversely affect our results of operations. Our properties are also subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. Some trade associations, such as the Building Owners and Managers Association and the National Fire Protection Association (NFPA), publish standards that are adopted by government authorities. These include standards relating to life, safety and fire protection systems published by the NFPA. Failure to comply with these requirements could result in the imposition of fines by governmental authorities or awards of damages to private litigants. In addition, we cannot provide any assurance that these requirements will not be changed or that new requirements will not be imposed that would require significant unanticipated expenditures by us and could have an adverse effect on our results of operations.

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Under the Americans with Disabilities Act of 1990 (ADA) and various state and local laws, all public accommodations and commercial facilities must meet certain federal requirements related to access and use by disabled persons. Compliance with these requirements could involve removal of structural barriers from certain disabled persons entrances. Other federal, state and local laws may require modifications to or restrict further renovations of our properties with respect to such means of access. Although we believe that our properties are substantially in compliance with present requirements, noncompliance with the ADA or related laws or regulations could result in the imposition of fines by government authorities or in the award to private litigants of damages against us.

Any such adverse effect on our results of operations, whether from real estate tax increases or changes in regulatory requirements, could cause the market value of our securities to decline.

We may be subject to costs and liabilities associated with environmental contamination

Federal, state and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real property to investigate and clean up hazardous or toxic substances or petroleum product releases at the property. In addition, the U.S. Environmental Protection Agency and the U.S. Occupational Safety and Health Administration are increasingly involved in indoor air quality standards, especially with respect to asbestos, mold and medical waste. The clean up of any environmental contamination, including asbestos and mold, can be costly. The presence of or failure to clean up contamination may adversely affect our ability to sell or lease a property or to borrow using a property as collateral or could prove so costly as to have a material adverse effect on our results of operations, liquidity and financial condition, which could result in our inability to make distributions to our securityholders and result in a decline in the value of our securities.

We do not have exclusive control over our joint venture investments

We have invested in projects or properties as a co-venturer or partner in the development of new properties. These investments involve risks not present in a wholly-owned project. Risks related to these investments could include:

- Absence of 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.

In addition, most of our joint venture agreements contain provisions that could require us to buy our partner s interest or sell our interest or the property or project at a time we do not deem favorable for financial or other reasons, including the availability of cash at such time and the impact of tax consequences resulting from any sale.

Certain officers and directors may have interests that conflict with the interests of stockholders

Certain of our officers and members of our board of directors own limited partnership units in Carr Realty Holdings, L.P., a partnership that holds some of our properties. These individuals may have personal interests that conflict with the interests of our stockholders with respect to business decisions affecting us and Carr Realty Holdings, L.P., such as interests in the timing and pricing of property sales or refinancings in order to obtain favorable tax treatment. We, as the sole general partner of Carr Realty Holdings, L.P., have the exclusive authority to determine whether and on what terms Carr Realty Holdings, L.P. will sell or refinance an individual property, but the effect of certain transactions on these unitholders may influence our decisions affecting these properties.

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Our wholly-owned subsidiary, CarrAmerica Realty Operating Partnership, L.P. intends to qualify as a partnership, but cannot guarantee that it will qualify

CarrAmerica Realty Operating Partnership, L.P. intends to qualify as a partnership for federal income tax purposes at such time, if any, that it admits limited partners other than ourselves. If classified as a partnership, it generally will not be a taxable entity and will not incur federal income tax liability. However, it would be treated as a corporation for federal income tax purposes if it were a publicly traded partnership, unless at least 90% of its income were qualifying income as defined in the tax code. A publicly traded partnership is a partnership whose partnership interests are traded on an established securities market or are readily tradable on a secondary market (or the substantial equivalent thereof). Although its partnership units will not be traded on an established securities market, because of the redemption right, its units held by limited partners could be viewed as readily tradable on a secondary market (or the substantial equivalent thereof), and there could be no assurance that it would qualify for one of the safe harbors under the applicable tax regulations. Qualifying income for the 90% test generally includes passive income, such as real property rents, dividends and interest. The income requirements applicable to REITs and the definition of qualifying income for purposes of this 90% test are similar in most respects. We cannot guarantee that the partnership would meet this qualifying income test. If it were to be taxed as a corporation, it would incur substantial tax liabilities. We would then fail to qualify as a REIT for tax purposes, unless we qualified for relief under certain statutory savings provisions, and our ability to raise additional capital would be impaired.

Certain Factors May Inhibit Changes in Control of the Company

Preferred Stock. Our charter permits our board of directors to authorize the issuance of preferred stock without stockholder approval. Also, any future series of preferred stock may have voting provisions that could delay or prevent a change in control or other transaction that might involve a premium price or otherwise be in the best interests of our common stockholders.

Ownership Limit. In order to assist us in maintaining our qualification as a REIT and for other strategic reasons, our charter contains certain provisions generally limiting the ownership of shares of capital stock by any single stockholder to 9.8% of our outstanding common stock and/or 9.8% of any class or series of preferred stock. The federal tax laws include complex stock ownership and attribution rules that apply in determining whether a stockholder exceeds the ownership limits. These rules may cause a stockholder to be treated as owning stock that is actually owned by others, including family members and entities in which the stockholder has an ownership interest. Our board of directors may waive this restriction with respect to certain stockholders if it is satisfied that ownership in excess of these ownership limits would not jeopardize our status as a REIT and the board otherwise decides that a waiver would be in our interests. Capital stock acquired or transferred in breach of the ownership limit will be automatically transferred to a trust for the benefit of a designated charitable beneficiary.

Maryland Law Provisions. Certain provisions of Maryland law which are applicable to us because we are a Maryland corporation prohibit business combinations with any person that beneficially owns ten percent or more of our outstanding voting shares (an interested stockholder) or with an affiliate of the interested stockholder. These prohibitions last for five years after the most recent date on which the person became an interested stockholder. After the five-year period, a business combination with an interested stockholder must be approved by two super-majority stockholder votes unless, among other conditions, our common stockholders receive a minimum price for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its common shares. Our board of directors has opted out of these business combination provisions. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to a business combination involving us. Our board of directors may, however, repeal this election in most cases and cause us to become subject to these provisions in the future. Being subject to the provisions could delay or prevent a change in control or other transactions that might involve a premium price or otherwise be in the best interests of our stockholders.

The market value of our securities can be adversely affected by many factors

As with any public company, a number of factors may adversely influence the public market price of our common stock, many of which are beyond our control. These factors include:

Level of institutional interest in us;

- Perception of REITs generally and REITs with portfolios similar to ours, in particular, by market professionals;

- Attractiveness of securities of REITs in comparison to other companies taking into account, among other things, the higher tax rates imposed on dividends paid by REITs;

- Our financial condition and performance;

- The market s perception of our growth potential and potential future cash dividends;

- Government action or regulation, including changes in tax law;

- Increases in market interest rates, which may lead investors to demand a higher annual yield from our distributions in relation to the price paid for our stock; and

- Relatively low trading volume of shares of REITs in general, which tends to exacerbate a market trend with respect to our stock.

Sales of a substantial number of shares of our stock, or the perception that such sales could occur, also could adversely affect prevailing market prices for our stock. In addition to the possibility that we may sell shares of our stock in a public offering at any time, we also may issue shares of common stock upon redemption of units of interest held by third parties in affiliated partnerships that we control, as well as upon exercise of stock options that we grant to our employees and others. All of these shares will be available for sale in the public markets from time to time.

Our status as a REIT

We believe that we qualify for taxation as a REIT for federal income tax purposes, and we plan to operate so that we can continue to meet the requirements for taxation as a REIT. If we qualify as a REIT, we generally will not be subject to federal income tax on our income that we distribute currently to our shareholders. Many of the REIT requirements, however, are highly technical and complex. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 95% of our gross income must come from specific passive sources, like rent, that are itemized in the REIT tax laws. In determining that we have satisfied this requirement, we have concluded that certain services, such as cafeteria services that we had provided to tenants through an independent contractor at certain of our properties under arrangements where we bore part or all of the expenses of such services, were considered customary in the geographic area where such properties are located. There can be no assurance that the IRS or a court would agree with such conclusion or other positions we have taken interpreting the REIT requirements. We also are required to distribute to our stockholders at least 90% of our REIT taxable income (excluding capital gains). The fact that we hold some of our assets through partnerships and their subsidiaries further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress and the IRS might make changes to the tax laws and regulations, and the courts might issue new rulings, that make it more difficult, or impossible, for us to remain qualified as a REIT.

If we fail to qualify as a REIT for federal income tax purposes and do not meet the requirements necessary to avail ourselves of certain statutory relief provisions, we would be subject to federal income tax at regular corporate rates. Also, unless the IRS granted us relief under such statutory provisions, we would remain disqualified as a REIT for four years following the year we first failed to qualify. If we failed to qualify as a REIT, we would have to pay significant income taxes. This likely would have a significant adverse effect on the value of our securities. In addition, we would no longer be required to pay any dividends to stockholders.

Even if we qualify as a REIT for federal income tax purposes, we are required to pay certain federal, state and local taxes on our income and property. For example, if we have net income from prohibited transactions, that income will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business. The determination as to whether a particular sale is a prohibited transaction depends on the facts and circumstances related to that sale. While we undertake sales of assets that become inconsistent with our long term strategic or return objectives, we do not believe that those sales should be considered prohibited transactions, but there can be no assurance that the IRS would not contend otherwise. In addition, any net taxable income earned directly by some of our affiliates, including Carr Real Estate Services Inc. and CarrAmerica Development Inc., is subject to federal and state corporate income tax. In this regard, several provisions of the laws applicable to REITs and their subsidiaries ensure that a taxable REIT subsidiary will be subject to an appropriate level of federal income taxation. For example, a taxable

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REIT subsidiary is limited in its ability to deduct interest payments made to an affiliated REIT. In addition, the REIT has to pay a 100% penalty tax on some payments that it receives or on some deductions taken by the taxable REIT subsidiaries if the economic arrangements between the REIT, the REIT s tenants, and the taxable REIT subsidiary are not comparable to similar arrangements between unrelated parties. Several entities in which we own interests, including Carr Real Estate Services Inc. and CarrAmerica Development Inc., have elected to be taxable REIT subsidiaries. Finally, some state and local jurisdictions may tax some of our income even though as a REIT we are not subject to federal income tax on that income. To the extent that we and our affiliates are required to pay federal, state and local taxes, we will have less cash available for distributions to our shareholders.

Item 2. PROPERTIES

General

As of December 31, 2004, we owned interests (consisting of whole or partial ownership interests) in 251 operating office buildings located in 12 markets across the United States. As of December 31, 2004, we owned fee simple title or leasehold interests in 249 operating office buildings, controlling partial interests in two operating office buildings and non-controlling partial interests of 15% to 50% in 41 operating office buildings. Except as we disclose in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, we have no immediate plans to renovate our operating properties other than for routine capital improvements.

The following table sets forth information about each operating property in which we own an interest as of December 31, 2004.

Property	# of Buildings	Net Rentable Area in Sq. Feet [1]	Percent Leased [2]	Total Annualized GAAP Base Rent[3] (in thousands)	Average GAAP Base Rent /Leased Sq. Feet[4]	Significant Tenants[5]
Consolidated Properties						
Downtown Washington, D.C.:						
International Square	3	1,014,914	99.1%	$ 36,678	$ 36.47	International Monetary Fund (48%)
900 19th Street	1	101,215	100.0%	3,682	36.38	America s Community Bankers (27%), Stone & Webster Management Co. (13%), Korn/Ferry International (12%),
2550 M Street	1	192,393	100.0%	9,405	48.88	Patton Boggs, LLP (99%)
1730 Pennsylvania Avenue	1	229,292	96.3%	8,695	39.36	Federal Deposit Insurance Corp. (47%), King & Spalding (35%)
1775 Pennsylvania Avenue[6]	1	143,857	98.6%	4,154	29.27	Citicorp Savings of Washington, D.C. (78%)
Commercial National Bank Building	1	205,869	99.2%	8,918	43.69	Skadden, Arps, Slate, Meagher (56%), ETC W/TCI, Inc. (10%)
1255 23rd Street[7]	1	306,395	96.9%	9,040	30.45	The Chronicle of Higher Education (25%), William M. Mercer, Inc. (22%), Marsh & McLennan, Inc. (14%)
1747 Pennsylvania Avenue[7]	1	151,997	100.0%	5,378	35.38	Legg Mason Wood Walker, Inc. (19%)
1717 Pennsylvania Avenue	1	184,446	100.0%	7,696	41.73	MCI Telecommunications Corp. (57%), Goodwin Proctor, LLP (12%)
Downtown Washington, D.C.	11	2,530,378	98.8%			
Suburban Washington, D.C.:						
Canal Center	4	497,310	88.00%	13,136	30.01	Close Up Foundation (12%)
TransPotomac V Plaza	1	97,163	100.00%	2,813	28.95	Effinity Financial Corporation (15%), Casals & Assoc., Inc. (11%), Grafik Communications, LTD. (11%), Larson & Taylor (11%), The Onyx Group (11%)
One Rock Spring Plaza[6]	1	205,721	92.40%	6,069	31.93	Sybase, Inc. (19%), Bisys Insurance Services (10%)
Sunrise Corporate Center	3	260,253	100.00%	6,570	25.24	Software AG of North America (81%)
Reston Crossing	2	327,788	100.00%	6,684	20.39	Nextel Communications, Inc. (100%)
Commonwealth Tower	1	339,599	100.00%	11,402	33.57	American Chemistry Council (43%), The Mills Corporation (23%), The Boeing Company (13%)
Suburban Washington, D.C.	12	1,727,834	95.60%			
Los Angeles:						
Warner Center	12	345,488	98.5%	8,605	25.29	GSA (20%)

Warner Premier	1	61,210	99.4%	1,629	26.77	Protective Life Insurance Company (34%), Charles Schwab & Co., Inc. (12%), Steven B. Simon (11%)
Westlake Spectrum	2	108,084	87.8%	2,201	23.20	Securitas Security Services (67%)
2600 W. Olive	1	145,444	36.3%	1,560	29.56	Regent Business Centers (16%), Emmis Radio, LLC (16%)
Los Angeles	16	660,226	83.1%			
Orange County:						
Scenic Business Park	4	139,159	81.5%	2,055	18.11	Talbert Medical Group (19%), Terayon Communications Systems (17%), So. Ca. Blood & Tissue Services (12%), Miles, Bauer, Bergstrom & Winter (11%)
Harbor Corporate Park	4	151,415	97.1%	2,697	18.35	Anzdl, Inc. (25%), Conoco Phillips Company (12%), Trizetto Group, Inc. (11%)
Von Karman	1	104,375	100.0%	2,719	26.05	Vision Solutions, Inc. (41%), Fidelity National Title Ins. (26%), Taco Bell Corporation (18%)
Pacific Corporate Plaza 1, 2 & 3	3	124,196	100.0%	2,467	19.86	Gallagher Bassett Svcs., Inc. (21%), Covenant Care California, Inc. (16%), Lan International (16%), Marie Callender Pie Shops (14%)
Alton Deere Plaza	6	182,561	89.8%	3,172	19.35	Nextlink California (18%), XO California, Inc. (12%), Tetra Tech, Inc. (11%)
South Coast Executive	2	162,504	98.5%	3,812	23.82	University of Phoenix (39%), First Team Real Estate (17%)
Bay Technology Center	2	107,481	100.0%	1,680	15.63	Finance America (65%), Stratacare, Inc. (21%)
Orange County	22	971,691	94.7%			

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Property	# of Buildings	Net Rentable Area in Sq. Feet [1]	Percent Leased [2]	Total Annualized GAAP Base Rent[3] (in thousands)	Average GAAP Base Rent /Leased Sq. Feet[4]	Significant Tenants[5]
San Diego:						
Del Mar Corporate Plaza	2	123,142	58.5%	2,075	28.80	Stellcom, Inc. (29%), JMI Service, Inc. (25%)
Lightspan	1	65,112	100.0%	1,293	19.86	The Lightspan Partnership, Inc. (95%)
La Jolla Spectrum 1 & 2	2	156,653	100.0%	6,504	41.52	Torrey Mesa Research Institute (51%), The Scripps Research Institute (49%)
Palomar Oaks Technology Park	6	170,749	100.0%	2,354	13.79	Unifet, Inc. (23%), TPR Group, Inc. (13%), By Referral Only, Inc. (11%)
Town Center Technology Park IV	1	105,358	100.0%	2,181	20.70	Gateway, Inc. (100%)
Torrey Pines Research Center	1	81,816	100.0%	2,661	32.52	Metabasis Therapeutics, Inc. (100%)
Highlands Corporate Center	5	205,191	95.2%	6,373	32.61	Vycera Communications, Inc. (12%)
Town Center Technology Park	3	182,120	100.0%	3,801	20.87	Gateway, Inc. (100%)
Carroll Vista I & II	3	107,579	100.0%	2,347	21.82	Medivas, LLC (44%), Cardiodynamics International (30%), Chugai Biopharmaceutical, Inc. (26%)
Corporate Plaza II	2	116,166	76.6%	3,305	37.16	Pardee Construction Company (14%), Latham & Watkins (12%), Xifin, Inc. (12%)
San Diego	26	1,313,886	93.3%			
San Francisco Bay Area:						
CarrAmerica Corporate Center	7	1,004,679	86.5%	19,928	22.94	AT&T (36%), Peoplesoft, Inc. (18%), Safeway, Inc. (15%), Pacific Bell Mobile Services (14%)
Bayshore Centre 2	1	94,874	0.0%			Building is vacant
Rincon Centre	3	201,178	88.4%	3,917	23.59	Toshiba America Electronic (31%), Future Electronics Corporation (19%), Propel Software Corporation (15%), GDA Technologies, Inc. (11%)
Valley Centre II	4	212,082	89.4%	2,218	11.70	Boston Scientific (89%)
Valley Office Centre	2	68,917	90.8%	1,478	23.62	Bank of America (21%)
Valley Centre	2	102,291	0.0%			Building is vacant
Valley Business Park II	6	166,928	56.1%	1,847	19.72	No tenant occupies 10%
Rio Robles	7	368,178	100.0%	4,685	12.72	Covad Communications Company (23%), Pericom Semiconductor Corporation (21%), Tellabs San Jose, Inc.

						(14%), KLA Instruments Corporation (13%), On Command Video Corporation (11%)
Baytech Business Park	4	300,000	100.0%	5,402	18.01	Schlumberger Technologies, Inc. (50%), Caspian Networks (25%), Netscaler, Inc. (13%)
3571 North First Street	1	116,000	100.0%	3,343	28.82	Sun Microsystems, Inc. (100%)
Oakmead West	7	425,981	100.0%	10,783	25.31	Applied Materials, Inc. (52%), Proxim, Inc. (48%)
Clarify Corporate Center 1, 2, 3, 4	4	258,048	100.0%	7,912	30.66	Nortel Networks, Inc. (100%)
Valley Technology Center 1, 2, 3, 4, 5, 6 & 7	7	460,590	94.6%	10,568	24.25	Lattice Semiconductor Corp. (28%), TSMC North America, Inc. (24%), Navisite, Inc. (14%), OOCL (USA) Inc. (13%)
Golden Gateway Commons	3	276,708	99.9%	9,360	33.86	Sharper Image Corporation (22%), Norcal Mutual Insurance Co. (19%), ABM Industries, Inc. (13%)
Techmart Commerce Center	1	268,115	93.9%	8,250	32.76	Network Conference Co., Inc. (12%)
Fremont Technology Park 1, 2, 3	3	139,304	67.9%	1,211	12.80	Flash Electronics, Inc. (32%), Intervideo, Inc. (25%), Bandwidth Unlimited, Inc. (11%)
San Mateo Center	3	214,856	82.0%	3,804	21.59	Sorrent, Inc. (12%), ePocrates, Inc. (11%)
Mountain View Gateway Center	2	236,400	100.0%	5,850	24.75	KPMG LLP (57%), Netscape Communications Corp (43%)
Hacienda West	2	207,610	82.2%	5,080	29.77	Sun Microsystems, Inc. (13%)
Sunnyvale Technology Center	5	165,520	100.0%	2,711	16.38	Lattice Semiconductor Corp. (51%), BMC Software (25%), Intertrust Technologies Corp. (12%), Metelics Corporation (12%)

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Property	# of Buildings	Net Rentable Area in Sq. Feet[1]	Percent Leased[2]	Total Annualized GAAP Base Rent[3] (in thousands)	Average GAAP Base Rent /Leased Sq. Feet[4]	Significant Tenants[5]
Stanford Research Park[6]	2	89,595	100.0%	4,646	51.86	Merrill Lynch (56%), McKinsey & Company, Inc. (44%)
500 Forbes	1	155,685	100.0%	7,391	47.47	Cell Genesys, Inc. (100%)
Corporate Technology Centre	7	508,230	62.1%	4,697	14.89	Redback Networks Inc. (20%), Renesas Technology America, Inc. (18%), Agere Systems Inc. (14%)
Mission Towers	1	282,080	100.0%	8,194	29.05	Sun Microsystems, Inc. (61%), PMC-Sierra, Inc. (38%)
San Francisco	85	6,323,849	87.1%			
Portland, OR:						
Sunset Corporate Park	3	132,531	62.2%	1,029	12.47	Volkswagen of America, Inc. (34%)
Rock Creek Corp Center	3	142,662	100.0%	2,588	18.14	Corillian Corporation (86%), University of Phoenix (14%)
Portland	6	275,193	81.8%			
Seattle, WA:						
Redmond Hilltop B & C	2	90,880	100.0%	1,471	16.19	Concur Technologies (90%), Citrix Systems, Inc. (10%)
Canyon Park	6	316,978	100.0%	5,065	15.97	Icos Corporation (28%), Targeted Genetics Corporation (24%), Fedex (14%), Skeletech, Inc. (12%)
Willow Creek	1	96,179	100.0%	1,056	10.99	Data I/O Corporation (100%)
Willow Creek Corp. Center	6	323,980	29.0%	1,189	12.66	No tenant occupies 10%
Canyon Park Commons	3	176,846	100.0%	2,446	13.83	Washington Mutual Bank (62%), New Cingular Wireless Service (38%)
Redmond East	10	398,320	71.6%	3,721	13.05	Genetic Systems (14%), Spiration, Inc. (11%), Avaya, Inc. (10%)
Canyon Park Commons	1	95,290	100.0%	1,532	16.08	Safeco Insurance Company (100%)
Seattle	29	1,498,473	77.1%			
Austin, TX:						
City View Centre	3	137,185	50.2%	1,126	16.35	Oasis Design, Inc. (20%), Austin Infor Systems, Inc. (11%)
City View Centre	1	128,716	100.0%	1,652	12.83	Broadwing Telecommunications (100%)
Austin	4	265,901	74.3%			

Chicago, IL:						
Butterfield Road	2	367,340	69.9%	3,473	13.53	Washington Mutual Bank (17%), Hilb Rogal & Hobbs of Chicago (10%)
The Crossings	1	291,272	78.7%	3,682	16.06	Interface Software, Inc. (12%)
Parkway North I	1	249,076	22.5%	889	15.89	No tenant occupies 10%
Bannockburn	3	317,429	79.1%	3,936	15.67	IMC Global, Inc. (23%), Parexel (12%)
Chicago	7	1,225,117	64.7%			
Dallas, TX:						
Cedar Maple Plaza	3	113,010	88.3%	2,199	22.03	A.G. Edwards & Sons, Inc. (11%)
Quorum North	1	115,846	71.0%	1,442	17.52	Digital Matrix Systems, Inc. (20%)
Quorum Place	1	177,879	83.4%	2,276	15.34	Lockwood Greene Engineers, Inc. (12%)
Two Mission Park	1	77,353	86.8%	1,032	15.37	7-Eleven, Inc. (20%), Bland, Garvey, Eads, Medlock (18%)
5000 Quorum	1	161,664	78.4%	2,166	17.08	No tenant occupies 10%
Tollway Plaza	2	359,903	95.3%	7,665	22.35	Sun Microsystems, Inc. (27%), Americorp Relocation Mgmt. (10%)
Dallas	9	1,005,655	86.2%			
Denver, CO:						
Harlequin Plaza	2	324,601	83.5%	4,510	16.65	The Travelers Insurance Co. (24%), Bellco Credit Union (17%), Regis University (12%)
Quebec Court I	1	130,000	100.0%	2,015	15.50	Time Warner (100%)
Quebec Court II	1	157,294	100.0%	2,469	15.70	Tele-Communications, Inc. (100%)

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Property	# of Buildings	Net Rentable Area in Sq. Feet [1]	Percent Leased [2]	Total Annualized GAAP Base Rent[3] (in thousands)	Average GAAP Base Rent /Leased Sq. Feet[4]	Significant Tenants[5]
Quebec Centre	3	106,865	87.1%	1,591	17.10	Team Lending Comcepts, LLC (16%), Walberg, Dagner & Tucker, P.C. (13%), Eonbusiness Corporation (12%)
Dry Creek 2 & 3	2	185,957	97.9%	2,714	14.91	Allstate Insurance Company (38%), Radiology Imaging Associates (18%), Peerless Insurance Company (18%), Comcast Cable Communications (11%)
Denver	9	904,717	92.1%			
Phoenix, AZ:						
Qwest Communications	4	532,506	100.0%	9,924	18.64	Qwest Communications (100%)
Salt Lake City, UT:						
Sorenson Research Park	6	322,534	91.9%	3,630	12.24	Convergys Customer Mgmt Group (47%), ITT Educational Services, Inc. (13%)
Wasatch Corporate Center	4	227,865	82.4%	2,809	14.96	Advanta Bank Corporation (22%), Achieveglobal, Inc. (13%), Musician s Friend, Inc. (11%)
Creekside I & II	1	78,000	100.0%	1,150	14.75	3Com Corporation (100%)
Salt Lake City	11	628,399	89.5%			
Total Consolidated Properties	251	19,863,825		421,533		
Weighted Average			88.2%		24.06	
Unconsolidated Properties						
Washington, D.C.:						
1919 Pennsylvania Avenue[8]	1	241,496	99.4%	10,118	38.53	A.C. Corporation (22%), Mortgage Bankers Assoc. (20%), Cole, Raywid & Braverman, LLP (14%), Porter Wright Morris & Arthur (12%), Jenkens & Gilchrist, P.C. (11%)
2025 M Street[8]	1	174,763	100.0%	6,127	34.19	Radio Free Asia (33%), Smith, Bucklin & Associates (26%), Akin Gump Strauss

						Hauer (11%)
1201 F Street[11]	1	223,441	100.0%	8,250	36.90	Cadwalader, Wickersham (21%), Charles River Assoc., Inc. (20%), Health Insurance Assoc. (18%), National Federation of Independent Business (17%)
Bond Building[9]	1	162,182	100.0%	5,425	33.45	GSA (97%)
Terrell Place[13]	1	466,667	55.2%	9,355	36.28	Venable, Baetjer & Howard, LLP (52%)
Portland, OR:						
GM Call Center[10]	1	103,279	100.0%	1,256	12.16	GM Call Center (100%)
Chicago Market Office:						
Parkway 3, 4, 5, 6, 9, 10[11]	6	750,922	92.7%	12,566	17.52	Fujisawa Healthcare, Inc. (27%), Citi Commerce Solutions, Inc. (16%), Shand Morahan & Co. (10%)
Dallas Market Office:						
Royal Ridge Phase II, A,B[11]	4	504,969	99.2%	8,411	16.78	Verizon (29%), Capital One Services, Inc. (24%), American Honda Finance Corp. (13%)
Custer Court[8]	1	120,680	83.5%	1,770	17.56	Aurora Loan Services Inc. (18%), Cirro Group, Inc. (17%), Advanced Fibre Communications (16%), Beazer Homes Texas Holdings (16%), Option One Mortgage Corp. (14%)
North Dallas Town Center[12]	3	393,136	94.6%	8,632	23.20	Hewlett Packard (39%), Innovative Mgmt. Solutions, Inc. (12%)

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Property	# of Buildings	Net Rentable Area in Sq. Feet [1]	Percent Leased [2]	Total Annualized GAAP Base Rent[3] (in thousands)	Average GAAP Base Rent /Leased Sq. Feet[4]	Significant Tenants[5]
Austin Market Office:						
Riata Corporate[11]	8	673,916	79.2%	8,184	15.33	Janus Capital Corporation (47%), Pervasive Software, Inc. (14%)
Riata Crossing[11]	4	324,963	100.0%	2,179	6.71	Apple Computer, Inc. (85%), D.R. Horton, Inc. (15%)
300 W. 6th Street[12]	1	435,044	70.7%	6,994	21.93	Clark, Thomas & Winters, P.C. (21%), Akin, Gump, Strauss, Hauer (20%), AVP Management Services, Inc. (10%)
Denver Market Office:						
Panorama I, II, III, V, VIII, X[11]	6	663,714	96.4%	11,589	18.10	Charles Schwab & Co., Inc. (41%), AT&T Corporation (12%), Archstone-Smith (11%)
Los Angeles Market Office:						
10UCP[12]	1	771,558	90.5%	23,520	33.68	Vivendi Universal (53%), UMG Recordings, Inc. (11%)
1888 Century Park East[11]	1	480,075	67.0%	10,836	33.69	SCPIE Holdings, Inc. (20%)
Total Unconsolidated Properties	41	6,490,805		135,212		
Weighted Average			87.2%		23.89	
Total All Operating Properties:	292	26,354,630		$ 556,745		
Weighted Average			88.0%		$ 24.01	

1 Includes office, retail, parking space and storage.
2 Includes spaces for leases that have been executed and have commenced as of December 31, 2004.
3 Total annualized GAAP base rent equals total original base rent, including historical contractual increases and excluding (i)percentage rents, (ii) additional rent payable by tenants such as common area maintenance, real estate taxes and other expense reimbursements, (iii) future contractual or contingent rent escalations and (iv) parking rents.
4 Calculated as total annualized base rent divided by net rentable area leased.
5 Includes tenants leasing 10% or more of rentable square footage (with the percentage of rentable square footage in parentheses).
6 We own the improvements on the property and have a leasehold interest in all the underlying land.
7 We hold a majority ownership interest through a joint venture.
8 We own 49% through a joint venture.
9 We own 15% through a joint venture.
10 We own 16% through a joint venture.
11 We own 35% through a joint venture.
12 We own 20% through a joint venture.
13 We own 30% through a joint venture.

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Insurance

Although we believe our properties are adequately covered by insurance, we cannot predict at this time if we will be able to obtain appropriate coverage at a reasonable cost in the future. Our insurance costs have fluctuated significantly in recent years, increasing significantly in mid-2002, while decreasing in connection with our 2004-2005 renewal.

In 2002, the Terrorism Risk Insurance Act of 2002 (TRIA), was enacted and mandated that insurance carriers offer insurance covering physical damage from terrorist incidents certified by the United States government as foreign terrorist acts. Under TRIA, the United States government will reimburse insurance carriers, subject to certain deductibles, for up to 90% of any claims from such certified terrorist acts, subject to an overall cap. TRIA permits insurance carriers to exclude losses due to biological, chemical or radioactive contamination.

In May 2004, we formed a wholly-owned captive insurance company which provides $490 million in coverage against losses due solely to biological, chemical or radioactive contamination arising out of a certified terrorist act. In the event of a covered loss, we expect our captive insurance company to recover 90% of its losses, less certain deductibles, from the United States government, but it has not reinsured its remaining exposure and may have insufficient capital to fully pay our claim.

In 2003, due to the rising cost of California earthquake insurance, we reviewed our probable maximum loss (PML) and industry practice related to earthquake coverage for various factors. As a result of this review, we determined that it was possible to lower our earthquake coverage from $200 million to $150 million. We believe this will be sufficient coverage but there can be no assurance that such coverage will adequately compensate us for any loss, that our coverage would continue after a loss, or that a loss, even if covered, would not have a material adverse effect on our business, financial condition or results of operations.

Occupancy, Average Rentals and Lease Expirations

As of December 31, 2004, 88.2% of our aggregate net rentable square footage in 251 consolidated stabilized office buildings was leased. The following table summarizes percent leased and average annualized rent per leased square foot (excluding storage space) for the past five years for the stabilized consolidated operating properties:

December 31,	Percent Leased at Year End	Average Annualized Rent/Leased Sq. Ft.[1]	Number of Consolidated Properties
2004	88.2%	$ 27.24	251
2003	87.8%	26.31	259
2002	92.3%	25.91	260
2001	95.3%	25.02	254
2000	97.4%	23.77	252

[1] Calculated as total annualized building operating revenue, including tenant reimbursements for operating expenses and excluding parking and storage revenue, divided by the total square feet, excluding storage, in buildings under lease at year end.

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The following table is a schedule of our lease expirations for leases in place as of December 31, 2004 for the 251 consolidated operating office buildings, assuming no tenants exercise renewal options:

Year of Lease Expiration	Net Rentable Area Subject to Expiring Leases (sq. ft.)	Annual Base Rent Under Expiring Leases (000 s)	Percent of Total Annual Base Rent Represented by Expiring Leases
2005	1,646,396	$ 33,226	7.9%
2006	2,981,490	73,970	17.5%
2007	2,555,108	59,605	14.1%
2008	2,555,509	54,475	12.9%
2009	2,693,784	52,130	12.3%
2010	1,302,752	31,074	7.4%
2011	684,362	17,044	4.0%
2012	876,407	21,973	5.2%
2013	636,881	15,933	3.8%
2014	294,233	7,267	1.7%
2015 and thereafter	1,297,459	55,473	13.1%

Mortgage Financing

As of December 31, 2004, some of our consolidated operating properties were subject to fixed rate mortgage indebtedness. The total of these mortgages was $262.9 million secured by seven of our operating office buildings. Our fixed rate mortgage debt as of December 31, 2004 bore an effective weighted average interest rate of 7.94% and had a weighted average maturity of 4.24 years. The following table details information regarding the mortgage indebtedness for the consolidated operating properties as of December 31, 2004.

Property	Interest Rate	Principal Balance (000 s)	Maturity Date	Annual Debt Service (000 s)	Estimated Balance Due at Maturity (000 s)
2600 West Olive	6.75%	$ 18,092	2/1/2009	$ 1,524	$ 16,739
Palomar Oaks	8.85%	9,048	4/1/2009	1,025	7,925
1255 23rd St	8.12%	36,292	4/1/2009	3,584	33,062
1730 Penn/International Square	8.12%	174,067	4/1/2009	17,190	158,571
South Coast	7.13%	14,114	6/10/2009	1,287	12,660
1775 Penn	7.63%	11,317	9/1/2009	1,020	10,463
Total	**7.94%**	**$ 262,930**		**$ 25,630**	

For additional information regarding our office properties and their operation, see Item 1. Business.

Item 3. LEGAL PROCEEDINGS

HQ Global Stockholders

We are currently involved in a lawsuit filed in April 2000 by two stockholders of HQ Global arising out of the June 2000 merger transaction involving HQ Global and VANTAS Incorporated. These two stockholders originally brought claims against HQ Global, the board of directors of HQ Global, FrontLine Capital Group and us in Delaware Chancery Court. The two stockholders allege that, in connection with the merger transaction, we breached our fiduciary duties to the two stockholders and breached a contract with the stockholders. The claim relates principally to the allocation of consideration paid to us with respect to our interest in an affiliate of HQ Global that conducted international executive suites operations. The stockholders asked the court to rescind the transaction, or in the alternative to award compensatory and rescissory damages. The court determined that it would not rescind the merger transaction, but held open the possibility that compensatory damages could be awarded or that another equitable remedy might be available.

In connection with the HQ Global/VANTAS merger transaction, we agreed to indemnify all of the individuals who served as directors of HQ Global at the time of the transaction, including Oliver T. Carr, Jr. (who

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retired from our Board of Directors as of April 29, 2004), Thomas A. Carr and Philip L. Hawkins, who currently serve as directors and executive officers of us, with respect to any losses incurred by them arising out of the above litigation (as well as related litigation that was resolved in our favor in the second quarter of 2003), if they first tried and were unsuccessful in getting the losses reimbursed by HQ Global or from insurance proceeds. It was expected at the time that these former directors would be indemnified against any of these losses by HQ Global, as required by HQ Global s certificate of incorporation and bylaws. HQ Global indicated that it did not intend to satisfy its indemnity obligation to these directors. As a result, we have paid the costs incurred by these directors in connection with the above litigation. We have paid approximately $846,000 of costs pursuant to this indemnification arrangement, all of which represents amounts paid to legal counsel for these directors for this suit and the related litigation that was resolved in our favor in the second quarter of 2003. The directors of HQ Global involved in the Delaware litigation filed a proof of claim in the company s bankruptcy proceedings for their legal fees. A settlement of this claim was reached on June 25, 2004. In pertinent part, pursuant to the terms of the settlement agreement, the parties: (i) executed a mutual release of claims; (ii) agreed that the directors will be deemed to hold collectively a single allowed unsecured non-priority claim in the amount of $300,000 against the estate of HQ Global; and (iii) preserved the rights of the directors to pursue claims, if any, they may have against HQ Global s insurance carriers which have denied coverage for the claims in the Delaware litigation. This settlement has been approved by the bankruptcy court. We do not expect to receive any material proceeds as a result of the directors settlement of their proof of claim.

We believe that these claims, including those asserted against us and against the former directors who we are obligated to indemnify, are without merit and that we and the former directors will ultimately prevail in this action, although we cannot assure you that the court will not find in favor of these stockholders. If the court did find in favor of these stockholders, such adverse result or any indemnification obligation arising from such adverse result could have a material adverse effect on our results of operations. Currently, these stockholders have not asserted the amount of any potential damages and, based on the preliminary proceedings to date, we are unable to determine a potential range of loss with respect to the claims against us or the former directors.

Other Proceedings

We are party to a variety of other legal proceedings arising in the ordinary course of business. All of these matters, taken together, are not expected to have a material adverse impact on us.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY & RELATED STOCKHOLDER MATTERS

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol CRE. As of December 31, 2004, there were 386 stockholders of record. The following table sets forth the high and low sale prices of our common stock as reported on the NYSE Composite Tape, and the dividends paid per share of common stock for each quarterly period for the past two years.

2004	1Q	2Q	3Q	4Q	Full Year
High	$ 34.00	34.25	34.34	34.07	34.34
Low	29.17	26.63	29.81	31.40	26.63
Dividend	0.50	0.50	0.50	0.50	2.00

2003	1Q	2Q	3Q	4Q	Full Year
High	$ 25.60	28.76	30.00	31.62	31.62
Low	23.25	25.23	27.40	28.31	23.25
Dividend	0.50	0.50	0.50	0.50	2.00

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In order to qualify as a REIT, we are required to make ordinary dividend distributions to our stockholders. The amount of these distributions must equal at least:

i. the sum of (A) 90% of our REIT taxable income (computed without regard to the dividends paid deduction and our net capital gain) and (B) 90% of the net income (after tax), if any, from foreclosure property,

minus

ii. the sum of certain non-cash income items.

For federal income tax purposes, distributions may consist of ordinary income, capital gains, nontaxable return of capital or a combination of those items. Distributions that exceed our current and accumulated earnings and profits (calculated for tax purposes) constitute a return of capital rather than a dividend, which reduces a stockholder s basis in the shares of common stock and will not be taxable to the extent that the distribution equals or is less than the stockholder s basis in the stock. To the extent a distribution exceeds both current and accumulated earnings and profits and the stockholder s basis in the stock, that distribution will be treated as a gain from the sale or exchange of that stockholder s shares. Every year, we notify stockholders of the taxability of distributions paid during the preceding year.

The following table sets forth the approximate taxability of common stock distributions paid in 2004, 2003, and 2002:

	2004	2003	2002
Ordinary income	76%	79%	100%
Non-taxable distribution	24%	21%	

Cash flows from operations are an important factor in our ability to sustain our dividend at its current rate. Cash flows from operations increased slightly from $173.5 million in 2003 to $174.2 million in 2004. We expect our cash flows from operations to be lower in 2005 than 2004 and tenant improvements are expected to remain at elevated levels as a result of factors mentioned in the introduction to our Management s Discussion and Analysis, including but not limited to, lower expected lease termination fees, continued declines in rental rates compared to the rates on expiring leases and costs associated with a new lease in Washington, D.C. for approximately 394,000 rentable square feet. This lease requires the space to be taken out of service for a period of two to four months for remodeling for the new tenant, includes eight months of abated rent and requires significant capital investment in tenant improvements and lease commissions. We expect that these factors will negatively impact our cash flow from operations and our ability to cover our current common stock dividend payment level using cash flows from operations. We currently expect to maintain our common stock dividend rate of $0.50 per quarter in 2005. As a result, we may need to borrow under our line of credit or sell assets in order to maintain our common stock dividend at the current rate. There can be no assurance that circumstances may not change and as a result of poorer than expected operating results or the inability to obtain financing on favorable terms, or at all, that we will not later reduce our common stock dividend below the current rate. We generally are restricted from paying dividends that would exceed 90% of our funds from operations during any four-quarter period.

See Item 12 of this Annual Report on Form 10-K, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, for certain information regarding our equity compensation plans.

Item 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating information. The financial and operating data have been derived from our consolidated financial statements for each of the periods presented.

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The following selected financial and operating information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, and the financial statements and related notes included elsewhere in this Annual Report on Form 10-K:

(In thousands, except per share data)	Year Ended December 31,				
	2004	2003	2002	2001	2000
Operating Data:					
Rental revenue	$ 468,993	$ 461,190	$ 462,530	$ 453,304	$ 482,612
Real estate service revenue	23,328	24,337	24,538	31,037	26,172
Income from continuing operations	69,146	54,236	72,811	55,358	125,557
Income and gain from discontinued operations[1]	24,441	18,701	36,494	21,703	53,910
Net income	93,587	72,937	109,305	79,061	179,467
Dividends paid to common stockholders	108,272	104,293	105,929	114,106	123,245
Share and Per Share Data:					
Basic net income from continuing operations[2]	0.99	0.53	0.72	0.34	1.37
Diluted net income from continuing operations[2]	0.98	0.53	0.71	0.33	1.33
Diluted net income from discontinued operations	0.45	0.36	0.68	0.39	0.80
Dividends paid to common shareholders	2.00	2.00	2.00	1.85	1.85
Weighted average shares outstanding - basic	53,903	51,913	52,817	61,010	66,221
Weighted average shares outstanding - diluted	54,414	52,573	53,727	62,442	67,649

(In thousands)	As of or for the Year Ended December 31,				
	2004	2003	2002	2001	2000
Balance Sheet Data:					
Real estate, before accumulated depreciation	$ 3,338,554	$ 3,134,072	$ 3,043,887	$ 2,920,519	$ 2,878,713
Total assets	3,081,192	2,836,018	2,817,920	2,778,543	3,072,841
Mortgages and notes payable	1,941,130	1,727,648	1,603,949	1,399,230	1,204,007
Minority interest	65,378	70,456	76,222	83,393	89,687
Total stockholders equity	926,971	907,571	997,791	1,177,807	1,646,706
Total common shares outstanding	54,890	52,881	51,836	51,965	65,018
Other Data:					
Net cash provided by operating activities	$ 174,230	$ 173,478	$ 215,239	$ 220,830	$ 179,054
Net cash (used by) provided by investing activities	(295,862)	(95,942)	(47,186)	101,204	567,477
Net cash provided by (used by) financing activities	122,068	(78,475)	(170,972)	(338,581)	(773,713)

1 In 2004, 2003 and 2002, we sold or held for sale operating properties whose operations and gain are classified as discontinued operations for all years presented. For 2000, discontinued operations also includes HQ Global.

2 EPS for 2002 has been restated for the retroactive application of EITF Issue D-42 to reflect original issuance costs associated with preferred stock redeemed as a reduction of net income available to common shareholders in calculating EPS. The effect of this change was to retroactively reduce EPS by $0.09 per share in 2002.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The discussion that follows is based primarily on our consolidated financial statements as of December 31, 2004 and 2003, and for the years ended December 31, 2004, 2003 and 2002 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 years. The number of operating office buildings that we owned and were consolidated in the financial statements were 251 in 2004, 259 in 2003 and 260 in 2002.

As a result of the weak economic climate over the last several years, the office real estate markets were materially affected. The contraction of office workforces reduced demand for office space and overall vacancy rates for office properties increased in all of our markets through 2002 and our operations were adversely impacted. In 2003, vacancy rates appeared to peak in many of our markets and some positive net absorption of space started to occur. In 2004, the positive trend of reduced vacancy rates and positive net absorption continued in most of our markets. As a result of improved job growth, leasing activity is up significantly, and we believe that market rental rates have stabilized in all of our markets and are beginning to improve in some of our markets including Washington, D.C and Southern California. Rental economics are expected to improve in most of our markets by the end of 2005.

Due to the improving market conditions described above and the elimination of most of our poor credit quality tenants through lease defaults and terminations in the last few years, we believe that our average occupancy in most markets stabilized in the second half of 2004. Our occupancy in the portfolio of operating properties increased to 88.2% at December 31, 2004 compared to 87.8% at December 31, 2003 and 92.3% at December 31, 2002. If demand continues to improve in 2005, we expect that our overall portfolio average occupancy may improve further. Our occupancy improved slightly in 2004 over 2003 due to acquisitions of properties with higher occupancies and dispositions of certain low occupancy properties. Our same store (properties we owned in both years) occupancy was 88.0% in 2004 compared to 90.2% in 2003, although same store occupancy began to improve in the second half of 2004 increasing from 87.1% at June 30, 2004 to 88.0% at December 31, 2004. In connection with terminating tenants in 2004, we earned $7.0 million of termination fees. These fees are non-recurring in nature and while we expect we will earn modest termination fees in 2005, we expect that they will be substantially lower than in 2004.

Rental rates on space that was re-leased in 2004 decreased an average of 14.4% in comparison to rates that were in effect under expiring leases. While market rental rates have stabilized in our markets, rental rates on in-place leases in certain markets remain significantly above current market rental rates. We estimate that market rental rates on leased space expiring in 2005 will be, on average, approximately 8%-12% lower than straight-lined rents on expiring leases. We have 1.6 million square feet of space on which leases are currently scheduled to expire in 2005.

We expect real estate service revenue to be significantly lower in 2005 than 2004 due to lower development and leasing fees.

During 2003 and continuing in 2004, we experienced increases in tenant improvement and leasing costs as compared to historical levels as a result of competitive market conditions. We expect that tenant improvements will continue at high levels in 2005 due to continuing competitive market conditions. Additionally, we expect to incur unusually high levels of tenant improvements and lease commissions due to the commencement of a 394,000 square foot lease in Washington, D.C. In connection with this lease, we expect to incur $17.5 million of tenant improvements and lease commissions in 2005 with additional amounts being incurred in 2006. The existing tenant will vacate the space on June 30, 2005 and this space will be taken out of service during the period required to prepare the space for the new tenant, which we estimate to be between two and four months. In addition to high levels of tenant improvements and commissions, we will not recognize any revenue from the

new lease during the period the space is not in service.

In December 2003, our Board of Directors approved a plan to restructure the manner in which we hold our assets by converting to what is commonly referred to as an umbrella partnership REIT, or UPREIT, structure. To effect the UPREIT restructuring, we formed CarrAmerica Realty Operating Partnership, L.P., or the Operating Partnership, to which we contributed substantially all of our assets on June 30, 2004 in exchange for 100% of the units of common and preferred partnership interest in the Operating Partnership and the assumption by the Operating Partnership of substantially all of our liabilities, including the assumption of the obligations under our unsecured credit facility and our senior unsecured notes. At December 31, 2004, we owned all of the outstanding units of partnership interest of the Operating Partnership.

Since the UPREIT restructuring, substantially all of our business is being conducted through the Operating Partnership and our primary asset is our interest in the Operating Partnership. We undertook the UPREIT restructuring to enable us to better compete with other office REITs, many of which are structured as UPREITs, for the acquisition of properties from tax-motivated sellers. As a result of the UPREIT restructuring, the Operating Partnership can issue units of limited partnership interest in the Operating Partnership to tax-motivated sellers who contribute properties to the Operating Partnership, thereby enabling those sellers to realize certain tax benefits that would be unavailable if we purchased properties directly for cash.

General

During 2004 we completed the following significant transactions:

- We issued $225.0 million principal amount of 3.625% senior unsecured notes in March 2004 with net proceeds of approximately $222.7 million which were used to pay down amounts outstanding under our unsecured line of credit. The notes mature on April 1, 2009.

- We entered into a $100.0 million interest rate swap in connection with the issuance of the 3.625% senior unsecured notes which qualifies for fair value hedge accounting.

- We issued $200.0 million principal amount of 5.125% senior unsecured notes in August 2004 with net proceeds of approximately $197.2 million which were used to pay down amounts outstanding under our unsecured line of credit. The notes mature on September 1, 2011.

- We retired $150.0 million of senior unsecured notes with proceeds from our unsecured line of credit.

- We disposed of 14 operating properties (20 buildings) generating net proceeds of approximately $213.0 million.

- A joint venture in which we are 50% partner disposed of an operating property generating net proceeds to the joint venture of $41.3 million.

- We purchased 6 operating properties (12 buildings) with 1.5 million rentable square feet for $449.2 million.

- We acquired for $14.4 million a 20% interest in a joint venture which purchased operating properties and land.

We entered into a three year $500.0 million unsecured revolving credit agreement with JPMorgan Chase Bank as administrative agent for a syndicate of banks.

We completed our UPREIT conversion in June 2004.

During 2003, we completed the following significant transactions:

We repurchased 322,600 shares of our common stock for approximately $7.9 million.

We redeemed 10.2 million shares of our Series B, C and D Redeemable Preferred Stock for $254.5 million excluding dividends.

We disposed of five operating properties and one parcel of land generating net proceeds of approximately $51.9 million.

We acquired interests in four operating properties, directly or through joint ventures, for an aggregate investment of $112.4 million, including assumed debt.

We issued 8.05 million shares of preferred stock for net proceeds of approximately $194.7 million.

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During 2002, we completed the following significant transactions:

We acquired five operating properties for an aggregate purchase prices of approximately $216.1 million including assumed debt.

We disposed of four operating properties (one owned through a joint venture) for aggregate net proceeds of approximately $176.1 million.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates 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 and estimates relate to estimating the depreciable lives of assets, evaluating the impairment of long-lived assets and investments, allocating the purchase cost of acquired properties, assessing our probable liability under lease guarantees for HQ Global Workplaces, Inc. (HQ Global) and evaluating the collectibility of accounts receivable.

Depreciation of rental properties is computed on a straight-line basis over the estimated useful lives of the assets. The estimated lives of our assets by class are as follows:

Base building	30 to 50 years
Building components	7 to 20 years
Tenant improvements	Lesser of the terms of the leases or useful lives of the assets
Furniture, fixtures and equipment	5 to 15 years

We make subjective assessments as to the useful lives of our assets. These assessments have a direct impact on our net income. Should we lengthen the expected useful life of an asset, it would be depreciated over a longer period, resulting in less depreciation expense and higher annual net income. Should we shorten the expected useful life of an asset, it would be depreciated over a shorter period, resulting in more depreciation expense and lower annual net income.

We assess the carrying value of our long-lived assets on a regular basis. 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 and related assets, such as tenant improvements, lease commissions and in-place lease intangibles, are written down to estimated fair value and an impairment loss is recognized. If we decide to sell rental properties or land holdings, 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 and related assets are written down to estimated fair value less costs to sell and an impairment loss is recognized. 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. Changes in estimated future cash flows due to changes in our plans or views of market and economic conditions could result in recognition of additional impairment losses which, under applicable accounting guidance, could be substantial.

We allocate the purchase cost of acquired properties to the related physical assets and in-place leases based on their fair values. The fair values of acquired office buildings are determined on an if-vacant basis considering a variety of factors, including the physical condition and quality of the buildings, estimated rental and absorption rates, estimated future cash flows and valuation assumptions consistent with current market conditions. The if-vacant fair value is allocated to land, where applicable, buildings, tenant improvements and equipment based on property tax assessments and other relevant information obtained in connection with the acquisition of the property.

The fair value of in-place leases includes the effect of leases with above or below market rents, where applicable, customer relationship value and the cost of acquiring existing tenants at the date of acquisition. Above market and below market in-place lease values are determined on a lease by lease basis based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (a) the

contractual amounts to be paid under the lease and (b) our estimate of the fair market lease rate for the corresponding space over the remaining non-cancellable terms of the related leases. The capitalized below market lease values are amortized as an increase to rental revenue over the initial term and any below market renewal periods of the related leases. Capitalized above market lease values are amortized as a decrease to rental revenue over the initial term of the related leases. Customer relationship values are determined based on our evaluation of the specific characteristics of each tenant s lease and our overall relationship with the tenant. Characteristics we consider include the nature and extent of our existing business relationships with the tenant, prospects for developing new business with the tenant, the tenant s credit quality and expectations of lease renewals. The value of customer relationship intangibles is amortized to expense over the lesser of the initial lease term and any expected renewal periods or the remaining useful life of the building. We determine the fair value of the cost of acquiring existing tenants by estimating the lease commissions avoided by having in-place tenants and the avoided lost operating income for the estimated period required to lease the space occupied by existing tenants at the acquisition date. The cost of acquiring existing tenants is amortized to expense over the initial term of the respective leases. Should a tenant terminate its lease early, the unamortized portion of the in-place lease value is charged to expense. Changes in the assumptions used in the allocation of the purchase cost among the acquired assets would affect the timing of recognition of the related revenue and expenses.

As a result of the bankruptcy of HQ Global, we were required to make estimates regarding our probable liability under guarantees of HQ Global s performance under four office leases. After carefully evaluating the facts and circumstances of each property and developments in the bankruptcy proceedings, we accrued a loss of $8.7 million in 2002, our best estimate of the probable liability related to these guarantees. Our estimated loss was based on such factors as the expected period of vacancy for the space before it could be relet, expected rental rates and other factors. Circumstances surrounding these guarantees changed and we accrued a net additional loss of $0.8 million in the third quarter of 2003.

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 amount of security we hold, 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. Metro areas). We increased our provision for uncollectible accounts (and related accrued straight-line rents) by approximately $1.6 million, $2.6 million and $7.1 million for 2004, 2003 and 2002, respectively. The decrease in the addition to our provision for uncollectible accounts in 2004 was due primarily to a reduction in delinquent tenants accounts as marginal tenants leases were terminated or sublet and the effects of an improving economy.

RESULTS OF OPERATIONS

Property Operating Revenue

Property operating revenue is summarized as follows:

	For the year ended December 31,			Variance	
(In millions)	2004	2003	2002	2004 vs. 2003	2003 vs. 2002
Minimum base rent	$ 395.1	$ 381.0	$ 381.6	$ 14.1	$ (0.6)

Recoveries from tenants	55.8	62.0	67.4	(6.2)	(5.4)
Parking and other tenant charges	18.1	18.2	13.6	(0.1)	4.6

Property operating revenue is composed of minimum base rent from our office buildings, revenue from the recovery of operating expenses from our tenants and other revenue such as parking and termination fees. Occupancy rates in our buildings began to decline in most of our markets in late 2001 and continued to decline through 2003. In second half of 2003, occupancy rates began to stabilize in most of our markets. The decline

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negatively affected our operating revenue. Occupancy in stabilized buildings (buildings in operation more than one year) by market as of December 31, 2004, 2003 and 2002 was as follows:

	December 31, 2004		December 31, 2003		December 31, 2002	
Market	Rentable Sq. Footage	Percent Leased	Rentable Sq. Footage	Percent Leased	Rentable Sq. Footage	Percent Leased
Washington, DC Metro	4,258,212	97.5	3,710,396	96.6	3,522,714	96.7
Chicago	1,225,117	64.7	1,225,699	69.1	1,237,565	86.4
Atlanta			1,690,565	81.2	1,774,263	83.4
Dallas	1,005,655	86.2	1,006,267	80.7	1,007,309	86.6
Austin	265,901	74.3	432,050	80.9	432,083	88.0
Denver	904,717	92.1	904,717	93.3	815,529	97.8
Phoenix	532,506	100.0	532,506	100.0	532,506	100.0
Portland	275,193	81.8	275,193	80.7	275,193	80.7
Seattle	1,498,473	77.1	1,498,804	78.7	1,501,368	96.8
Salt Lake City	628,399	89.5	628,331	86.2	630,029	92.7
San Francisco Bay Area	6,323,849	87.1	5,667,632	88.3	5,507,607	94.7
Los Angeles	660,226	83.1	658,831	94.0	657,611	86.0
Orange County, CA	971,691	94.7	970,255	93.0	1,155,153	83.1
San Diego	1,313,886	93.3	1,191,950	92.0	1,254,095	95.8
Total	19,863,825	88.2	20,393,196	87.8	20,303,025	92.3

Minimum Base Rent

Minimum base rent increased $14.1 million (3.7%) in 2004 compared to 2003. The increase in minimum base rent was due primarily to rents from two buildings acquired in late 2003 and twelve buildings acquired in 2004 ($23.0 million) partially offset by increased vacancies and lower rental rates for new and renewing tenants ($8.9 million). Minimum base rent decreased $ 0.6 million (0.2%) in 2003 as compared to 2002. The decrease in minimum base rent in 2003 was due primarily to higher vacancies and lower rental rates for new and renewing tenants ($20.9 million), partially offset by higher base rents from buildings we acquired in 2003 and 2002 ($20.3 million).

Our lease rollover by square footage and rent at December 31, 2004 is as follows:

Year of Lease Expiration	Net Rentable Area Subject to Expiring Leases (sq. ft.)	Annual Base Rent Under Expiring Leases (000 s)	Percent of Total Annual Base Rent Represented by Expiring Leases
2005	1,646,396	$ 33,226	7.9%
2006	2,981,490	73,970	17.5%
2007	2,555,108	59,605	14.1%

2008	2,555,509	54,475	12.9%
2009	2,693,784	52,130	12.3%
2010	1,302,752	31,074	7.4%
2011	684,362	17,044	4.0%
2012	876,407	21,973	5.2%
2013	636,881	15,933	3.8%
2014	294,233	7,267	1.7%
2015 and thereafter	1,297,459	55,473	13.1%

[1] Does not include 2.3 million square feet of vacant space.

Recoveries from Tenants

Recoveries from tenants decreased $6.2 million (10.0%) in 2004 from 2003. Recoveries from tenants decreased $5.4 million (8.0%) in 2003 from 2002. The reductions in recoveries from tenants are primarily the result of higher average vacancies and new base years for new and renewing tenants partially offset by the effects of building acquisitions.

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Parking and Other Tenant Charges

Parking and other tenant charges decreased $0.1 million (0.5%) in 2004 from 2003. Lease termination fees were $0.6 million higher in 2004 ($7.0 million) than 2003 ($6.4 million) offset by lower parking and tenant charges. Lease termination fees are paid by a tenant in exchange for our agreement to terminate the lease earlier than the date specified in the lease agreement. Vacancies created as a result of these terminations negatively impact future rents until the space is relet. This increase was offset by lower tenant charges in 2004, primarily because tenant charges for 2003 included a non-recurring fee to restore a tenant s space ($1.2 million). Parking and other tenant charges increased $4.6 million (33.8%) in 2003 from 2002. Lease termination fees were $2.0 million higher in 2003 ($6.4 million) than 2002 ($4.4 million). Other tenant charges increased $2.6 million in 2003 from 2002 due primarily to a fee to restore a tenant s space ($1.2 million) and increased parking revenue, principally from acquired properties ($1.4 million).

Property Expenses

Property expenses are summarized as follows:

(In millions)	For the year ended December 31,			Variance	
	2004	2003	2002	2004 vs. 2003	2003 vs. 2002
Property operating expenses	$ 120.3	$ 118.9	$ 116.0	$ 1.4	$ 2.9
Real estate taxes	41.4	40.8	41.0	0.6	(0.2)

Property operating expenses increased $1.4 million (1.2%) in 2004 from 2003 due primarily to the acquisition of properties ($4.3 million) partially offset by insurance expense reductions as a result of lower premiums for the 2004-2005 renewal period. Property operating expenses increased $2.9 million (2.5%) in 2003 from 2002 due primarily to the acquisition of properties ($6.8 million) partially offset by a reduction in bad debt expense ($4.5 million).

Real estate taxes increased $0.6 million (1.5%) in 2004 from 2003 due primarily to the acquisition of properties ($2.6 million) partially offset by real estate tax refunds, principally in California. Real estate taxes decreased $0.2 million (0.5%) in 2003 from 2002 as a result of real estate tax refunds and lower property assessments partially offset by the acquisition of properties in 2003 and 2002 ($2.2 million).

Property Operating Income

Property operating income is the performance measure used to assess the results of our real estate property operations segment. We believe that the presentation of property operating income is helpful to investors as a measure of the operating performance of our office properties because it excludes items that do not relate to or are not indicative of operating performance of the properties (including interest and depreciation and amortization) and which can make periodic comparisons of operating performance more difficult. Property operating income, defined as

property operating revenue less property expenses, is summarized as follows:

(In millions)	For the year ended December 31, 2004	2003	2002	Variance 2004 vs. 2003	Variance 2003 vs. 2002
Property operating income	$ 307.3	$ 301.5	$ 305.5	$ 5.8	$ (4.0)
Property operating income percent	65.5%	65.4%	66.0%		

Property operating income increased $5.8 million (1.9%) in 2004 compared to 2003 due primarily to the impact of properties acquired in late 2003 and 2004 partially offset by the impact of increased vacancies on rental

income and recovery revenue. Property operating income decreased $4.0 million (1.3%) in 2003 compared to 2002 due primarily to the impact of increased vacancies on rental income and recovery revenue. Property operating income as a percentage of property operations revenue was relatively unchanged in 2004 at 65.5% from 65.4% in 2003. Property operating income as a percentage of property operations revenue declined to 65.4% in 2003 from 66.0% in 2002 due primarily to the impact of increased vacancies on rental income and recovery revenue.

Real Estate Service Revenue

Real estate service revenue, which includes our third party property management services and our development services decreased $1.0 million in 2004 compared to 2003 due primarily to lower development fees ($2.0 million) partially offset by higher leasing fees ($1.0 million). We earned one-time development incentive fees of $2.1 million from third parties in 2003. Real estate service revenue was relatively flat in 2003 compared to 2002. Real estate service revenue was flat as a result of decreased facilities and property management revenues ($0.7 million) partially offset by increased leasing fee revenues ($0.5 million). Real estate service revenue in 2003 included $2.1 million of one-time incentive fees related to development projects which offset a decrease in non-incentive based development fee revenue of approximately the same amount.

General and Administrative Expense

General and administrative expenses decreased $0.9 million (2.1%) in 2004 from 2003 due primarily to lower compensation costs as a result of personnel reductions. General and administrative expenses increased $1.1 million (2.7%) in 2003 from 2002 due primarily to higher compensation costs, including incentive compensation.

Depreciation and Amortization

Depreciation and amortization increased $8.5 million (7.0%) in 2004 from 2003 and $6.5 million (5.6%) in 2003 from 2002 due primarily to property acquisitions, including the amortization of related intangible assets.

Interest Expense

Interest expense increased $10.5 million in 2004 from 2003. This increase was due primarily to prepayment penalties on mortgages we repaid early due to their high interest rates ($3.3 million), higher average debt levels ($9.7 million) to finance our acquisitions of properties and a reduction in capitalized interest ($1.3 million) partially offset by a decrease in our weighted average interest rate of approximately 26 basis points ($3.8 million).

Interest expense increased $5.5 million (5.5%) in 2003 from 2002. This increase was due primarily to higher average debt levels ($13.4 million) to finance our repurchases of common and preferred stock in the latter half of 2002 and 2003 and our acquisitions of properties. The effect of this increase was partially offset by a decrease in our weighted average interest rate of approximately 50 basis points ($9.5 million) and a reduction in capitalized interest ($1.6 million).

Other Income and Expense

Other income (expense) was $9.4 million, $6.3 million and $(0.9) million in 2004, 2003 and 2002, respectively. Equity in earnings of unconsolidated entities decreased $0.3 million in 2004 from 2003 and $0.2 million in 2003 from 2002. The decrease in equity in earnings in 2004 from 2003 was due primarily to the sale of a property in a joint venture which included a significant debt prepayment penalty ($1.3 million) partially offset by new investments. The decrease in 2003 from 2002 was primarily due to increased vacancies partially offset by new investments.

Other items affecting other income and expense included increased interest income from our notes receivable ($2.3 million and $0.3 million in 2004 and 2003, respectively) and losses we accrued in 2003 and 2002 related to lease guarantees associated with HQ Global of $0.8 million and $8.7 million, respectively.

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Gain on Sale of Properties, Impairment Losses on Real Estate and Discontinued Property Operations

The tables below summarize property sales for 2004, 2003 and 2002:

2004

Property Name	Market	Month Sold	Number of Buildings	Rentable Square Footage	Net Proceeds (000)	Gain Recognized (000)
Tower of the Hills[1]	Austin, TX	Mar-04	2	166,149	$ 10,512	$ 66
Atlanta Portfolio*	Atlanta, GA	Sep-04	15	1,696,757	191,190	19,804
First Street Technology[2]	San Francisco, CA	Dec-04	1	67,582	4,760	
Valley Business Park I[3]	San Francisco, CA	Dec-04	2	67,785	6,543	

1 We recognized an impairment loss of $3.0 million on this property in the fourth quarter of 2003.
2 We recognized an impairment loss of $2.2 million on this property in the fourth quarter of 2004.
3 We recognized an impairment loss of $0.3 million on this property in the fourth quarter of 2004.
* 15 operating office buildings located in Atlanta, Georgia. The properties were Glenridge, Holcomb Place, Midori, Parkwood, Summit, Spalding Ridge, 2400 Lake Park Dr., 680 Engineering Dr., Embassy Row, Waterford and Forum.

2003

Property Name	Market	Sale Date	Number of Buildings	Square Footage	Net Cash Proceeds (000)	Gain Recognized (000)
Wateridge	San Diego, CA	May-03	1	62,194	$ 9,277	$ 3,571
Katella	Los Angeles, CA	Aug-03	1	80,609	10,138	3,627
Pacificare	Los Angeles, CA	Sep-03	1	104,377	14,485	6,380
Lakewood[1]	Atlanta, GA	Sep-03	1	80,816	4,621	48
Century Springs	Atlanta, GA	Nov-03	1	95,206	7,091	310

1 We recognized an impairment loss of $2.7 million on this property in the second quarter of 2003.

2002

Property Name	Market	Sale Date	Number of Buildings	Square Footage	Net Cash Proceeds (000)	Gain Recognized (000)
Wasatch 17	Salt Lake City, UT	May-02	1	72,088	$ 10,699	$ 3,340
Commons @ Las Colinas	Dallas, TX	Aug-02	3	604,234	118,720	19,085
Braker Point	Austin, TX	Aug-02	1	195,230	38,469	7,041

We dispose of assets (sometimes using tax-deferred exchanges) 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 2004, we disposed of 12 operating properties (17 buildings) recognizing gains $19.9 million. We also disposed of two operating properties (3 buildings) on which we recognized impairment losses of $2.5 million. We have no continuing involvement with these properties and, accordingly, the gains on these sales and impairment losses are classified as discontinued operations.

During the fourth quarter of 2004, an unconsolidated entity in which we held an interest sold an office property. We recognized a gain from this sale of $20.1 million which is classified as continuing operations. In addition, we reversed a tax provision of $7.5 million related to a property sale in 2000 as a result of the favorable resolution of a tax contingency.

During 2003, we disposed of five operating properties and one parcel of land, recognizing a gain of $14.5 million, $10.3 million of which is classified as discontinued operations. We continue to manage two properties (Wateridge and Lakewood) under management agreements and the gain on these sales and the operating results of these properties are not classified as discontinued operations due to our continuing involvement. We have no

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continuing involvement with the Katella, Pacificare and Century Springs properties and, accordingly, the gains on these sales and the operating results of the properties are classified as discontinued operations. We also recognized an impairment loss of $2.7 million on the Lakewood property and an impairment loss of $1.5 million on land holdings which are classified as continuing operations and an impairment loss of $3.0 million on our Tower of the Hills property which is classified as discontinued operations. Tower of the Hills was subject to a contract of sale at December 31, 2003, and met our criteria for the property and related assets to be classified as held for sale at that date. The sale of the property closed in the first quarter of 2004.

During 2002, we disposed of four operating properties (five buildings), recognizing a gain of $29.8 million, $19.1 million of which is classified as discontinued operations. We had no continuing involvement with Commons at Las Colinas and, accordingly, the gain on sale and results of operations of that property are classified as discontinued operations. We continued to manage two of the properties (Wasatch 17 and Braker Point) under management agreements and, accordingly, the gains on these sales and operating results of these properties are classified as continuing operations due to our continuing involvement. We also recognized impairment losses of $2.5 million on land holdings and our share of a gain on a sale of a property in which we held an interest through an unconsolidated entity ($4.9 million) in continuing operations.

The operating results of the properties classified as discontinued operations are summarized as follows:

(In thousands)	2004	2003	2002
Revenues	$ 22,203	$ 37,427	$ 48,419
Property expenses	9,733	15,206	15,713
Depreciation and amortization	5,375	10,792	15,297
Net operations of properties sold	7,095	11,429	17,409
Impairment losses	(2,524)	(3,045)	
Gain on sale of properties	19,870	10,317	19,085
Discontinued operations	$ 24,441	$ 18,701	$ 36,494
Number of buildings	20	23	26

Discontinued operations - net operations of properties sold decreased $4.3 million in 2004 from 2003 and $6.0 million for 2003 compared to 2002. The decreases in net operations of properties sold are due primarily to the number of properties included and their holding periods in the year of sale.

We are currently marketing for sale CarrAmerica Corporate Center, an approximately 1.0 million rentable square feet property, in the San Francisco Bay area of California and two properties with approximately 0.3 million rentable square feet in Southern California. The three properties had a net book value at December 31, 2004 of approximately $132.7 million. We are seeking to consummate the transactions by the end of the first quarter, but there can be no assurance that the properties will be marketed successfully or that, even if marketed successfully, the sales will be completed in the expected time frame. The properties did not meet our criteria to be classified as held for sale for financial reporting purposes at December 31, 2004.

Consolidated Cash Flows

Consolidated cash flow information is summarized as follows:

	For the year ended December 31,			Variance	
(In millions)	**2004**	**2003**	**2002**	**2004 vs. 2003**	**2003 vs. 2002**
Cash provided by operating activities	$ 174.2	$ 173.5	$ 215.2	$ 0.7	$ (41.7)
Cash used by investing activities	(295.9)	(95.9)	(47.2)	(200.0)	(48.7)
Cash provided by (used by) financing activities	122.1	(78.5)	(171.0)	200.6	92.5

Operations generated $174.2 million of net cash in 2004 compared to $173.5 million in 2003 and $215.2 million in 2002. 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.

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Our investing activities used net cash of $295.9 million in 2004, $95.9 million in 2003 and $47.2 million in 2002. The change in cash flows from investing activities in 2004 from 2003 was due primarily to increased property acquisitions ($376.0 million) and additional funding of notes receivable ($23.2 million). These increases in cash usage were partially offset by increased proceeds from sales of properties ($169.8 million) and increased distributions and decreased investments in unconsolidated entities ($15.8 million and $13.1 million, respectively). The change in cash flows from investing activities in 2003 from 2002 was due primarily to lower proceeds from sales of properties ($109.8 million) and increased investments in unconsolidated entities ($14.7 million), partially offset by decreased property acquisitions ($79.5 million).

Our financing activities provided net cash of $122.1 million in 2004 compared to using net cash of $78.5 million in 2003 and $171.0 million in 2002. The increase in cash provided by financing activities in 2004 from 2003 was due primarily to increased net borrowings ($111.2 million), increased stock option exercises ($21.3 million) and a decrease in net stock repurchases and issuances ($67.7 million). The decrease in net cash used by financing activities in 2003 from 2002 was due primarily to the issuance of preferred stock ($194.7 million) and lower dividend payments ($13.1 million) partially offset by higher share repurchases and redemptions ($81.0 million) and decreased net borrowings ($27.6 million).

LIQUIDITY AND CAPITAL RESOURCES

General

Our primary sources of capital are our real estate operations and our unsecured credit facility. As of December 31, 2004, we had approximately $4.7 million in cash and cash equivalents and $169.1 million available for borrowing under our unsecured credit facility. We derive substantially all of our revenue from tenants under 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.

Our primary uses of cash are to fund distributions to securityholders, to fund capital investment in our existing portfolio of operating assets, and to fund new acquisitions and our development activities. As a REIT, we are required to distribute at least 90% of our taxable income to our stockholders on an annual basis. We also regularly require capital to invest in our existing portfolio of operating assets in connection with large-scale renovations, routine capital improvements, deferred maintenance on properties we have recently acquired, and our leasing activities, including funding tenant improvements, allowances and leasing commissions. The amounts of the leasing-related 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.

During 2005, we expect that we will have significant capital requirements, including the following items. There can be no assurance that our capital requirements will not be materially higher or lower than these expectations.

* Funding dividends on our common and preferred stock and making distributions to third party unit holders in certain of our subsidiaries;
* Approximately $85-100 million to invest in our existing portfolio of operating assets, including approximately $70-90 million to fund tenant-related capital requirements;
*

$100 million to retire our 6.625% senior unsecured notes maturing March 2005, which we expect to pay at or before the scheduled maturity date from amounts drawn on our line of credit or from the proceeds of property dispositions and other borrowings; and

* Approximately $7-8 million to fund mezzanine loans we have committed to make in connection with two projects for which we are providing development management services.

We expect to meet our capital requirements using cash generated by our real estate operations, by borrowings on our unsecured credit facility, and from proceeds from the sale of properties. We could also raise additional debt or equity capital in the public market or fund acquisitions of properties through property-specific mortgage debt.

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We believe that we will generate sufficient cash flow from operations and the disposition of assets and 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. 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 may not be able to pay the dividend required under the terms of our preferred stock or to maintain our status as a REIT, make required principal and interest payments, make strategic acquisitions or make necessary routine capital improvements with respect to our existing portfolio of operating assets. Also if, as a result of general economic downturns, our credit rating is downgraded, rental rates on new leases are significantly lower than expiring leases or our properties do not otherwise perform as expected, we may not generate sufficient cash flow from operations or otherwise have access to capital on favorable terms, or at all. Any of these events could have a material adverse effect on our liquidity, financial condition, results of operations and the trading prices of our securities. 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 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 most cases, very little of the principal amount that we borrow is repaid prior to the maturity of the loan. We may refinance that debt when it matures, or we may pay off the loan. If principal amounts due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, 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.

Capital Structure

We manage our capital structure to reflect a flexible long-term investment approach, generally seeking to match the stable return nature of our assets with a mix of equity and various debt instruments. We expect that our capital structure will allow us to obtain additional capital from diverse sources that could include additional equity offerings of common stock and/or preferred stock, public and private debt financings and possible asset dispositions. Our ability to raise funds through sales of debt and equity securities is dependent on, among other things, general economic conditions, general market conditions for REITs, rental rates, occupancy levels, 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.

In December 2003, our Board of Directors approved a plan to restructure the manner in which we hold our assets by converting to what is commonly referred to as an umbrella partnership REIT, or UPREIT, structure. To effect the UPREIT restructuring, we formed CarrAmerica Realty Operating Partnership, L.P., or the Operating Partnership, to which we contributed substantially all of our assets on June 30, 2004 in exchange for 100% of the units of common and preferred partnership interest in the Operating Partnership and the assumption by the Operating Partnership of substantially all of our liabilities, including the assumption of the obligations under our unsecured credit facility and our senior unsecured notes. At December 31, 2004, we owned all of the outstanding units of partnership interest of the Operating Partnership.

Since the UPREIT restructuring, substantially all of our business is being conducted through the Operating Partnership and our primary asset is our interest in the Operating Partnership. We undertook the UPREIT restructuring to enable us to better compete with other office REITs, many of which are structured as UPREITs, for the acquisition of properties from tax-motivated sellers. As a result of the UPREIT restructuring, the Operating Partnership can issue units of limited partnership interest in the Operating Partnership to tax-motivated sellers who contribute properties to the Operating Partnership, thereby enabling those sellers to realize certain tax benefits that would be unavailable if we purchased properties directly for cash.

The Operating Partnership is capitalized through the issuance of units. We serve as the sole general partner of the Operating Partnership and currently own the general partnership interest and substantially all of the common limited partnership interest. Our wholly owned subsidiary, CarrAmerica OP, LLC, a Delaware limited liability company, owns a nominal common limited partnership interest in the Operating Partnership. Together, we and CarrAmerica OP, LLC own a number of common units in the Operating Partnership equal to the number of shares of our common stock outstanding. In connection with the UPREIT conversion, the Operating Partnership issued to us 8,050,000 Series E Cumulative Redeemable Preferred Partnership Units with terms that are substantially the same as the economic terms of our Series E preferred stock.

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The Operating Partnership is managed by us as the sole general partner of the Operating Partnership. Even if we in the future admit additional limited partners, as the sole general partner of the Operating Partnership, we will generally have the exclusive power under the partnership agreement to manage and conduct the business of the Operating Partnership, subject to certain limited approval and voting rights of the limited partners, in most cases including us.

Real Estate Operations

As a result of the weak economic climate over the last several years, the office real estate markets were materially affected. The contraction of office workforces reduced demand for office space and overall vacancy rates for office properties increased in all of our markets through 2002 and our operations were adversely impacted. In 2003, vacancy rates appeared to peak in many of our markets and some positive net absorption of space started to occur. In 2004, the positive trend of reduced vacancy rates and positive net absorption continued in most of our markets. As a result of improved job growth, leasing activity is up significantly, and we believe that market rental rates have stabilized in all of our markets and are beginning to improve in some of our markets including Washington, D.C and Southern California. Rental economics are expected to improve in most of our markets by the end of 2005.

Due to the improving market conditions described above and the elimination of most of our poor credit quality tenants through lease defaults and terminations in the last few years, we believe that our average occupancy in most markets stabilized in the second half of 2004. Our occupancy in the portfolio of operating properties increased to 88.2% at December 31, 2004 compared to 87.8% at December 31, 2003 and 92.3% at December 31, 2002. If demand continues to improve in 2005, we expect that our overall portfolio average occupancy may improve further. Our occupancy improved slightly in 2004 over 2003 due to acquisitions of properties with higher occupancies and dispositions of certain low occupancy properties. Our same store (properties we owned in both years) occupancy was 88.0% in 2004 compared to 90.2% in 2003, although same store occupancy began to improve in the second half of 2004 increasing from 87.1% at June 30, 2004 to 88.0% at December 31, 2004. In connection with terminating tenants in 2004, we earned $7.0 million of termination fees. These fees are non-recurring in nature and while we expect we will earn modest termination fees in 2005, we expect that they will be substantially lower than in 2004.

Rental rates on space that was re-leased in 2004 decreased an average of 14.4% in comparison to rates that were in effect under expiring leases. While market rental rates have stabilized in our markets, rental rates on in-place leases in certain markets remain significantly above current market rental rates. We estimate that market rental rates on leased space expiring in 2005 will be, on average, approximately 8%-12% lower than straight-lined rents on expiring leases. We have 1.6 million square feet of space on which leases are currently scheduled to expire in 2005.

Debt Financing

We generally use unsecured, corporate-level debt, including senior unsecured notes and our unsecured credit facility, to meet our borrowing needs. As a component of this financing strategy, we continue to unencumber our assets where possible by repaying existing mortgage debt with unsecured debt. As of December 31, 2004, we had reduced our fixed rate mortgage debt to approximately $262.9 million, or 13.5% of our total debt, from $390.0 million, or 22.5% of our total debt, as of December 31, 2003.

We generally use fixed rate debt instruments in order to match the returns from our real estate assets. We also utilize variable rate debt for short-term financing purposes or to protect against the risk, at certain times, that fixed rates may overstate our long-term costs of borrowing if assumed inflation or growth in the economy implicit in higher fixed interest rates do not materialize. At times, our mix of variable and fixed rate debt may not suit our needs. At those times, we use derivative financial instruments including interest rate swaps and caps, forward interest rate options or interest rate options in order to assist us in managing our debt mix. We will either hedge our variable rate debt to give it a fixed

interest rate or hedge fixed rate debt to give it a variable interest rate. As a result of rising interest rates during 2004, we increased our percentage of fixed rate debt to 70.8% from 67.3% in 2003.

We have three investment grade ratings. As of December 31, 2004, Fitch Rating Services and Standard & Poors have each assigned their BBB rating to our prospective senior unsecured debt offerings and their BBB- rating

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to our prospective cumulative preferred stock offerings. Moody s Investor Service has assigned its Baa2 rating with a stable outlook to our prospective senior unsecured debt offerings and its Baa3 rating to our prospective cumulative preferred stock offerings. A downgrade in 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 downgrade could adversely affect our ability to obtain future financing or could increase the interest rates on our existing variable rate debt. However, we have no debt instruments under which the principal maturity would be accelerated upon a downward change in our debt rating.

Our total debt at December 31, 2004 is summarized as follows:

(In thousands)	
Fixed rate mortgages	$ 262,930
Secured notes payable	19,228
Unsecured credit facility	295,000
Senior unsecured notes	1,375,000
	1,952,158
Unamortized discount and fair value adjustment, net	(11,028)
	$ 1,941,130

Our fixed rate mortgage debt bore an effective weighted average interest rate of 7.94% at December 31, 2004 and had a weighted average maturity of 4.24 years. We repaid $107.7 million of fixed rate debt in 2004, of which $92.2 million was early extinguished. In connection with these extinguishments, we incurred prepayment penalties of $3.3 million which are included in interest expense. We also converted $19.7 million of mortgage debt to notes payable secured by letters of credit. $295.0 million (15.1%) of our total debt at December 31, 2004 bore a LIBOR-based variable interest rate and $275.0 million (14.1%) of our debt was subject to variable interest rates through interest rate swap agreements. The interest rate on borrowings on our unsecured credit facility at December 31, 2004 was 3.05%.

Our primary external source of liquidity is our credit facility. On June 30, 2004, we entered into a new $500.0 million, three year unsecured revolving credit facility with JPMorgan Chase Bank as administrative agent for a syndicate of banks. The facility replaced and was used to repay all amounts outstanding under our previous unsecured senior credit facility. We may increase the facility to $700.0 million by our request at any time within 24 months of the closing, provided the funding commitments are increased accordingly. The facility can be extended one year at our option. The facility carries an interest rate of 65 basis points over 30-day LIBOR, or 3.05% as of December 31, 2004. As of December 31, 2004, $295.0 million was drawn on the credit facility, $35.9 million in letters of credit were outstanding, and we had $169.1 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 of at least 2 to 1;

* A minimum ratio of annual EBITDA to fixed charges of at least 1.5 to 1;
* A maximum ratio of aggregate unsecured debt to tangible fair market value of our unencumbered assets of 60%;
* A maximum ratio of total secured debt to tangible fair market value of 30%;
* A maximum ratio of total debt to tangible fair market value of our assets of 55%; and
* Restrictions on our ability to make dividend distributions in excess of 90% of funds from operations or the minimum amount necessary to enable us to maintain our status as a REIT.

As of December 31, 2004, we are in compliance with all debt covenants, however, our ability to draw on our unsecured credit facility or incur other unsecured debt in the future could be restricted by the covenants. Our maximum ratio of total debt to tangible fair market value of our assets cannot exceed 55%. As of December 31, 2004, our total debt to tangible fair market value was 53.2% and could restrict our ability to draw the full amount available to us under our credit facility or to incur significant other debt. We anticipate reducing our total debt ratio by paying down our outstanding unsecured debt obligations using the proceeds from property dispositions expected

to close in 2005. In addition, we expect to receive from our credit facility lenders a modification of the total debt covenant increasing the maximum ratio of total debt to tangible fair market value of our assets to 60%. There can be no assurance, however, that planned property dispositions will close or that our credit facility lenders will consent to modifications to the total debt covenant. If our total debt ratio increases further and we do not obtain the modification of the ratio to 60%, it could impact our business and operations, including limiting our ability to incur additional unsecured debt, including drawing on our unsecured line of credit which is our primary source of liquidity, or to invest in properties.

We have senior unsecured notes outstanding at December 31, 2004 as follows:

(In thousands)	Note Principal	Unamortized Discount	Fair Value Adjustment	Total
6.625% notes due in 2005	$ 100,000	$ (104)	$	$ 99,896
7.375% notes due in 2007	125,000	(362)		124,638
5.261% notes due in 2007	50,000	(88)		49,912
5.25% notes due in 2007	175,000	(789)	(290)	173,921
3.625% notes due in 2009	225,000	(650)	(2,962)	221,388
6.875% notes due in 2008	100,000	(1,308)		98,692
5.125% notes due in 2011	200,000	(600)		199,400
7.125% notes due in 2012	400,000	(3,875)		396,125
	$ 1,375,000	$ (7,776)	$ (3,252)	$ 1,363,972

All of 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;
* Limits on our required debt service payments; and
* Compliance with the financial covenants of our credit facility.

We were in compliance with our senior unsecured notes covenants as of December 31, 2004.

We issued $225.0 million principal amount of senior unsecured notes in March 2004 with net proceeds of approximately $222.7 million. The notes bear interest at 3.625% per annum payable semi-annually beginning October 1, 2004. The notes mature on April 1, 2009. We used the

proceeds from the notes to pay down our unsecured credit facility.

We issued $200.0 million principal amount of senior unsecured notes in August 2004 with net proceeds of approximately $197.2 million. The notes bear interest at 5.125% per annum payable semi-annually beginning March 1, 2005. The notes mature on September 1, 2011. We used the proceeds from the notes to pay down our unsecured credit facility.

$150.0 million of senior unsecured notes matured on July 1, 2004 and were repaid on that date using borrowings from our unsecured credit facility.

$100 million of our 6.625% senior unsecured notes are maturing March 2005. We expect to pay the notes at or before the scheduled maturity date from amounts drawn on our line of credit or from the proceeds of property dispositions.

Derivative Financial Instruments

On May 8, 2002, we entered into interest rate swap agreements with JP Morgan Chase and Bank of America, N.A. hedging $150.0 million of senior unsecured notes due July 2004. We received interest at a fixed rate of 7.2% and paid interest at a variable rate of six-month LIBOR in arrears plus 2.72%. The interest rate swaps matured at the same time the notes were due. The swaps qualified as fair value hedges for accounting purposes. We

recognized reductions in interest expense for 2004, 2003 and 2002 of approximately $1.9 million, $4.9 million and $2.7 million, respectively, related to the swaps. The notes were repaid upon maturity on July 1, 2004 and the related interest rate swap agreements expired.

On November 20, 2002, in conjunction with the issuance of $175.0 million of senior unsecured notes, we entered into interest rate swap agreements with JP Morgan Chase, Bank of America, N.A. and Goldman, Sachs & Co. We receive interest at a fixed rate of 5.25% and pay interest at a variable rate of six-month LIBOR in arrears plus 1.405%. The interest rate swaps mature at the same time the notes are due. The swaps qualify as fair value hedges for accounting purposes. As of December 31, 2004 and 2003, the fair value of the interest rate swaps was a payable of approximately $(0.3) million and a receivable of approximately $0.7 million, respectively. We recognized reductions in interest expense for 2004, 2003 and 2002 of approximately $2.6 million, $4.5 million and $0.4 million, respectively, related to the swaps. As of December 31, 2004, taking into account the effect of the interest rate swaps, the effective interest rate on the notes was reduced to 3.75%.

On March 18, 2004, in conjunction with the issuance of $225.0 million of 3.625% senior unsecured notes, we entered into $100.0 million of interest rate swap agreements with JP Morgan Chase and Bank of America, N.A. We receive interest at a fixed rate of 3.625% and pay interest at a variable rate of six-month LIBOR in arrears plus 0.2675%. The interest rate swaps mature at the same time the notes are due. The swaps qualify as fair value hedges for accounting purposes. As of December 31, 2004, the fair value of the interest rate swaps was a payable of approximately $(3.0) million. We recognized a reduction in interest expense for 2004 of approximately $0.6 million related to the swaps. As of December 31, 2004, taking into account the effect of the interest rate swaps, the effective interest rate on $100.0 million of the notes was 2.98%.

On August 10, 2004, we entered into interest rate lock agreements with a notional amount of $150.0 million with JP Morgan Chase, Goldman Sachs & Co. and Morgan Stanley in anticipation of our $200.0 million senior unsecured bond offering. We settled the interest rate locks on August 20, 2004 and paid $0.6 million to the counterparties. The interest rate locks qualified as cash flow hedges and accordingly, the settlement is being amortized to interest expense over the life of our senior unsecured notes due in 2011. During 2004, the impact of the interest rate locks on interest expense was not material.

As part of the assumption of $63.5 million of debt associated with the purchase of two operating properties in August 2002, we purchased interest rate caps with a notional amount of $97.0 million and LIBOR capped at 6.75%. These interest rate caps expired in September 2004.

In December 2003, we purchased an interest rate cap with a notional amount of $100.0 million and LIBOR capped at 8.0% which expires in January 2005. The fair market value at December 31, 2004 of this interest rate cap was not material.

In January 2005, we purchased an interest rate cap with a notional amount of $200.0 million and LIBOR capped at 7.5% which expires in February 2006.

Stock Repurchases and Dividends

On March 18, 2003, we redeemed 2,000,000 shares of our Series B Cumulative Redeemable Preferred Stock for $50.0 million plus accrued and unpaid dividends. On October 12, 2003, we redeemed the remaining outstanding shares of our Series B, C and D Cumulative Redeemable Preferred Stock for $196.3 million plus $1.3 million of accrued dividends. Including these redemptions, during 2003, we repurchased or redeemed 10,184,167 shares of our preferred stock for approximately $254.5 million, excluding accrued and unpaid dividends.

On September 25, 2003, we issued 8,050,000 shares of 7.5% Series E Cumulative Redeemable Preferred Stock for net proceeds of $194.7 million. These shares are not redeemable before September 25, 2008 unless redemption is necessary to maintain our status as a REIT.

Our Board of Directors has authorized us to spend up to $400.0 million to repurchase our common stock, preferred stock and debt securities, excluding the common shares repurchased from Security Capital Group Incorporated in November 2001 and our preferred stock redemptions in September 2002, March 2003 and October 2003 which were separately approved. Since the start of this program in mid-2000 through December 31, 2004, we have acquired approximately 10.4 million of our common shares for an aggregate purchase price of approximately $296.9 million. We continue to monitor market conditions and other alternative investments in order to evaluate whether repurchase of our securities is appropriate.

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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. The table below details our dividend and distribution payments for 2004 and 2003.

(In thousands)	2004	2003
Preferred stock dividends	$ 15,092	$ 18,021
Unit distributions	11,598	12,031
Common stock dividends	108,272	105,232
	$ 134,962	$ 135,284

Cash flows from operations are an important factor in our ability to sustain our common stock dividend at its current rate. Cash flows from operations increased slightly from $173.5 million in 2003 to $174.2 million in 2004. We expect our cash flows from operations to be lower in 2005 than 2004 and tenant improvements are expected to remain at elevated levels as a result of factors mentioned in the introduction to our Management s Discussion and Analysis, including but not limited to, lower expected lease termination fees, continued declines in rental rates compared to the rates on expiring leases and costs associated with a new lease in Washington, D.C. for approximately 394,000 rentable square feet. This lease requires the space to be taken out of service for a period of two to four months for remodeling for the new tenant, includes eight months of abated rent and requires significant capital investment in tenant improvements and lease commissions. We expect that these factors will negatively impact our cash flows from operations and our ability to cover our current common stock dividend payment level using cash flows from operations. We currently expect to maintain our common stock dividend rate of $0.50 per quarter in 2005. As a result, we may need to borrow under our line of credit or sell assets in order to maintain our common stock dividend at the current rate. There can be no assurance that circumstances may not change and as a result of poorer than expected operating results or the inability to obtain financing on favorable terms, or at all, that we will not later reduce our common stock dividend below the current rate. We generally are restricted from paying dividends that would exceed 90% of our funds from operations during any four-quarter period.

Capital Commitments

We will require capital for development projects currently underway and in the future. As of December 31, 2004, we had under construction approximately 124,000 rentable square feet in an office building in a joint venture project in which we own a minority interest. This project is expected to cost $15.9 million, of which our total investment is expected to be approximately $5.6 million. Through December 31, 2004, approximately $9.8 million or 61.7% of total project costs had been expended on this project. We have financed our investment in the joint venture project under construction at December 31, 2004 primarily from borrowings under our credit facility. We expect that our credit facility and project-specific financing of selected assets will provide the additional funds required to complete existing development projects and to finance the costs of additional projects we may undertake.

Below is a summary of our known contractual obligations as of December 31, 2004:

(In thousands)	Payments due by Period		
Contractual	Total	1-3	3-5

Obligations		Less than 1 year	Years	Years	After 5 Years
Long-term debt[1]	$ 1,952,158	$ 121,056	$ 765,039	$ 466,063	$ 600,000
Interest on long-term debt[2]	1,073,796	119,988	287,567	87,331	578,910
Operating leases - land[3]	297,925	4,583	13,478	9,165	270,699
Operating leases - building[3]	15,331	1,531	4,678	2,632	6,490
Mezzanine loan funding[4]	18,762	7,742	11,020		
Tenant-related capital[5]	41,625	39,125	2,500		
Service contract[6]	1,755	780	975		
Service contract[7]	3,005	1,288	1,717		

1. See note 2 of Notes to Consolidated Financial Statements.

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2. Interest payments on long-term debt assumes current credit line borrowings and rates remain at the December 31, 2004 level until maturity.
3. See notes 4 and 7 of Notes to Consolidated Financial Statements.
4. Mezzanine financing commitments for Atlantic Building and Square 320. See note 6 of Notes to Consolidated Financial Statements.
5. Committed tenant-related capital based on executed leases as of December 31, 2004.
6. Contract with service provider for voice and data expiring March 2007. The contract includes a cancellation penalty of 35% of remaining service fees.
7. Contract with service provider for data processing services expiring May 2007. The contract includes a cancellation penalty of 35% of remaining service fees.

We have various standing or renewable contracts with vendors. These contracts are all cancellable with immaterial or no cancellation penalties. Contract terms are generally one year or less. At December 31, 2004, we were committed to fund tenant-related capital improvements as described in the table above for executed leases. However, expected leasing levels could require additional tenant-related capital improvements which are not currently committed. We expect that total tenant-related capital improvements, including those already committed, will be approximately $70.0 million to $90.0 million in 2005.

Unconsolidated Investments and Joint Ventures

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This Interpretation addresses the consolidation of variable interest entities (VIEs) in which the equity investors lack one or more of the essential characteristics of a controlling financial interest or where the equity investment at risk is not sufficient for the entity to finance its activities without subordinated financial support from other parties. The adoption of Interpretation No. 46 in 2003 had no effect on our financial statements as we concluded that we are not required to consolidate any of our unconsolidated real estate ventures that we have accounted for using the equity method or the VIEs described below. In December 2003, the FASB issued a revised Interpretation No. 46 which modified and clarified various aspects of the original Interpretation. The adoption of the revised Interpretation No. 46 in 2003 also had no effect on our financial statements.

During 2003, we provided mezzanine loans and guaranties to third-parties for development management projects. The purpose of these VIEs is to build and own office buildings in Washington, D.C. Based upon our analysis, we believe that we are not the primary beneficiary of either entity and, accordingly, we do not consolidate them. Our maximum exposure to loss as of December 31, 2004 is $62.7 million, the sum of our notes receivable ($21.6 million) and the maximum exposure under the guaranties ($41.1 million).

In December 2004, we provided mezzanine financing to a third-party joint venture. This VIE owns property in Texas. Based upon our analysis, we believe that we are not the primary beneficiary of this entity and, accordingly, we do not consolidate it. Our maximum exposure to loss as of December 31, 2004 is $13.7 million, the balance of our subordinated note receivable.

We do not have any off-balance sheet arrangements, other than those disclosed in our contractual obligations or as a guarantee, with any unconsolidated investments or joint ventures that we believe have or are reasonably likely to have a future material effect on our financial condition, changes in our financial condition, our revenue or expenses, our results of operations, our liquidity, our capital expenditures or our capital resources.

We have investments in real estate joint ventures in which we hold 15%-50% interests. These investments are accounted for using the equity method and therefore the assets and liabilities of the joint ventures are not included in our consolidated financial statements. Most of our real estate 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 December 31, 2004, we guaranteed $40.0 million of debt related to a joint venture and have provided completion guarantees related to two joint venture projects for which total costs are anticipated to be $173.3 million, of which $154.2 million had been expended to date. We have not funded any amounts under these guarantees and do not expect any funding will be required in the future.

In the third and fourth quarters of 2004, we invested $14.4 million in a joint venture with JPMorgan Fleming Asset Management which acquired three buildings containing 393,136 rentable square feet and a parcel of land in Dallas, Texas. We own 20% of the venture and are providing leasing and management services.

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;

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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.

In addition to making investments in these ventures, we provide construction management, leasing and property management, development and architectural and other services to them. We earned fees for these services of $9.1 million in 2004, $8.1 million in 2003 and $8.0 million in 2002. Accounts receivable from joint ventures and other affiliates were $1.8 million at December 31, 2004 and $0.7 million at December 31, 2003.

We have minority ownership interests in two non-real estate operating companies, AgilQuest and essention, which we account for using the cost method and in which we invested $2.8 million and $1.7 million, respectively. We evaluate these investments regularly considering factors such as the companies progress against their business plans, their operating results and the estimated fair values of their equity securities. Based on these evaluations, we recognized impairment losses of $1.1 million on our investment in AgilQuest in 2003 and $0.5 million on our investment in essention in 2002. In the future, additional impairment charges related to our investments may be required.

Guarantee Obligations

Our obligations under guarantee agreements at December 31, 2004 are summarized as follows:

Type of Guarantee	Project Relationship	Term	Maximum Exposure	Carrying Value
Loan[1]	575 7th Street	Apr-05	$ 40,000,000	$
Loan[2]	Atlantic Building	Mar-07	25,000,000	160,000
Completion[3]	Atlantic Building	Mar-07	72,497,000	250,000
Indemnification[4]	HQ Global		unknown	
Loan[5]	Square 320	Mar-05	16,070,000	135,000
Loan[6]	10UCP	Nov-06	1,015,000	
Completion[7]	Shakespeare Theatre	Dec-06	47,458,000	725,000

1. Loan guarantee to a lender on behalf of a joint venture. If the joint venture defaults on the loan, we may be required to perform under the guarantee. We have a reimbursement guarantee from the other joint venture partner to repay us its proportionate share (70%) of any

monies we pay under the guarantee.

2. Loan guarantee relates to a third party project for which we are the developer. It is a payment guarantee to the lender. If the third party defaults on the loan, we may be required to perform under the guarantee. We have a security interest in the third party s interest in the underlying property. In the event of a default, we can exercise our rights under the security agreement to take title to the property and sell the property to mitigate our exposure under the guarantee. We have entered into an agreement with the lender that permits us to acquire the lender s first position mortgage securing the loan if the third party defaults on the loan and we then make payment in full to the lender under the guarantee.
3. Completion guarantee relates to a third party project for which we are the developer. It is a completion guaranty to the lender. If the third party defaults on its obligation to construct the building, we may be required to perform. As long as there is no Event of Default under the loan agreement, the lender will continue to make funds available from the construction loan to complete the project.
4. See Part I, Item 3: Legal Proceedings for further discussion.
5. Loan guarantee relates to a third party project for which we are the developer. It is a payment guarantee to the lender. If the third party defaults on the loan, we may be required to perform under the guarantee. We have a security interest in the third party s interest in the underlying property. In the event of a default, we can exercise our rights under the security agreement to take title to the property and sell the property to mitigate our exposure under the guarantee. We have entered into an agreement with the lender that permits us to acquire the lender s first position mortgage securing the loan if the third party defaults on the loan and we then make payment in full to the lender under the guarantee.
6. Lease-up guarantee to a lender. Funds related to this guarantee are being held in escrow by a joint venture in which we own a minority interest.
7. Completion guarantee relates to a third party project for which we are the developer. It is a completion guaranty to the lender and/or owners. If the third party defaults on its obligation to construct the building, we may be required to perform. As long as there is no Event of Default under the loan agreement, the lender will continue to make funds available from the construction loan to complete the project.

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In the normal course of business, we guarantee our performance of services or indemnify third parties against our negligence.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of Variable Interest Entities. This Interpretation addresses the consolidation of variable interest entities (VIEs) in which the equity investors lack one or more of the essential characteristics of a controlling financial interest or where the equity investment at risk is not sufficient for the entity to finance its activities without subordinated financial support from other parties. The adoption of Interpretation No. 46 in 2003 had no effect on our financial statements. In December 2003, the FASB issued a revised Interpretation No. 46 which modified and clarified various aspects of the original Interpretation. The adoption of the revised Interpretation No. 46 in 2003 also had no effect on our financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). In particular, it requires that mandatorily redeemable financial instruments be classified as liabilities and reported at fair value and that changes in their fair values be reported as interest cost. SFAS No. 150 was effective for us as of July 1, 2003 and adoption did not affect our financial statements.

In December 2004, the FASB issued SFAS No. 123 (R), Share-Based Compensation. It replaces SFAS No. 123, Accounting for Stock Issued to Employees. SFAS No. 123 (R) requires the compensation cost relating to share-based payment transactions be recognized in financial statements. It is required to be applied by us beginning July 1, 2005. We intend to adopt SFAS No. 123(R) using the modified prospective application method which requires, among other things, that we recognize compensation cost for all awards outstanding at July 1, 2005, for which the requisite service has not yet been rendered. Because we have used a fair value based method of accounting for stock-based compensation costs for all employee stock compensation awards granted, modified or settled since January 1, 2003, and do not expect to have significant unvested awards from periods prior to January 1, 2003 outstanding at July 1, 2005, adoption of SFAS No. 123 (R) is not expected to have a material effect on our financial statements.

In December 2004, the FASB issued SFAS No. 153, Exchange of Nonmonetary Assets, an amendment of APB Opinion No. 29. The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured on the fair value of assets exchanged. The statement eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. The statement is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005.

Funds from Operations

Funds from Operations (FFO) is a widely used measure of operating performance for real estate companies. We provide FFO as a supplement to net income calculated in accordance with accounting principles generally accepted in the United States of America (GAAP). Although FFO is a widely used measure of operating performance for equity REITs, FFO does not represent net income calculated in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our operating performance. In addition, FFO does not represent cash generated from operating activities in accordance with GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to cash flow from operating activities, determined in accordance with GAAP as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions. FFO is defined by the National Association

of Real Estate Investment Trusts (NAREIT) as follows:

Net income - computed in accordance with GAAP;

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

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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).

We believe that FFO is helpful to investors as a measure of our performance because it excludes various items included in net income that do not relate to or are not indicative of our operating performance, such as gains on sales of real estate and real estate related depreciation and amortization, which can make periodic comparison of operating performance more difficult. Our management believes, however, that FFO, by excluding such items, which can vary among owners of similar assets in similar condition based on historical cost accounting and useful life estimates, can help compare the operating performance of a company s real estate between periods or as compared to different companies. Our FFO may not be comparable to FFO 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.

The following table provides the calculation of our FFO and a reconciliation of FFO to net income for the periods presented:

(In thousands)	**2004**	**2003**	**2002**
Net income	$ 93,587	$ 72,937	$ 109,305
Adjustments			
Minority interest	11,670	8,924	13,801
FFO allocable to Unitholders	(14,400)	(15,404)	(17,884)
Depreciation and amortization	143,366	138,433	137,245
Minority interests (non-Unitholders) share of depreciation, amortization and net income	(1,064)	(1,219)	(1,159)
Gain on sale of assets	(47,470)	(14,477)	(34,737)
FFO as defined by NAREIT[1]	$ 185,689	$ 189,194	$ 206,571

[1] FFO as defined by NAREIT for the years ended December 31, 2004, 2003 and 2002, includes impairment losses on real estate of $ 2.5 million, $7.3 million and $2.5 million, respectively.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our future earnings and cash flows and the fair values of our financial instruments are dependent upon prevailing market rates. Market risk associated with financial instruments and derivative and commodity instruments is the risk of loss from adverse changes in market prices or rates. We manage our risk by matching projected cash inflows from operating activities, financing activities and investing activities with projected cash outflows to fund debt payments, acquisitions, capital expenditures, distributions and other cash requirements. We may also use derivative financial instruments at times to limit market risk. Derivative financial instruments may be used to convert variable rate debt to a fixed rate basis, to convert fixed rate debt to a variable rate basis or to hedge anticipated financing transactions. We use derivative financial instruments only for hedging purposes, and not for speculation or trading purposes.

On May 8, 2002, we entered into interest rate swap agreements with JP Morgan Chase and Bank of America, N.A. hedging $150.0 million of senior unsecured notes due July 2004. We received interest at a fixed rate of 7.2% and paid interest at a variable rate of six-month LIBOR in arrears plus 2.72%. The interest rate swaps matured at the same time the notes were due. The swaps qualified as fair value hedges for accounting purposes. We recognized reductions in interest expense for 2004, 2003 and 2002 of approximately $1.9 million, $4.9 million and $2.7 million, respectively, related to the swaps. The notes were repaid upon maturity on July 1, 2004 and the related interest rate swap agreements expired.

On November 20, 2002, in conjunction with the issuance of $175.0 million of senior unsecured notes, we entered into interest rate swap agreements with JP Morgan Chase, Bank of America, N.A. and Goldman, Sachs & Co. We receive interest at a fixed rate of 5.25% and pay interest at a variable rate of six-month LIBOR in arrears plus 1.405%. The interest rate swaps mature at the same time the notes are due. The swaps qualify as fair value hedges for accounting purposes. As of December 31, 2004 and 2003, the fair value of the interest rate swaps was a payable of approximately $(0.3) million and a receivable of approximately $0.7 million, respectively. We recognized reductions in interest expense for 2004, 2003 and 2002 of approximately $2.6 million, $4.5 million and $0.4 million, respectively, related to the swaps. As of December 31, 2004, taking into account the effect of the interest rate swaps, the effective interest rate on the notes was reduced to 3.75%.

On March 18, 2004, in conjunction with the issuance of $225.0 million of 3.625% senior unsecured notes, we entered into $100.0 million of interest rate swap agreements with JP Morgan Chase and Bank of America, N.A. We receive interest at a fixed rate of 3.625% and pay interest at a variable rate of six-month LIBOR in arrears plus 0.2675%. The interest rate swaps mature at the same time the notes are due. The swaps qualify as fair value hedges for accounting purposes. As of December 31, 2004, the fair value of the interest rate swaps was a payable of approximately $(3.0) million. We recognized a reduction in interest expense for 2004 of approximately $0.6 million related to the swaps. As of December 31, 2004, taking into account the effect of the interest rate swaps, the effective interest rate on $100.0 million of the notes was 2.98%.

On August 10, 2004, we entered into interest rate lock agreements with a notional amount of $150.0 million with JP Morgan Chase, Goldman Sachs & Co. and Morgan Stanley in anticipation of our $200.0 million senior unsecured bond offering. We settled the interest rate locks on August 20, 2004 and paid $0.6 million to the counterparties. The interest rate locks qualified as cash flow hedges and accordingly, the settlement is being amortized to interest expense over the life of our senior unsecured notes due in 2011. During 2004, the impact of the interest rate locks on interest expense was not material.

As part of the assumption of $63.5 million of debt associated with the purchase of two operating properties in August 2002, we purchased interest rate caps with a notional amount of $97.0 million and LIBOR capped at 6.75%. These interest rate caps expired in September 2004.

In December 2003, we purchased an interest rate cap with a notional amount of $100.0 million and LIBOR capped at 8.0% which expires in January 2005. The fair market value at December 31, 2004 of this interest rate cap was not material.

In January 2005, we purchased an interest rate cap with a notional amount of $200.0 million and LIBOR capped at 7.5% which expires in February 2006.

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If the market rates of interest on our credit facility change by 10% (or approximately 30 basis points), our annual interest expense would change by approximately $0.9 million. This assumes the amount outstanding under our credit facility remains at $295.0 million, our balance at December 31, 2004. The book value of our credit facility approximates market value at December 31, 2004.

If the market rates of interest on our interest rate swap agreements change by 10% (or approximately 34 basis points), our annual interest expense would change by approximately $1.0 million.

A change in interest rates generally does not impact future earnings and cash flows for fixed-rate debt instruments, except for those senior notes which have been hedged with interest rate swaps. As fixed-rate debt matures, and additional debt is incurred to fund the repayments of maturing loans, future earnings and cash flows may be impacted by changes in interest rates. This impact would be realized in the periods subsequent to debt maturities. The following is a summary of the fixed rate mortgages and senior unsecured debt maturities at December 31, 2004 (in thousands):

2005	$ 121,056
2006	8,241
2007	650,667
2008	106,131
2009	466,063
2010 & thereafter	600,000
	$ 1,952,158

If we assume the repayments of fixed rate borrowings are made in accordance with the terms and conditions of the respective credit arrangements, a 10 percent change in the market interest rate for the respective fixed rate debt instruments would change the fair market value of our fixed rate debt by approximately $31.1 million. The estimated fair market value of the fixed rate debt instruments and the senior unsecured notes at December 31, 2004 was $313.9 million and $1,444.7 million, respectively.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data included in this Annual Report on Form 10-K are listed in Item 15(a).

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

None.

Item 9A. Controls and Procedures

Evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness as of December 31, 2004 of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15 of the rules promulgated under the Securities and Exchange Act of 1934, as amended. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of the end of the period covered by this report.

Item 9B. Other Information

None.

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PART III

Item 10. Directors and Executive Officers of the Registrant

This information is hereby incorporated by reference to the material appearing in Part I of this Annual Report on Form 10-K and to the material appearing in the Notice of Annual Meeting of Stockholders (Proxy Statement) to be held on April 28, 2005 under the caption   Voting Securities and Principal Holders Thereof.

Item 11. Executive Compensation

This information is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption   Executive Compensation.

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

Security ownership of certain beneficial owners and security ownership of management information is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption   Voting Securities and Principal Holders Thereof.

The following table summarizes our equity compensation plan information as of December 31, 2004.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weight-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plan
Equity compensation plans approved by security holders	2,665,726	$ 26.96	1,016,466
Equity compensation plans not approved by security holders			

Item 13. Certain Relationships and Related Transactions

This information is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption   Certain Relationships and Transactions.

Item 14. Principal Accountant Fees and Services

This information is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption Independent Auditors.

Item 15. Exhibits and Financial Statements Schedules

15(a)(1) Financial Statements

Reference is made to the Index to Financial Statements and Schedules on page 62.

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15(a)(2) Financial Statement Schedules

Reference is made to the Index to Financial Statements and Schedules on page 62.

15(a)(3) Exhibits

1.1	Underwriting Agreement, dated as of January 8, 2002 between CarrAmerica Realty Corporation and J.P. Morgan Securities Inc. (incorporated by reference to Exhibit 1.1 to the Company s Current Report on Form 8-K filed on January 11, 2002).
1.2	Terms Agreement, dated as of January 8, 2002, by and among CarrAmerica Realty Corporation, CarrAmerica Realty, L.P., J.P. Morgan Securities Inc., Banc of America Securities LLC, First Union Securities, Inc., Lehman Brothers Inc., Salomon Smith Barney Inc., Commerzbank Capital Markets Corporation, Goldman, Sachs & Co., Legg Mason Wood Walker, Incorporated, PNC Capital Markets, Inc. and Wells Fargo Brokerage Services, LLC (incorporated by reference to Exhibit 1.2 to the Company s Current Report on Form 8-K filed on January 11, 2002).
1.3	Terms Agreement, dated as of November 15, 2002, by and among CarrAmerica Realty Corporation, CarrAmerica Realty, L.P., Banc of America Securities LLC, J.P. Morgan Securities Inc., Fleet Securities, Inc., HSBC Securities (USA) Inc. and Wachovia Securities, Inc. (incorporated by reference to Exhibit 1.2 to the Company s Current Report on Form 8-K filed on November 20, 2002).
1.4	Terms Agreement, dated as of November 15, 2002, by and among CarrAmerica Realty Corporation, CarrAmerica Realty, L.P., Banc of America Securities LLC, J.P. Morgan Securities Inc., Goldman, Sachs & Co., Wachovia Securities, Inc., Commerzbank Capital Markets Corp., Legg Mason Wood Walker, Incorporated, PNC Capital Markets, Inc., U.S. Bancorp Piper Jaffray Inc. and Wells Fargo Brokerage Services, LLC (incorporated by reference to Exhibit 1.2 to the Company s Current Report on Form 8-K filed on November 25, 2002).
1.5	Underwriting Agreement, dated as of September 4, 2003, by and between CarrAmerica Realty Corporation and Goldman, Sachs & Co. (incorporated by reference to Exhibit 1.1 to the Company s Current Report on Form 8-K filed on September 23, 2003).
1.6	Terms Agreement, dated as of September 4, 2003, by and among CarrAmerica Realty Corporation and the several underwriters named therein, for which Goldman, Sachs & Co. and Wachovia Capital Markets, LLC acted as representatives (incorporated by reference to Exhibit 1.2 to the Company s Current Report on Form 8-K filed on September 23, 2003).
1.7	Terms Agreement, dated March 18, 2004, by and among CarrAmerica Realty Corporation, CarrAmerica Realty, L.P., Banc of America Securities LLC, J.P. Morgan Securities Inc., Citigroup Global Markets Inc., Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, Wachovia Capital Markets, LLC, Legg Mason Wood Walker, Incorporated, Piper Jaffray & Co., PNC Capital Markets, Inc., SunTrust Capital Markets, Inc. and Wells Fargo Brokerage Services, LLC (incorporated by reference to Exhibit 1.2 to the Company s Current Report on Form 8-K filed on March 22, 2004)
3.1	Amendment and Restatement of Articles of Incorporation of CarrAmerica Realty Corporation, as amended on April 29, 1996 and April 30, 1996 (incorporated by reference to the same numbered exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 1996).
3.2	Articles of Amendment of Amendment and Restatement of Articles of Incorporation of CarrAmerica Realty Corporation (incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
3.3	Second Amendment and Restatement of By-laws of CarrAmerica Realty Corporation (incorporated by references to Exhibit 3.1 to the Company s Current Report on Form 8-K filed on February 12, 1997).

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3.4 Articles of Amendment of Amended and Restated Articles of Incorporation of CarrAmerica Realty Corporation effective May 1, 2003 (incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the Quarter ended June 30, 2003).

3.5 Third Amended and Restated By-Laws of CarrAmerica Realty Corporation adopted July 31, 2003, as amended on February 5, 2004 (incorporated by reference to Exhibit 3.4 to the Company s Quarterly Report on Form 10-Q for the Quarter ended March 31, 2004).

4.1 Indenture, dated as of July 1, 1997, by and among the Company, as Issuer, CarrAmerica Realty, L.P., as Guarantor, and Bankers Trust Company, as Trustee, Relating to the Company s 7.20% Notes due 2004 and 7.375% Notes due 2007 (incorporated by reference to Exhibit 4.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).

4.2 Indenture, dated as of February 23, 1998, by and among the Company, as Issuer, CarrAmerica Realty, L.P., as Guarantor, and Bankers Trust Company, as Trustee, Relating to the Company s 6.625% Notes due 2005 and 6.875% Notes due 2008, (incorporated by reference to Exhibit 4.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 1997).

4.3 Indenture, dated as of October 1, 1998 by and among the Company, as Issuer, CarrAmerica Realty, L.P., as Guarantor, and Bankers Trust Company, as Trustee, (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed on October 2, 1998).

4.4 Indenture, dated as of January 11, 2002, by and among CarrAmerica Realty Corporation, CarrAmerica Realty, L.P., as Guarantor, and U.S. National Association as Trustee (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed on January 11, 2002).

4.5 Articles Supplementary relating to Series E Cumulative Redeemable Preferred Stock of CarrAmerica Realty Corporation (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed on September 23, 2003).

4.6 First Supplemental Indenture, dated as of June 30, 2004, by and among CarrAmerica Realty Corporation, as original issuer, CarrAmerica Realty, L.P., as guarantor, CarrAmerica Realty Operating Partnership, L.P., and U.S. Bank Trust National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed on July 2, 2004)

4.7 First Supplemental Indenture, dated as of June 30, 2004, by and among CarrAmerica Realty Corporation, as original issuer, CarrAmerica Realty, L.P., as guarantor, CarrAmerica Realty Operating Partnership, L.P., and Deutsche Bank Trust Company Americas, formerly known as Bankers Trust Company, as Trustee, relating to the 6.625% Notes due 2005 and 6.875% Notes due 2008 (incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed on July 2, 2004)

4.8 First Supplemental Indenture, dated as of June 30, 2004, by and among CarrAmerica Realty Corporation, as original issuer, CarrAmerica Realty, L.P., as guarantor, CarrAmerica Realty Operating Partnership, L.P., and Deutsche Bank Trust Company Americas, formerly known as Bankers Trust Company, as Trustee, relating to the 7.20% Notes due 2004 and 7.375% Notes due 2007 (incorporated by reference to Exhibit 4.3 to the Company s Current Report on Form 8-K filed on July 2, 2004)

10.1 Amended and Restated Agreement of Limited Partnership of Carr Realty Holdings, L.P. dated as of December 31, 2003 (incorporated by reference to Exhibit 10.1 of the Company s 2003 Annual Report on Form 10-K)

10.2 1993 Carr Realty Option Plan (incorporated by reference to Exhibit 10.3 of the Company s Registration Statement on Form S-11, No. 33-53626).

10.3 1995 Non-Employee Director Stock Option Plan (incorporated by reference to the Company s Registration Statement on Form S-8, No. 33-92136).

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10.4	First Amendment to CarrAmerica Realty Corporation 1995 Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.12 to the Company s 1998 Annual Report on Form 10-K).
10.5	Second Amendment to CarrAmerica Realty Corporation 1995 Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.1 of the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
10.6	1997 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company s 1996 Annual Report on Form 10-K).
10.7	First Amendment to CarrAmerica Realty Corporation 1997 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.14 to the Company s 1998 Annual Report on Form 10-K).
10.8	Second Amendment to CarrAmerica Realty Corporation 1997 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.15 to the Company s 1998 Annual Report on Form 10-K).
10.9	Third Amendment to CarrAmerica Realty Corporation 1997 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.16 to the Company s 1998 Annual Report on Form 10-K).
10.10	Fourth Amendment to CarrAmerica Realty Corporation 1997 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.2 of the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
10.11	Fifth Amendment to CarrAmerica Realty Corporation 1997 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.19 of the Company s 1999 Annual Report on Form 10-K).
10.12	Noncompetition and Restriction Agreement by and among The Oliver Carr Company, Oliver T. Carr, Jr., Carr Realty Corporation and Carr Realty, L.P. (incorporated by reference to Exhibit 10.7 of the Company s Registration Statement on Form S-11, No. 33-53626).
10.13	Consolidated, Amended and Restated Promissory Note dated March 19, 1999 from Carr Realty, L.P. to the Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.21 of the Company s 1999 Annual Report on Form 10-K).
10.14	Consent Agreement dated December 19, 2003 by and between the Northwestern Mutual Life Insurance Company and Capital 50 Associates (incorporated by reference to Exhibit 10.14 to the Company s 2003 Annual Report on Form 10-K).
10.15	Consent Agreement dated December 19, 2003 by and between the Northwestern Mutual Life Insurance Company and Carr Realty, L.P. (incorporated by reference to Exhibit 10.15 to the Company s 2003 Annual Report on Form 10-K).
10.16	Consolidated, Amended and Restated Deed of Trust and Security Agreement dated March 19, 1999 by and among Carr Realty, L.P., William H. Norton, and the Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.22 of the Company s 1999 Annual Report on Form 10-K).
10.17	Indemnification and Escrow Agreement by and among FrontLine Capital Group, CarrAmerica Realty Corporation and the other parties named therein dated as of June 1, 2000 (incorporated by reference to Exhibit 10.2 to the Company s Current Report filed on Form 8-K filed June 16, 2000).
10.18	Stockholders Agreement among FrontLine Capital Group, HQ Global Workplaces, Inc. and CarrAmerica Realty Corporation dated as of June 1, 2000 (incorporated by reference to Exhibit 10.5 to the Company s Current Report filed on Form 8-K filed June 16, 2000).
10.19	Amended and Restated Limited Liability Company Agreement Carr Office Park, L.L.C., dated as of August 15, 2000 (incorporated by reference to Exhibit 10.1 to the Company s Current Report filed on Form 8-K filed September 1, 2000).

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10.20	Change in Control Employment Agreement by and between CarrAmerica Realty Corporation and Philip L. Hawkins, dated May 6, 1999 (incorporated by reference to Exhibit 10.41 to the Company s 2000 Annual Report on Form 10-K).
10.21	Change in Control Employment Agreement by and between CarrAmerica Realty Corporation and Thomas A. Carr, dated May 6, 1999 (incorporated by reference to Exhibit 10.43 to the Company s 2000 Annual Report on Form 10-K).
10.22	Change in Control Employment Agreement by and between CarrAmerica Realty Corporation and Karen B. Dorigan, dated February 6, 2001 (incorporated by reference to Exhibit 10.44 to the Company s 2000 Annual Report on Form 10-K).
10.23	Change in Control Employment Agreement by and between CarrAmerica Realty Corporation and Stephen E. Riffee, dated April 1, 2002 (incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
10.24	Change in Control Employment Agreement by and between CarrAmerica Realty Corporation and Linda Madrid, dated January 29, 2003 (incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
10.25	Revolving Credit Agreement dated June 28, 2001 among CarrAmerica Realty Corporation, as Borrower, The Chase Manhattan Bank, as Bank and 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 (incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
10.26	Guaranty of Payment dated June 28, 2001 by CarrAmerica Realty L.P. in favor of Chase Manhattan Bank (incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
10.27	Amendment No. 3 to Revolving Credit Agreement and Ratification and Reaffirmation of Guaranty dated May 31, 2003 (incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
10.28	Amended and Restated Revolving Credit Agreement, dated as of June 30, 2004, by and among CarrAmerica Realty Operating Partnership, L.P. as Borrower, CarrAmerica Realty Corporation as Guarantor, CarrAmerica Realty, L.P. as Guarantor, JPMorgan Chase Bank, as Administrative Agent, and other Banks (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on July 2, 2004).
10.29	Amended and Restated Guaranty of Payment, dated as of June 30, 2004, by CarrAmerica Realty Corporation and CarrAmerica Realty, L.P. in favor of JPMorgan Chase Bank, as Administrative Agent on behalf of the Banks (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed on July 2, 2004).
10.30	Indenture for Senior Debt Securities, dated as of June 23, 2004, among CarrAmerica Realty Operating Partnership, L.P. as primary obligor, CarrAmerica Realty Corporation as guarantor, CarrAmerica Realty, L.P. as guarantor, and U.S. Bank Trust National Association as trustee (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Company s Registration Statement of Form S-3 (File No. 333-114049) filed on June 30, 2004)
10.31	Indenture for Subordinated Debt Securities, dated as of June 23, 2004, among CarrAmerica Realty Operating Partnership, L.P. as primary obligor, CarrAmerica Realty Corporation as guarantor, CarrAmerica Realty, L.P. as guarantor, and U.S. Bank Trust National Association as trustee (incorporated by reference to Exhibit 4.2 to Amendment No. 2 to the Company s Registration Statement of Form S-3 (File No. 333-114049) filed on June 30, 2004)

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10.32	Amended and Restated Agreement of Limited Partnership of CarrAmerica Realty Operating Partnership, L.P., dated as of June 30, 2004 *
10.33	Directors Deferred Compensation Plan (incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K filed on January 26, 2005)
10.34	Form of Restricted Stock Agreement between the Company and officers, directors and certain employees of the Company (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on January 26, 2005)
10.35	Guidelines of Named Executive Officer Compensation Program adopted by the Executive Compensation Committee of the Registrant on January 27, 2005 (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on February 2, 2005)
10.36	Amended and Restated Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.5 to the Company s Current Report on Form 8-K filed on January 26, 2005)
10.37	Form of Deferred Stock Unit Agreement between the Company and officers, directors and certain employees of the Company (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed on January 25, 2005)
10.38	Form of Stock Option Agreement between the Company and officers, directors and certain employees of the Company (incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed on January 25, 2005)
10.39	Summary of Compensation for Named Executive Officers adopted by the Executive Compensation Committee of the Registrant on January 27, 2005 (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed February 2, 2005)
10.40	Summary of Director Compensation Arrangements*
11.1	Statement regarding computation of per share earnings; reference is made to Notes to Financial Statements, Footnote 1(k).
12.1	Statement re: Computation of ratios*
14.1	CarrAmerica Realty Corporation Code of Ethics for the CEO and Senior Financial Officers*
21.1	List of Subsidiaries*
23.1	Consent of KPMG LLP, dated February 22, 2005*
24.1	Power of Attorney of Andrew F. Brimmer*
24.2	Power of Attorney of Joan Carter*
24.3	Power of Attorney of Timothy Howard*
24.4	Power of Attorney of Wesley S. Williams, Jr.*
24.5	Power of Attorney of Robert E. Torray*
31.1	Rule 13a-14(a) Certification from Mr. Thomas A. Carr, dated February 25, 2005*
31.2	Rule 13a-14(a) Certification from Mr. Stephen E. Riffee, dated February 25, 2005*
32.1	Section 1350 Certification from Mr. Thomas A. Carr and Mr. Stephen E. Riffee, dated February 25, 2005*

* Filed herewith

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15(b) Exhibits

The list of exhibits filed with this report is set forth in response to Item 15(a)(3). The required exhibit index has been filed with the exhibits.

15(c) Financial Statements

The financial statements required by this item are included in the list set forth in response to Item 15(a)(1).

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the District of Columbia on February 25, 2005.

CARRAMERICA REALTY CORPORATION

a Maryland corporation

By: /s/ THOMAS A. CARR

Thomas A. Carr
Chairman of the Board and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 25, 2005.

Signature	Title
/s/ THOMAS A. CARR	Chairman of the Board, Chief Executive
Thomas A. Carr	Officer and Director
/s/ PHILIP L. HAWKINS	
Philip L. Hawkins	President, Chief Operating Officer and Director
/s/ STEPHEN E. RIFFEE	
Stephen E. Riffee	Chief Financial Officer
/s/ KURT A. HEISTER	
Kurt A. Heister	Senior Vice President, Controller and Treasurer
*	
Andrew F. Brimmer	Director
*	
Joan Carter	Director
*	
Timothy Howard	Director

*	
Robert E. Torray	Director
*	
Wesley S. Williams, Jr.	Director

*By: /s/ STEPHEN E. RIFFEE

Stephen E. Riffee
Attorney-in-fact

CARRAMERICA REALTY CORPORATION

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

The following Report of Management on Internal Control Over Financial Reporting, Consolidated Financial Statements and Schedules of CarrAmerica Realty Corporation and Subsidiaries and the Reports of Independent Registered Public Accounting Firm thereon are attached hereto:

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES

Report of Management on Internal Control Over Financial Reporting	63
Reports of Independent Registered Public Accounting Firm	64-65
Consolidated Balance Sheets as of December 31, 2004 and 2003	66
Consolidated Statements of Operations for the Years Ended December 31, 2004, 2003 and 2002	67
Consolidated Statements of Stockholders Equity for the Years Ended December 31, 2004, 2003 and 2002	68
Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003 and 2002	69
Notes to Consolidated Financial Statements	70-94

FINANCIAL STATEMENT SCHEDULES

Schedule II: Valuation and Qualifying Accounts	95
Schedule III: Real Estate and Accumulated Depreciation	96-99

All other schedules are omitted because they are not applicable, or because the required information is included in the financial statements or notes thereto.

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Report of Management on Internal Control Over Financial Reporting

To the Stockholders of CarrAmerica Realty Corporation:

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2004. Our management s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

February 22, 2005

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

CarrAmerica Realty Corporation:

We have audited the accompanying consolidated balance sheets of CarrAmerica Realty Corporation and subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of operations, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2004. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedules of valuation and qualifying accounts and real estate and accumulated depreciation. These consolidated financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CarrAmerica Realty Corporation and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of CarrAmerica Realty Corporation s internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2005 expressed an unqualified opinion on management s assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Washington, D.C.

February 22, 2005

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

CarrAmerica Realty Corporation:

We have audited management s assessment, included in the accompanying *Report of Management on Internal Control Over Financial Reporting*, that CarrAmerica Realty Corporation maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CarrAmerica Realty Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that CarrAmerica Realty Corporation maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by COSO. Also, in our opinion, CarrAmerica Realty Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CarrAmerica Realty Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2004, and our report dated February 22, 2005 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Washington, DC

February 22, 2005

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets as of December 31, 2004 and 2003

(In thousands, except per share and share amounts)	2004	2003
Assets		
Rental property:		
Land	$ 779,482	$ 690,410
Buildings	2,064,678	1,974,913
Tenant improvements	448,515	420,533
Furniture, fixtures and equipment	45,879	48,216
	3,338,554	3,134,072
Less: Accumulated depreciation	(750,530)	(692,901)
Total rental property	2,588,024	2,441,171
Land held for development or sale	41,676	41,284
Assets related to property held for sale		10,626
Cash and cash equivalents	4,735	4,299
Restricted deposits	1,364	2,549
Accounts and notes receivable, net of allowance for doubtful accounts of $5,920 and $5,752, respectively	52,438	17,829
Investments in unconsolidated entities	138,127	137,604
Accrued straight-line rents	84,396	84,552
Tenant leasing costs, net of accumulated amortization of $64,273 and $55,980, respectively	53,908	51,547
Intangible assets, net of accumulated amortization of of $12,962 and $22,201, respectively	98,354	23,966
Prepaid expenses and other assets	18,170	20,591
	$ 3,081,192	$ 2,836,018
Liabilities, Minority Interest and Stockholders Equity		
Liabilities:		
Mortgages and notes payable	$ 1,941,130	$ 1,727,648
Accounts payable and accrued expenses	107,409	95,586
Rent received in advance and security deposits	40,304	34,757
Total liabilities	2,088,843	1,857,991
Minority interest	65,378	70,456
Stockholders equity:		
Preferred Stock, $0.01 par value, authorized 35,000,000 shares:		
Series E Cumulative Redeemable Preferred Stock, 8,050,000 shares issued and outstanding	201,250	201,250
Common Stock, $0.01 par value, authorized 180,000,000 shares, issued and outstanding 54,890,361 and 52,880,953 shares, respectively	548	529
Additional paid-in capital	1,025,388	976,644
Cumulative dividends in excess of net income	(300,500)	(270,852)
Accumulated other comprehensive income	285	
Total stockholders equity	926,971	907,571
Commitments and contingencies		

	$ 3,081,192	$ 2,836,018

See accompanying notes to consolidated financial statements.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations for the Years Ended December 31, 2004, 2003 and 2002

(In thousands, except per share amounts)	2004	2003	2002
Operating revenues:			
Rental revenue:			
Minimum base rent	$ 395,114	$ 380,995	$ 381,586
Recoveries from tenants	55,753	61,985	67,368
Parking and other tenant charges	18,126	18,210	13,576
Total rental revenue	468,993	461,190	462,530
Real estate service revenue	23,328	24,337	24,538
Total operating revenues	492,321	485,527	487,068
Operating expenses:			
Property expenses:			
Operating expenses	120,294	118,906	115,987
Real estate taxes	41,360	40,783	41,043
General and administrative	41,851	42,767	41,650
Depreciation and amortization	129,721	121,218	114,738
Total operating expenses	333,226	323,674	313,418
Real estate operating income	159,095	161,853	173,650
Other (expense) income:			
Interest expense	(114,978)	(104,492)	(99,018)
Other income	2,681	1,128	1,086
Equity in earnings of unconsolidated entities	6,760	7,034	7,188
Impairment loss on investments		(1,100)	(500)
Obligations under lease guarantees		(811)	(8,693)
Net other expense	(105,537)	(98,241)	(99,937)
Income from continuing operations before income taxes, minority interest, impairment losses on real estate and gain on sale of properties	53,558	63,612	73,713
Income taxes	(342)	(402)	(257)
Minority interest	(11,670)	(8,924)	(13,801)
Impairment losses on real estate		(4,210)	(2,496)
Gain on sale of properties	27,600	4,160	15,652
Income from continuing operations	69,146	54,236	72,811
Discontinued operations	24,441	18,701	36,494
Net income	93,587	72,937	109,305
Less: Dividends on preferred and unvested restricted stock and issuance costs of redeemed preferred stock	(15,885)	(26,532)	(34,636)

Net income available to common shareholders	$ 77,702	$ 46,405	$ 74,669
Basic net income per common share:			
Continuing operations	$ 0.99	$ 0.53	$ 0.72
Discontinued operations	0.45	0.36	0.69
Net income	$ 1.44	$ 0.89	$ 1.41
Diluted net income per common share:			
Continuing operations	$ 0.98	$ 0.53	$ 0.71
Discontinued operations	0.45	0.36	0.68
Net income	$ 1.43	$ 0.89	$ 1.39

See accompanying notes to consolidated financial statements.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity for the Years Ended December 31, 2004, 2003 and 2002

(In thousands, except share amounts)	Preferred Shares	Common Shares	Preferred Stock	Common Stock	Additional Paid-in Capital	Cumulative Dividends in Excess of Net Income	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2001	8,880,000	51,965,066	$ 402,000	$ 520	$ 955,001	$ (179,714)	$	$ 1,177,807
Net income						109,305		109,305
Repurchase of common shares		(1,400,400)		(14)	(35,909)			(35,923)
Repurchase of preferred shares	(5,177,411)		(145,482)		4,581	(4,581)		(145,482)
Restricted units exchanged for restricted common shares		73,797						
Exercise of stock options		1,117,184		10	30,191			30,201
Conversion of Series A Cumulative Preferred Stock to common stock	(80,000)	80,000	(2,000)	2	1,998			
Dividends						(138,117)		(138,117)
Balance at December 31, 2002	3,622,589	51,835,647	254,518	518	955,862	(213,107)		997,791
Net income						72,937		72,937
Repurchase of common shares		(322,600)		(3)	(7,857)			(7,860)
Repurchase of preferred shares	(3,622,589)		(254,518)		8,019	(8,019)		(254,518)
Stock compensation plans, net		263,309		3	5,236			5,239
Issuance of Series E Redeemable Preferred Stock	8,050,000		201,250		(6,586)			194,664
Exercise of stock options		1,104,597		11	21,970			21,981
Dividends						(122,663)		(122,663)
Balance at December 31, 2003	8,050,000	52,880,953	201,250	529	976,644	(270,852)		907,571
Net income						93,587		93,587
Unrealized gains on securities							285	285
Comprehensive income								93,872
Stock compensation plans, net		350,305		3	3,970			3,973
Minority units redemptions and exchanges		7,256			1,705			1,705
Exercise of stock options		1,651,847		16	43,069			43,085
Dividends						(123,235)		(123,235)
Balance at December 31, 2004	8,050,000	54,890,361	$ 201,250	$ 548	$ 1,025,388	$ (300,500)	$ 285	$ 926,971

See accompanying notes to consolidated financial statements.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows for the Years Ended 2004, 2003 and 2002

(In thousands)	2004	2003	2002
Cash flows from operating activities:			
Net income	$ 93,587	$ 72,937	$ 109,305
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	135,095	132,995	130,186
Minority interest	11,670	8,924	13,801
Gain on sale of properties	(27,600)	(4,160)	(15,652)
Gain on sale of discontinued operations	(19,870)	(10,317)	(19,085)
(Gain) loss on sale of residential property	(326)	171	
Impairment losses on real estate	2,524	7,255	2,496
Impairment losses on investments		1,100	500
Obligations under lease guarantees		811	8,693
Equity in earnings of unconsolidated entities	(6,760)	(7,034)	(7,188)
Provision for uncollectible accounts	1,552	2,608	7,052
Stock-based compensation	4,138	3,548	4,310
Other	3,264	(142)	3,027
Changes in assets and liabilities:			
Decrease in accounts receivable	3,239	7,905	3,989
Increase in accrued straight-line rents	(6,149)	(8,906)	(9,927)
Additions to tenant leasing costs	(14,538)	(19,434)	(11,240)
Increase in intangible assets and prepaid expenses and other assets	(6,422)	(8,934)	(11,437)
(Decrease) increase in accounts payable and accrued expenses	(4,961)	(4,768)	5,535
Increase (decrease) in rent received in advance and security deposits	5,787	(1,081)	874
Total adjustments	80,643	100,541	105,934
Net cash provided by operating activities	174,230	173,478	215,239
Cash flows from investing activities:			
Rental property additions	(10,516)	(17,033)	(16,322)
Additions to tenant improvements	(48,327)	(33,634)	(35,303)
Additions to land held for development or sale and construction in progress	(3,656)	(16,448)	(9,817)
Rental property acquisitions	(449,170)	(73,133)	(152,600)
Payments on notes receivable		64	3,586
Issuance of notes receivable	(31,230)	(8,009)	(1,442)
Distributions from unconsolidated entities	30,446	14,658	10,933
Contributions to unconsolidated entities	(15,294)	(28,353)	(13,688)
Acquisition of minority interest	(5,392)	(2,330)	(9,557)
Decrease in restricted deposits	1,185	1,956	905
Proceeds from sales of rental properties	233,365	52,156	176,119
Proceeds from sale of residential property	2,727	14,164	
Net cash used in investing activities	(295,862)	(95,942)	(47,186)
Cash flows from financing activities:			
Repurchase of common shares		(7,858)	(35,923)

Repurchase and redemption of preferred shares		(254,518)	(145,482)
Proceeds from the issuance of preferred stock		194,664	
Excercises of stock options	43,449	22,170	28,810
Proceeds from the issuance of unsecured notes	419,967		616,534
Repayment of unsecured notes	(150,000)		
Net borrowings (repayments) on unsecured credit facility	51,500	155,500	(369,000)
Repayments of mortgages payable	(107,886)	(56,365)	(117,526)
Proceeds from mortgages		3,216	
Dividends and distributions to minority interests	(134,962)	(135,284)	(148,385)
Net cash provided by (used in) financing activities	122,068	(78,475)	(170,972)
Increase (decrease) in cash and cash equivalents	436	(939)	(2,919)
Cash and cash equivalents, beginning of the period	4,299	5,238	8,157
Cash and cash equivalents, end of the period	$ 4,735	$ 4,299	$ 5,238
Supplemental disclosure of cash flow information:			
Cash paid for interest (net of capitalized interest of $457, $1,696 and $3,274, respectively)	$ 112,088	$ 104,582	$ 87,594
Cash (refunds) paid for income taxes	$ (54)	$ 10	$ (933)

See accompanying notes to consolidated financial statements.

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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). We focus on the acquisition, development, ownership and operation of office properties, located primarily in selected suburban markets across the United States. Based on property operating income, our most significant markets include the San Francisco Bay area, the Washington, D.C. Metro area, Southern California and Seattle.

In June 2003, we completed our plan to restructure the manner in which we hold our assets by converting to what is commonly referred to as an umbrella partnership REIT, or UPREIT, structure. On June 30, 2004, we contributed substantially all of our assets to CarrAmerica Realty Operating Partnership, L.P. (the Operating Partnership) in exchange for units of common and preferred partnership interest in the Operating Partnership. The Operating Partnership assumed substantially all of our liabilities. Since the UPREIT restructuring, substantially all of our business is being conducted through the Operating Partnership and our primary asset is our interest in the Operating Partnership. At December 31, 2004, we owned all of the outstanding units of partnership interest of the Operating Partnership.

(b) Basis of Presentation

Our accounts and those of our controlled subsidiaries and affiliates are consolidated in the financial statements. We consolidate all entities in which we own a direct or indirect majority voting interest and where the minority holders do not have rights to participate in significant decisions that are made in the ordinary course of business. If applicable, we would consolidate any variable interest entity of which we are the primary beneficiary. 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 controlled by us. If events or changes in circumstances indicate that the fair value of an investment accounted for using the equity method or cost method has declined below its carrying value and we consider the decline to be other than temporary, the investment is written down to fair value and an impairment loss is recognized.

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 estimating the depreciable lives of assets, evaluating the impairment of long-lived assets and investments, allocating the purchase cost of acquired properties, assessing our probable liability under lease guarantees for HQ Global Workplaces, Inc. (HQ Global) and evaluating the collectibility of accounts receivable. Actual results could differ from these estimates.

(c) Rental Property

Properties to be developed or held and used in rental operations are carried at cost less accumulated depreciation and impairment losses, where appropriate. Properties held for sale are carried at the lower of their carrying values (i.e., cost less accumulated depreciation and impairment losses, where appropriate) or estimated fair value less costs to sell. Properties are considered held for sale when they are subject to a contract of sale meeting criteria specified by senior management (e.g., contingencies are met or waived, a nonrefundable deposit is paid, etc.). Depreciation on these properties is discontinued at that time, but operating revenues, other operating expenses and interest continue to be recognized until the date of sale. Revenues and expenses of properties that are classified as held for sale or sold are presented as discontinued operations for all periods presented in the Statements of Operations if the properties will be or have been sold on terms where we have limited or no continuing involvement with them after the sale.

Depreciation of rental properties is computed on a straight-line basis over the estimated useful lives of the assets. The estimated lives of our assets by class are as follows:

Base building	30 to 50 years
Building components	7 to 20 years
Tenant improvements	Lesser of the terms of the leases or useful lives of the assets
Furniture, fixtures and equipment	5 to 15 years

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Specifically identifiable costs associated with properties and land in development are capitalized. Capitalized costs may include salaries and related costs, real estate taxes, interest, pre-construction costs essential to the development of a property, development costs, construction costs and external acquisition costs. Costs of significant improvements, renovations and replacements to rental properties are capitalized. Expenditures for maintenance and repairs are charged to operations as they are incurred.

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 cannot be recovered from future undiscounted cash flows, the property is written down to estimated fair value and an impairment loss is recognized.

We recognize gains from sales of rental properties and land at the time of sale using the full accrual method, provided that various criteria related to the terms of the transactions and any subsequent involvement by us with the properties sold are met. If the criteria are not met, we defer the gains and recognize them when the criteria are met or using the installment or cost recovery methods, as appropriate in the circumstances.

(d) Property Acquisitions

We allocate the purchase cost of acquired properties to the related physical assets and in-place leases based on their fair values.

The fair values of acquired office buildings are determined on an if-vacant basis considering a variety of factors, including the physical condition and quality of the buildings, estimated rental and absorption rates, estimated future cash flows and valuation assumptions consistent with current market conditions. The if-vacant fair value is allocated to land, where applicable, buildings, tenant improvements and equipment based on property tax assessments and other relevant information obtained in connection with the acquisition of the property.

The fair value of in-place leases includes the effect of leases with above or below market rents, where applicable, customer relationship value and the cost of acquiring existing tenants at the date of acquisition. Above market and below market in-place lease values are determined on a lease by lease basis based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (a) the contractual amounts to be paid under the lease and (b) our estimate of the fair market lease rate for the corresponding space over the remaining non-cancellable terms of the related leases. The capitalized below market lease values are amortized as an increase to rental revenue over the initial term and any below market renewal periods of the related leases. Capitalized above market lease values are amortized as a decrease to rental revenue over the initial term of the related leases. Customer relationship values are determined based on our evaluation of the specific characteristics of each tenant s lease and our overall relationship with the tenant. Characteristics we consider include the nature and extent of our existing business relationships with the tenant, prospects for developing new business with the tenant, the tenant s credit quality and expectations of lease renewals. The value of customer relationship intangibles is amortized to expense over the lesser of the initial lease term and any expected renewal periods or the remaining useful life of the building. We determine the fair value of the cost of acquiring existing tenants by estimating the lease commissions avoided by having in-place tenants and the avoided lost operating income for the estimated period required to lease the space occupied by existing tenants at the acquisition date. The cost of acquiring existing tenants is amortized to expense over the initial term of the respective leases. Should a tenant terminate its lease, the unamortized portion of the in-place

lease value is charged to expense.

(e) Geographic Concentration

As of December 31, 2004, we owned greater than 50% interests in and consolidated 251 operating office buildings located in the United States. The following table summarizes the number of buildings, the rentable square footage and the percentage of property operating income by market.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Market	Number of Buildings	Rentable Square Footage	Percent of Property Operating Income[1] for the Year Ended 12/31/04
San Francisco Bay Area	85	6,323,849	34.3
Washington, D.C. Metro	23	4,258,212	29.6
Orange County, CA	22	971,691	4.0
Los Angeles	16	660,226	2.9
San Diego	26	1,313,886	8.1
Seattle	29	1,498,473	5.2
Chicago	7	1,225,117	2.7
Dallas	9	1,005,655	3.0
Phoenix	4	532,506	3.2
Denver	9	904,717	3.4
Salt Lake City	11	628,399	2.1
Austin	4	265,901	0.6
Portland	6	275,193	0.9
	251	19,863,825	100.0

[1] Property operating income is property operations revenue less property operating expenses.

(f) Tenant Leasing Costs

We defer fees and initial direct costs incurred in the negotiation of completed leases. They are amortized on a straight-line basis over the term of the lease to which they apply.

(g) Deferred Financing Costs

We defer fees and costs incurred to obtain financing. They are amortized using the interest method over the term of the loan to which they apply.

(h) Fair Values of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued expenses approximate their fair values because of their short-term maturities. The carrying amount of notes receivable approximate their fair values. Fair value information relating to mortgages and notes payable is provided in note 2.

(i) Revenue Recognition

We recognize minimum base rental revenue under tenant leases on a straight-line basis over the terms of the related leases. Accrued straight-line rents represent the rental revenue recognized in excess of rents due under the lease agreements at the balance sheet date. We recognize revenues for recoveries from tenants of real estate taxes, insurance and other costs in the period in which the related expenses are incurred. We recognize revenues for rents that are based on a percentage of a tenant s sales in excess of levels specified in the lease agreement when the tenant s sales actually exceed the specified minimum level. We recognize lease termination fees on the termination date or over the shortened remaining term of the lease. We recognized lease termination fees of $7.0 million, $6.4 million and $4.4 million in 2004, 2003 and 2002, respectively. These fees are included in parking and other tenant charges in the Statements of Operations.

We recognize revenue for services on properties we manage, lease or develop for unconsolidated entities or third parties when the services are performed. Revenue for development and leasing services to affiliates is reduced to eliminate profit to the extent of our ownership interest.

We provide for potentially uncollectible accounts and notes receivable and accrued straight-line rents 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,

CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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. During 2004, 2003 and 2002, we recognized bad debt expense of $1.6 million, $2.6 million and $7.1 million, respectively.

(j) Income and Other Taxes

In general, a REIT that meets certain organizational and operational requirements and distributes at least 90 percent of its REIT taxable income to its shareholders in a taxable year will not be subject to income tax to the extent of the income it distributes. We qualify and intend to continue to qualify as a REIT under the Internal Revenue Code of 1986, as amended. As a result, no provision for federal income taxes on income from continuing operations is required, except for taxes on certain property sales and on income, if any, of our taxable REIT subsidiaries (TRS). If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our income at regular corporate tax rates. Even if we qualify for taxation as a REIT, we may be subject to state and local income and franchise taxes and to federal income and excise taxes on any undistributed income.

We incurred current federal and state income and franchise taxes of approximately $0.3 million, $0.4 million and $0.3 million in 2004, 2003 and 2002, respectively. As of December 31, 2004, we had a capital loss carryforward of $28.0 million which will expire December 31, 2007.

Deferred income taxes of our TRSs are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities of our TRSs and their respective tax bases and for their operating loss and interest deduction carryforwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and other factors. The components of deferred income taxes are summarized as follows:

(In thousands)	December 31, 2004	December 31, 2003
Rental property	$ 186	$
Net operating loss carryforwards	6,939	5,612
Interest deduction carrryforwards	3,064	2,460
Intangibles/investments	398	696
Accrued compensation	511	392
Allowance for doubtful accounts	83	24
Rents received in advance	1	
Deferred tax assets	11,182	9,184

Less: Valuation allowance	(11,162)	(9,184)
Net deferred tax assets	$ 20	$

Realization of deferred tax assets related to the net operating loss and interest deduction carryforwards of our TRSs is primarily dependent on future earnings. Based on our TRS s history of operating losses and because we have no tax-planning strategies to utilize net operating loss and interest deduction carryforwards, and no contemplated transactions to generate significant future operating profits, we have concluded that it is more likely than not that these deferred tax assets will not be realized. Accordingly, as of December 31, 2004 and 2003, we had a valuation allowance for substantially all of the net deferred tax assets of our TRSs. As of December 31, 2004, our TRSs had net operating loss carryforwards available for federal income tax purposes of approximately $17 million, which expire at various dates between 2009 and 2023.

Reconciliation of Net Income to Estimated Taxable Income (Unaudited)

Earnings and profits, which determine the taxability of distributions to stockholders, differ from net income reported for financial reporting purposes due primarily to differences in the estimated useful lives and methods used to compute depreciation of rental property, in the carrying value (basis) of investments in properties and unconsolidated entities and in the timing of recognition of certain revenues and expenses for tax and financial reporting purposes. The following table reconciles our net income to estimated taxable income.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(In thousands)	2004	2003	2002
Net income	$ 93,587	$ 72,937	$ 109,305
Depreciation/amortization timing differences on real estate	35,514	36,266	44,868
Straight-line rent adjustments	236	(7,280)	(6,315)
Earnings adjustment on consolidated and unconsolidated entities	6,015	7,227	(13,715)
Rents received in advance	2,514	(217)	3,794
Bad debts	(949)	(94)	(1,930)
Difference between book and tax gain on sales of real estate	(47,470)	(7,010)	(13,002)
Compensation expense	(3,185)	(6,075)	(2,051)
Interest deduction carryforward	(14,478)		
Other	2,118	(4,215)	120
Estimated taxable income	$ 73,902	$ 91,539	$ 121,074

Reconciliation Between Dividends Paid and Dividends Paid Deductions (Unaudited)

The following table reconciles cash dividends paid and the dividends paid deduction for income tax purposes:

(In thousands)	2004	2003	2002
Cash dividends paid	$ 122,672	$ 123,030	$ 136,359
Dividends carried back to the prior year			(10,403)
Earnings and profits limitation	(25,175)	(21,529)	
Dividends paid deduction	$ 97,497	$ 101,501	$ 125,956

Characterization of Distributions (Unaudited)

The following table characterizes distributions paid per common share:

	2004	2003	2002
Ordinary income	76%	79%	100%
Non-taxable dividend	24%	21%	

(k) Earnings Per Share

Our basic earnings per share (EPS) is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding. Our diluted EPS is computed after adjusting the numerator and denominator of the basic EPS computation for the effects of all dilutive potential common shares outstanding during the period. The dilutive effects of convertible securities are computed using the if-converted method. The dilutive effects of options, warrants and their equivalents are computed using the treasury stock method.

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Notes to Consolidated Financial Statements

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

(In thousands, except per share amounts)	Year Ended December 31, 2004		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS	$ 53,261	53,903	$ 0.99
Effect of Dilutive Securities - Stock options		511	(0.01)
Diluted EPS	$ 53,261	54,414	$ 0.98

	Year Ended December 31, 2003		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS	$ 27,704	51,913	$ 0.53
Effect of Dilutive Securities - Stock options		660	
Diluted EPS	$ 27,704	52,573	$ 0.53

	Year Ended December 31, 2002		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS	$ 38,175	52,817	$ 0.72
Effect of Dilutive Securities - Stock options		910	(0.01)
Diluted EPS	$ 38,175	53,727	$ 0.71

Income from continuing operations is reconciled to earnings available to common shareholders as follows:

(In thousands)	2004	2003	2002
Income from continuing operations	$ 69,146	$ 54,236	$ 72,811
Dividends on preferred stock	(15,094)	(18,021)	(30,055)
Dividends on unvested restricted stock	(791)	(492)	
Issuance costs of redeemed preferred stock		(8,019)	(4,581)
Earnings available to common shareholders	$ 53,261	$ 27,704	$ 38,175

On July 31, 2003, the Securities and Exchange Commission (SEC) issued a clarification of Emerging Issues Task Force Topic D-42, The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock. Topic D-42 provides, among other things, that any excess of the fair value of the consideration transferred to the holders of preferred stock redeemed over the carrying amount of the preferred stock should be subtracted from net earnings to determine net earnings available to common stockholders in the calculation of EPS. The SEC s clarification of the guidance in Topic D-42 provides that the carrying amount of the preferred stock should be reduced by the related issuance costs. The July 2003 clarification of Topic D-42 was effective for us for the quarter ended September 30, 2003 and we retroactively reflected the impact of Topic D-42 in the financial statements of prior periods.

The effects of convertible units in CarrAmerica Realty, L.P. and Carr Realty Holdings, L.P. and Series A Cumulative Convertible Redeemable Preferred Stock are not included in the calculation of diluted EPS for any year in which their effect is antidilutive.

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CARRAMERICA REALTY CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(l) Cash Equivalents

We consider all highly liquid investments with maturities at date of purchase of three months or less to be cash equivalents except that any such investments purchased with funds on deposit in escrow or similar accounts are classified as restricted deposits.

(m) Derivative Financial Instruments and Hedging

We manage our capital structure to reflect a long-term investment approach, generally seeking to match the stable return nature of our assets with a mix of equity and various debt instruments. We mainly use fixed rate debt instruments in order to match the returns from our real estate assets. We also utilize variable rate debt for short-term financing purposes or to protect against the risk, at certain times, that fixed rates may overstate our long-term costs of borrowing if assumed inflation or growth in the economy implicit in higher fixed interest rates do not materialize. At times, our mix of variable and fixed rate debt may not suit our needs. At those times, we may use derivative financial instruments, including interest rate caps and swaps, forward interest rate options or interest rate options in order to assist us in managing our debt mix. We will either hedge our variable rate debt to give it a fixed interest rate or hedge our fixed rate debt to give it a variable interest rate.

Under interest rate cap agreements, we make initial premium payments to the counterparties in exchange for the right to receive payments from them if interest rates exceed specified levels during the agreement period. Under interest rate swap agreements, we and the counterparties agree to exchange the difference between fixed rate and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less. Parties to interest rate cap and swap agreements are subject to market risk for changes in interest rates and credit risk in the event of nonperformance by the counterparty. We do not require any collateral under these agreements but deal only with highly rated institutional counterparties and expect that they will meet their obligations.

Derivative financial instruments are recognized as either assets or liabilities on the balance sheet at their fair values. Subject to certain qualifying conditions, we may designate a derivative as either a hedge of the cash flows from a variable rate debt instrument or anticipated transaction (cash flow hedge) or a hedge of the fair value of a fixed rate debt instrument (fair value hedge). For those derivatives designated as a cash flow hedge, we report the fair value gains and losses in accumulated other comprehensive income in stockholders equity to the extent the hedge is effective. We recognize these fair value gains or losses in earnings during the period(s) in which the hedged item affects earnings. For a derivative qualifying as a fair value hedge, we report fair value gains or losses in earnings along with fair value gains or losses on the hedged item attributable to the risk being hedged. Most of our derivative financial instruments qualify as fair value hedges. Derivatives that do not qualify for hedge accounting are marked to market through earnings. Amounts receivable or payable under interest rate cap and swap agreements are accounted for as adjustments to interest expense on the related debt.

(n) Stock/Unit Compensation Plans

Through 2002, we applied the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations to account for our stock/unit compensation plans. Under this method, we recorded compensation expense for awards of stock, options or units to employees only if the market price of the unit or stock on the grant date exceeded the amount the employee was required to pay to acquire the unit or stock. In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation and requires disclosure in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. Effective January 1, 2003, we adopted the fair value based method of accounting for stock-based compensation costs. We elected to use the prospective method of transition to the fair value method provided in SFAS No. 148 and, accordingly, the method is being applied for all employee stock compensation awards granted, modified or settled on or after January 1, 2003.

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The following table summarizes pro forma effects on net income and earnings per share if the fair value method had been used to account for all stock-based compensation awards made between 1995 and 2002.

(In thousands, except per share data)	2004	2003	2002
Net income as reported	$ 93,587	$ 72,937	$ 109,305
Stock-based compensation cost from stock option plans included in net income	152	150	
Stock-based compensation cost from restricted stock plan included in net income	3,986	3,398	4,310
Fair value of stock-based compensation	(4,942)	(5,830)	(7,561)
Pro forma net income	$ 92,783	$ 70,655	$ 106,054
Earnings per share as reported:			
Basic	$ 1.44	$ 0.89	$ 1.41
Diluted	1.43	0.89	1.39
Earnings per share, pro forma:			
Basic	$ 1.43	$ 0.85	$ 1.35
Diluted	1.41	0.85	1.33

The per share weighted-average fair values of stock options granted during 2003 and 2002 were $1.78 and $3.12, respectively, on the date of grant. No stock options were granted in 2004. These values were determined using the Black-Scholes option-pricing model and the following assumptions:

	Expected Dividend Yield	Risk Free Interest Rate	Expected Stock Volatility	Expected Option Life in Years
2003	7.33%	3.42%	20.86%	7.00
2002	7.80%	4.86%	23.89%	6.81

Additional information concerning stock/unit compensation plans is presented in note 9.

(o) New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of Variable Interest Entities. This Interpretation addresses the consolidation of variable interest entities (VIEs) in which the equity investors lack one or more of the essential

characteristics of a controlling financial interest or where the equity investment at risk is not sufficient for the entity to finance its activities without subordinated financial support from other parties. The adoption of Interpretation No. 46 in 2003 had no effect on our financial statements. In December 2003, the FASB issued a revised Interpretation No. 46 which modified and clarified various aspects of the original Interpretation. The adoption of the revised Interpretation No. 46 in 2003 also had no effect on our financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). In particular, it requires that mandatorily redeemable financial instruments be classified as liabilities and reported at fair value and that changes in their fair values be reported as interest cost. SFAS No. 150 was effective for us as of July 1, 2003 and adoption did not affect our financial statements.

In December 2004, the FASB issued SFAS No. 123 (R), Share-Based Compensation. It replaces SFAS No. 123, Accounting for Stock Issued to Employees. SFAS No. 123 (R) requires the compensation cost relating to share-based payment transactions be recognized in financial statements. It is required to be applied by us beginning July 1, 2005. We intend to adopt SFAS No. 123(R) using the modified prospective application method which

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requires, among other things, that we recognize compensation cost for all awards outstanding at July 1, 2005, for which the requisite service has not yet been rendered. Because we have used a fair value based method of accounting for stock-based compensation costs for all employee stock compensation awards granted, modified or settled since January 1, 2003, and do not expect to have significant unvested awards from periods prior to January 1, 2003 outstanding at July 1, 2005, adoption of SFAS No. 123 (R) is not expected to have a material effect on our financial statements.

In December 2004, the FASB issued SFAS No. 153, Exchange of Nonmonetary Assets, an amendment of APB Opinion No. 29. The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured on the fair value of assets exchanged. The statement eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. The statement is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005.

(p) Reclassifications

Some prior years amounts have been reclassified to conform to the current year s presentation.

(2) Mortgages and Notes Payable

Our mortgages and notes payable are summarized as follows:

(In thousands)	December 31, 2004	December 31, 2003
Fixed rate mortgages	$ 262,930	$ 390,040
Notes payable	19,228	
Unsecured credit facility	295,000	243,500
Senior unsecured notes	1,375,000	1,100,000
	1,952,158	1,733,540
Unamortized discount and fair value adjustment, net	(11,028)	(5,892)
	$ 1,941,130	$ 1,727,648

Mortgages payable are collateralized by properties and generally require monthly principal and/or interest payments. The mortgages payable outstanding at December 31, 2004 mature in 2009. The weighted average interest rate of mortgages payable was 7.94% at December 31, 2004 and 7.88% at December 31, 2003. The net book value of properties pledged as collateral for mortgages payable was $240.4 million and $523.5 million as of December 31, 2004 and 2003, respectively.

During 2004, we extinguished early $92.2 million of mortgages. In connection with these extinguishments, we incurred prepayment penalties of $3.3 million which is included in interest expense. We also converted $19.7 million of mortgage debt to notes payable secured by letters of credit.

Our primary external source of liquidity is our credit facility. On June 30, 2004, we entered into a new $500.0 million, three year unsecured revolving credit facility with JPMorgan Chase Bank as administrative agent for a syndicate of banks. The facility replaced and was used to repay all amounts outstanding under our previous unsecured senior credit facility. We may increase the facility to $700.0 million by our request at any time within 24 months of the closing, provided the funding commitments are increased accordingly. The facility can be extended one year at our option. The facility carries an interest rate of 65 basis points over 30-day LIBOR, or 3.05% as of December 31, 2004. As of December 31, 2004, $295.0 million was drawn on the credit facility, $35.9 million in letters of credit were outstanding, and we had $169.1 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 of at least 2 to 1;

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A minimum ratio of annual EBITDA to fixed charges of at least 1.5 to 1;

A maximum ratio of aggregate unsecured debt to tangible fair market value of our unencumbered assets of 60%;

A maximum ratio of total secured debt to tangible fair market value of 30%;

A maximum ratio of total debt to tangible fair market value of our assets of 55%; and

Restrictions on our ability to make dividend distributions in excess of 90% of funds from operations or the minimum amount necessary to enable us to maintain our status as a REIT.

As of December 31, 2004, we are in compliance with all debt covenants, however, our ability to draw on our unsecured credit facility or incur other unsecured debt in the future could be restricted by the covenants. Our maximum ratio of total debt to tangible fair market value of our assets cannot exceed 55%. As of December 31, 2004, our total debt to tangible fair market value was 53.2% and could restrict our ability to draw the full amount available to us under our credit facility or to incur significant other debt. We anticipate reducing our total debt ratio by paying down our outstanding unsecured debt obligations using the proceeds from property dispositions expected to close in 2005. In addition, we expect to receive from our credit facility lenders a modification of the total debt covenant increasing the maximum ratio of total debt to tangible fair market value of our assets to 60%. There can be no assurance, however, that planned property dispositions will close or that our credit facility lenders will consent to modifications to the total debt covenant. If our total debt ratio increases further and we do not obtain the modification of the ratio to 60%, it could impact our business and operations, including limiting our ability to incur additional unsecured debt, including drawing on our unsecured line of credit which is our primary source of liquidity, or to invest in properties.

We have senior unsecured notes outstanding at December 31, 2004 as follows:

(In thousands)	**Note Principal**	**Unamortized Discount**	**Fair Value Adjustment**	**Total**
6.625% notes due in 2005	$ 100,000	$ (104)	$	$ 99,896
7.375% notes due in 2007	125,000	(362)		124,638
5.261% notes due in 2007	50,000	(88)		49,912
5.25% notes due in 2007	175,000	(789)	(290)	173,921
3.625% notes due in 2009	225,000	(650)	(2,962)	221,388
6.875% notes due in 2008	100,000	(1,308)		98,692
5.125% notes due in 2011	200,000	(600)		199,400
7.125% notes due in 2012	400,000	(3,875)		396,125
	$ 1,375,000	$ (7,776)	$ (3,252)	$ 1,363,972

We had senior unsecured notes outstanding at December 31, 2003 as follows:

(In thousands)	Note Principal	Unamortized Discount	Fair Value Adjustment	Total
7.20% notes due in 2004	$ 150,000	$ (113)	$ 2,058	$ 151,945
6.625% notes due in 2005	100,000	(743)		99,257
7.375% notes due in 2007	125,000	(507)		124,493
5.261% notes due in 2007	50,000	(117)		49,883
5.25% notes due in 2007	175,000	(1,061)	739	174,678
6.875% notes due in 2008	100,000	(1,722)		98,278
7.125% notes due in 2012	400,000	(4,426)		395,574
	$ 1,100,000	$ (8,689)	$ 2,797	$ 1,094,108

All of 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;

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Limits on our secured indebtedness on a consolidated basis;

Limits on our required debt service payments; and

Compliance with the financial covenants of our credit facility.

We were in compliance with our senior unsecured notes covenants as of December 31, 2004.

We issued $225.0 million principal amount of senior unsecured notes in March 2004 with net proceeds of approximately $222.7 million. The notes bear interest at 3.625% per annum payable semi-annually beginning October 1, 2004. The notes mature on April 1, 2009. We used the proceeds from the notes to pay down our unsecured credit facility.

We issued $200.0 million principal amount of senior unsecured notes in August 2004 with net proceeds of approximately $197.2 million. The notes bear interest at 5.125% per annum payable semi-annually beginning March 1, 2005. The notes mature on September 1, 2011. We used the proceeds from the notes to pay down our unsecured credit facility.

$150.0 million of senior unsecured notes matured on July 1, 2004 and were repaid on that date using borrowings from our unsecured credit facility.

Debt maturities as of December 31, 2004 are summarized as follows:

(in thousands)	
2005	$ 121,056
2006	8,241
2007	650,667
2008	106,131
2009	466,063
2010 & thereafter	600,000
	$ 1,952,158

Debt maturities for 2005 include $100.0 million of senior unsecured notes due in March which we expect to pay with amounts drawn on our line of credit or from the proceeds of property dispositions.

Restricted deposits consist primarily of escrow deposits. These deposits are required by lenders to be used for future building renovations or tenant improvements or as collateral for letters of credit.

The estimated fair value of our mortgages and notes payable at December 31, 2004 and 2003 was approximately $313.9 million and $437.4 million, respectively. The estimated fair value is based on the borrowing rates available to us for fixed rate mortgages payable with similar terms and average maturities. The fair value of the unsecured credit facility at December 31, 2004 and 2003 approximates book value. The estimated fair value of our senior unsecured notes at December 31, 2004 and 2003 was approximately $1,444.7 million and $1,185.6 million, respectively. The estimated fair value is based on the borrowing rates available to us for debt with similar terms and maturities.

(3) Derivative Financial Instruments

On May 8, 2002, we entered into interest rate swap agreements with JP Morgan Chase and Bank of America, N.A. hedging $150.0 million of senior unsecured notes due July 2004. We received interest at a fixed rate of 7.2% and paid interest at a variable rate of six-month LIBOR in arrears plus 2.72%. The interest rate swaps matured at the same time the notes were due. The swaps qualified as fair value hedges for accounting purposes. We recognized reductions in interest expense for 2004, 2003 and 2002 of approximately $1.9 million, $4.9 million and $2.7 million, respectively, related to the swaps. The notes were repaid upon maturity on July 1, 2004 and the related interest rate swap agreements expired.

On November 20, 2002, in conjunction with the issuance of $175.0 million of senior unsecured notes, we entered into interest rate swap agreements with JP Morgan Chase, Bank of America, N.A. and Goldman, Sachs & Co.

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We receive interest at a fixed rate of 5.25% and pay interest at a variable rate of six-month LIBOR in arrears plus 1.405%. The interest rate swaps mature at the same time the notes are due. The swaps qualify as fair value hedges for accounting purposes. As of December 31, 2004 and 2003, the fair value of the interest rate swaps was a payable of approximately $(0.3) million and a receivable of approximately $0.7 million, respectively. We recognized reductions in interest expense for 2004, 2003 and 2002 of approximately $2.6 million, $4.5 million and $0.4 million, respectively, related to the swaps. As of December 31, 2004, taking into account the effect of the interest rate swaps, the effective interest rate on the notes was reduced to 3.75%.

On March 18, 2004, in conjunction with the issuance of $225.0 million of 3.625% senior unsecured notes, we entered into $100.0 million of interest rate swap agreements with JP Morgan Chase and Bank of America, N.A. We receive interest at a fixed rate of 3.625% and pay interest at a variable rate of six-month LIBOR in arrears plus 0.2675%. The interest rate swaps mature at the same time the notes are due. The swaps qualify as fair value hedges for accounting purposes. As of December 31, 2004, the fair value of the interest rate swaps was a payable of approximately $(3.0) million. We recognized a reduction in interest expense for 2004 of approximately $0.6 million related to the swaps. As of December 31, 2004, taking into account the effect of the interest rate swaps, the effective interest rate on $100.0 million of the notes was 2.98%.

On August 10, 2004, we entered into interest rate lock agreements with a notional amount of $150.0 million with JP Morgan Chase, Goldman Sachs & Co. and Morgan Stanley in anticipation of our $200.0 million senior unsecured bond offering. We settled the interest rate locks on August 20, 2004 and paid $0.6 million to the counterparties. The interest rate locks qualified as cash flow hedges and accordingly, the settlement is being amortized to interest expense over the life of our senior unsecured notes due in 2011. During 2004, the impact of the interest rate locks on interest expense was not material.

As part of the assumption of $63.5 million of debt associated with the purchase of two operating properties in August 2002, we purchased interest rate caps with a notional amount of $97.0 million and LIBOR capped at 6.75%. These interest rate caps expired in September 2004.

In December 2003, we purchased an interest rate cap with a notional amount of $100.0 million and LIBOR capped at 8.0% which expires in January 2005. The fair market value at December 31, 2004 of this interest rate cap was not material.

In January 2005, we purchased an interest rate cap with a notional amount of $200.0 million and LIBOR capped at 7.5% which expires in February 2006.

(4) HQ Global Workplaces, Inc.

In 1997, we began making investments in HQ Global Workplaces, Inc. (HQ Global), a provider of executive office suites. 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. On March 13, 2002, HQ Global filed for bankruptcy protection under Chapter 11 of the federal bankruptcy laws. In the course of the bankruptcy proceedings, which were concluded in September 2003, HQ Global rejected two of these four leases. One lease was for approximately 22,000 square feet of space at two adjacent buildings in San Jose, California. Our liability under this guarantee was limited to approximately $2.0 million. We reached

agreement with the landlord of this lease under which we paid $1.75 million in full satisfaction of the guarantee in January 2003. We recognized this expense in 2002.

The second lease rejected by HQ Global was a sublease for approximately 26,000 square feet of space in downtown Manhattan. In June 2002, we received a demand for payment of the full amount of the guarantee. We joined with HQ Global in filing suit on July 24, 2002 in HQ Global s bankruptcy proceedings asking the bankruptcy court to declare that, due to the surrender of the premises by HQ Global and the deemed acceptance by the landlord under the sublease of that surrender by virtue of its use of the premises, the lease was terminated by the landlord under the sublease not later than February 28, 2003. In light of our defenses and the uncertainty of these proceedings, we did not accrue any expense related to the guarantee. However, on September 16, 2003, the bankruptcy court ruled that HQ Global did not effectively surrender the premises under the sublease and that the landlord under the sublease therefore could not be deemed to have accepted a surrender. In October 2003, we entered into a tentative settlement agreement with the landlord under the sublease, agreeing to pay $5.4 million in cash in one payment. We accrued a provision for loss for this settlement in the third quarter of 2003 and paid it in the fourth quarter of 2003.

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One of the guaranteed leases that was not rejected by HQ Global runs though January 2013, and is for approximately 19,000 square feet of space in San Mateo, California. In the second quarter of 2002, we accrued a provision for loss under this guarantee of $6.9 million based on the assumption that HQ Global would reject this lease and based on our estimates of the mitigated damages that would be incurred under the lease. In January 2003, HQ Global assigned its interest as a tenant in this lease to us and we in turn subleased the space back to HQ Global at current market rates together with the right to participate in a portion of HQ Global s future profits, if any, generated by its operations in the space. These agreements were subject to approval by the bankruptcy court and would have been enforceable only if HQ Global successfully reorganized and emerged from bankruptcy proceedings. On September 15, 2003, HQ Global s plan of reorganization was approved by the bankruptcy court. Based on HQ Global s reorganization plan being approved and HQ Global s operating performance in the space, we reevaluated our estimated loss related to the guarantee and reduced our provision for loss under this guarantee by $4.6 million in the third quarter of 2003 to $2.3 million. At December 31, 2004, our provision for loss under this agreement was reduced to $1.9 million as a result of net rental payments made.

(5) Minority Interest

At the time we were incorporated and our majority-owned subsidiary, Carr Realty Holdings, L.P. was formed, those who contributed interests in properties to Carr Realty Holdings, L.P. had the right to elect to receive either our common stock or units of limited partnership interest in Carr Realty Holdings, L.P. In addition, we have acquired assets since our formation by issuing distribution paying units and non-distribution paying units of Carr Realty Holdings, L.P. and CarrAmerica Realty, L.P. (collectively referred to as Unitholders). The non-distribution paying units cannot receive any distributions until they automatically convert into distribution paying units in the future. During 2003 and 2002, 89,364 and 89,357 non-distribution paying units, respectively, were converted to distribution paying units. A distribution paying unit, subject to restrictions, may be redeemed at any time for either one share of our common stock, or at our option, cash equal to the fair market value of a share of our common stock at the redemption date. During 2004, 2003 and 2002, 148,322, 16,125 and 278,799 distribution paying units, respectively, of Carr Realty Holdings, L.P. were redeemed for cash or our common stock. During 2004, 2003 and 2002, 122,608, 57,885 and 25,509 units, respectively, of CarrAmerica Realty, L.P. were redeemed for cash or our common stock. Minority interest in the financial statements relates primarily to Unitholders in these partnerships.

The following table summarizes the outstanding shares of our common stock and preferred stock which was convertible into our common stock and outstanding units of Carr Realty Holdings, L.P. and CarrAmerica Realty, L.P.:

(In thousands)	Common Stock Outstanding	Convertible Preferred Stock Outstanding	Distribution Paying Units Outstanding	Non-Distribution Paying Units Outstanding
As of December 31,				
2004	54,890		5,323	
2003	52,881		5,606	
2002	51,836		5,579	89
Weighted average for:				
2004	54,230		5,407	
2003	52,185		5,587	53

2002	52,827	3	5,671	142

(6) Other Investments in Unconsolidated Entities and Affiliate Transactions

We utilize joint venture arrangements on projects characterized by large dollar-per-square foot costs and/or when we desire to limit capital deployment in certain of our markets. We own interests ranging from 15% to 50% in real estate property operations and development operations through unconsolidated entities. We had eleven

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investments at December 31, 2004, eleven investments at December 31, 2003 and ten investments at December 31, 2002 in these unconsolidated entities. Adjustments are made to equity in earnings of unconsolidated entities to account for differences in the amount at which our investment is carried and the amount of our underlying equity in the net assets.

During 2004, we entered into a new joint venture arrangement which acquired operating properties and land. The table below details our 2004 joint venture investments.

Property Name	Market	Month Acquired	Ownership Percentage	Number of Buildings	Rentable Square Footage	Investment Cost[1] (000)
Legacy	Dallas, TX	Sep-04/Oct-04	20%	3	393,136	$ 14,179
Legacy land	Dallas, TX	Dec-04	20%	n/a	n/a	233
				3	393,136	$ 14,412

1 Represents net investment in joint venture.

The combined condensed financial information for the unconsolidated entities accounted for using the equity method is as follows:

(In thousands)	December 31, 2004	December 31, 2003
Balance Sheets		
Assets		
Rental property, net	$ 1,189,968	$ 1,046,464
Land and construction in progress	32,263	92,494
Cash and cash equivalents	36,135	29,883
Other assets	66,703	49,329
	$ 1,325,069	$ 1,218,170
Liabilities and Partners Capital		
Liabilities:		
Notes payable	$ 844,049	$ 740,608
Other liabilities	46,754	31,320

Total liabilities	890,803	771,928
Partners capital	434,266	446,242
	$ 1,325,069	$ 1,218,170

	Year Ended December 31,		
	2004	2003	2002
Statements of Operations			
Revenue	$ 188,819	$ 148,512	$ 134,903
Depreciation and amortization expense	46,295	35,976	33,188
Interest expense	48,069	35,136	36,737
Other expenses	28,769	55,047	47,212
Gain on sale of assets	40,656		18,162
Net income	$ 106,342	$ 22,353	$ 35,928

In addition to making investments in these ventures, we provide construction management, leasing and property management, development and architectural and other services to them. We earned fees for these services of $9.1 million in 2004, $8.1 million in 2003 and $8.0 million in 2002. Accounts receivable from joint ventures and other affiliates were $1.8 million at December 31, 2004 and $0.7 million at December 31, 2003.

We had a consulting agreement until June of 2003 when it expired with Oliver T. Carr, Jr., a former member of our Board of Directors, under which Mr. Carr provided services to us. We paid Mr. Carr $104,750 in 2003 and $105,000 in 2002. In December 2003, we acquired from The Oliver Carr Company its remaining interest in Carr

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Real Estate Services Inc. for $0.2 million in cash. As a result, Carr Real Estate Services Inc. is now wholly owned by us. Our former director, Oliver T. Carr, Jr. and our Chairman and Chief Executive Officer, Thomas A. Carr, served as directors of, and have direct or indirect interests in, The Oliver Carr Company.

As of December 31, 2004, we guaranteed $40.0 million of debt related to a joint venture and $41.1 million of debt related to development projects we have undertaken with third parties.

We have minority ownership interests in two non-real estate operating companies, AgilQuest and essention, which we account for using the cost method and in which we invested $2.8 million and $1.7 million, respectively. We evaluate these investments regularly considering factors such as the companies progress against their business plans, their operating results and the estimated fair values of their equity securities. Based on these evaluations, we recognized impairment losses of $1.1 million on our investment in AgilQuest in 2003 and $0.5 million on our investment in essention in 2002.

During 2003, we provided mezzanine loans and guaranties to third-parties for development management projects. The purpose of these VIEs is to build and own office buildings in Washington, D.C. Based upon our analysis, we believe that we are not the primary beneficiary of either entity and, accordingly, we do not consolidate them. Our maximum exposure to loss as of December 31, 2004 is $62.7 million, the sum of our notes receivable ($21.6 million) and the maximum exposure under the guaranties ($41.1 million).

In December 2004, we provided mezzanine financing to a third-party joint venture. This VIE owns property in Texas. Based upon our analysis, we believe that we are not the primary beneficiary of this entity and, accordingly, we do not consolidate it. Our maximum exposure to loss as of December 31, 2004 is $13.7 million, the balance of our note receivable.

(7) Lease Agreements

Space in our rental properties is leased to approximately 1,027 tenants. In addition to minimum rents, the leases typically provide for other rents, which reimburse us for specific property operating expenses and real estate taxes. The future minimum straight-line base rent to be received under noncancellable tenant operating leases and the percentage of total rentable space under leases expiring each year, as of December 31, 2004 are summarized as follows:

(In thousands)	Future Minimum Rent	Percentage of Total Space Under Lease

		Expiring
2005	$ 390,152	8.3
2006	337,557	15.0
2007	280,878	12.9
2008	227,886	12.9
2009	169,121	13.6
2010 & thereafter	613,290	25.6
	$ 2,018,884	

The leases also generally provide for additional rent based on increases in the Consumer Price Index (CPI) and increases in operating expenses. Increases are generally payable in equal installments throughout the year.

We lease land for two office properties located in metropolitan Washington, D.C., one office property located in Santa Clara, California and one office property in Palo Alto, California. We also lease land adjacent to an office property in Chicago, Illinois. We lease office space in metropolitan Washington, D.C. for our own use, part of which is being subleased. The initial terms of these leases range from 5 years to 99 years. The longest lease matures in 2086. The minimum base annual rent for these leases is approximately $5.4 million.

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(8) Common and Preferred Stock

On March 18, 2003, we redeemed 2,000,000 shares of our Series B Cumulative Redeemable Preferred Stock for $50.0 million plus $0.2 million of accrued dividends. On October 12, 2003, we redeemed the remaining outstanding shares of our Series B, C and D Cumulative Redeemable Preferred Stock for $196.3 million plus $1.3 million of accrued dividends. Including these redemptions, during 2003 we repurchased or redeemed 10,184,167 shares of our preferred stock (3,622,589 shares on a full share equivalent basis) for approximately $254.5 million, excluding accrued dividends.

On September 25, 2003, we issued 8,050,000 shares of 7.5% Series E Cumulative Redeemable Preferred Stock for net proceeds of $194.7 million. These shares are not redeemable before September 25, 2008 unless redemption is necessary to maintain our status as a REIT.

On September 7, 2002, we redeemed 4.0 million shares of our Series B Cumulative Redeemable Preferred Stock at a redemption price of $25.00 per share plus accrued and unpaid dividends for the period from September 1, 2002 through and including the redemption date, without interest. Additionally, during 2002, we repurchased 1,819,354 shares of our preferred stock (1,177,411 shares on a full share equivalent basis) for approximately $45.5 million.

Our Board of Directors has authorized us to spend up to $400.0 million to repurchase our common stock, preferred stock and debt securities, excluding the common shares repurchased from Security Capital Group Incorporated in November 2001 and our preferred stock redemptions September 2002, March 2003 and October 2003, which were separately approved. Since the start of this program in mid-2000 through December 31, 2004, we have acquired approximately 10.4 million of our common shares for an aggregate purchase price of approximately $296.9 million. We continue to monitor market conditions and other alternative investments in order to evaluate whether repurchase of our securities is appropriate.

(9) Stock/Unit Compensation Plans

As of December 31, 2004, we had three option plans. Two plans are for the purpose of attracting and retaining executive officers and other key employees (1997 Employee Stock Option and Incentive Plan and the 1993 Carr Realty Option Plan). The other plan is for the purpose of attracting and retaining directors who are not employees (1995 Non-Employee Director Stock Option Plan).

The 1997 Employee Stock Option and Incentive Plan (Stock Option Plan) allows for the grant of options to purchase our common stock at an exercise price equal to the fair market value of the common stock at the date of grant. At December 31, 2004, we had 10,000,000 shares of common stock and units reserved so we could issue them under the Stock Option Plan. At December 31, 2004, 2,608,546 options were outstanding. All of the outstanding options have a 10-year term from the date of grant. 1,439,426 options vest over a four-year period, 25% per year, 380,000 options vest at the end of five years, 72,246 options vest over a three-year period, 33 $^{1}/3$% per year and 14,645 vest within the first year after grant. The balance of the options vests over a five-year period, 20% per year.

The 1993 Carr Realty Option Plan allows for the grant of options to purchase units of Carr Realty Holdings, L.P. (unit options). These options were exercisable at the fair market value of the units at the date of grant, which is equivalent to the fair market value of our common stock on that date. Units (following exercise of unit options) are redeemable for cash or common stock, at our option. At December 31, 2004, all grants under this plan had been exercised or expired.

The 1995 Non-Employee Director Stock Option Plan provides for the grant of options to purchase our common stock at an exercise price equal to the fair market value of the common stock at the date of grant. Under this plan, newly elected non-employee directors are granted options to purchase 3,000 shares of common stock when they start serving as a director. In connection with each annual election of directors, a continuing non-employee director will receive options to purchase 7,500 shares of common stock. The stock options have a 10-year term from the date of grant and vest over three years, 33 $^{1}/3$% per year. At December 31, 2004, we had 270,000 shares of common stock authorized for grant under this plan with 57,180 outstanding.

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Unit and stock option activity during 2004, 2003 and 2002 is summarized as follows:

	1993 Plan		1995 Plan		1997 Plan	
	Shares Under Option	Weighted-Average Exercise Price	Shares Under Option	Weighted-Average Exercise Price	Shares Under Option	Weighted-Average Exercise Price
Outstanding at December 31, 2001	159,422	$ 24.194	137,193	$ 25.435	6,150,725	$ 25.277
Granted					607,193	30.315
Exercised			33,000	26.338	1,010,125	23.503
Forfeited			12,500	26.302	471,682	25.370
Outstanding at December 31, 2002	159,422	24.194	91,693	24.993	5,276,111	26.206
Granted					436,500	23.352
Exercised	81,500	22.880	29,513	24.354	1,017,847	22.260
Forfeited	60,033	25.261	5,000	29.375	246,682	26.744
Outstanding at December 31, 2003	17,889	26.377	57,180	24.939	4,448,082	26.769
Granted						
Exercised	12,889	28.075			1,666,007	26.399
Forfeited	5,000	22.880			173,529	27.328
Outstanding at December 31, 2004		$	57,180	$ 24.939	2,608,546	$ 27.001
Options exercisable at:						
December 31, 2002	159,422	24.194	89,193	25.001	2,129,602	27.046
December 31, 2003	17,889	26.377	57,180	24.939	2,771,083	27.435
December 31, 2004			57,180	24.939	1,943,596	26.906

The following table summarizes information about our stock options outstanding at December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding as of 12/31/2004	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable as of 12/31/2004	Weighted-Average Exercise Price

$17.00-$20.00	3,000	0.3	$ 17.7500	3,000	$ 17.7500
$20.01-$23.00	185,522	5.0	20.8488	185,522	20.8515
$23.01-$26.00	901,498	5.3	23.7982	655,700	23.9697
$26.01-$29.00	583,572	5.9	28.6251	391,170	28.6328
$29.01-$32.00	992,134	4.6	30.0169	765,384	29.8961
	2,665,726	5.1	$ 26.9566	2,000,776	$ 26.8500

We have also granted to key executives and directors 1,206,145 restricted stock units or shares under the Stock Option Plan. The units were convertible to shares of common stock on a one-for-one basis as they vested at the option of the executive. The fair market values of the units or shares at the dates of grant ranged from $20.69 to $33.15 per unit. The units vested ratably over five years and the shares vested ratably over one or four years. We recognized the fair value of the units or shares awarded at dates of grant as compensation cost on a straight-line basis over the terms of the awards. Compensation expense related to these awards was $4.0 million in 2004, $3.4 million in 2003 and $4.3 million in 2002. During 2003 and 2002, the remaining unvested stock units were exchanged for shares of restricted common stock with the same terms as the unvested units. At December 31, 2004, there were 103,368 deferred vested units outstanding that are convertible to common stock over the period to 2008 or when the employees leave us, if sooner.

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(10) Gain on Sale of Properties, Impairment Losses on Real Estate and Discontinued Operations

The following table summarizes our gain on sale of properties and impairment losses on real estate:

(In thousands)	2004	2003	2002
Sales of land/development properties	$	$ 111	$
Reversal of tax provision on sale of property	7,536		
Sales of rental properties	20,064	4,049	15,652
Gain on sales of properties	27,600	4,160	15,652
Impairment losses		(4,210)	(2,496)
	$ 27,600	$ (50)	$ 13,156

We dispose of assets (sometimes using tax-deferred exchanges) 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. The tables below summarize property sales for 2004, 2003 and 2002:

	2004					
Property Name	Market	Month Sold	Number of Buildings	Rentable Square Footage	Net Proceeds (000)	Gain Recognized (000)
Tower of the Hills[1]	Austin, TX	Mar-04	2	166,149	$ 10,512	$ 66
Atlanta Portfolio[*]	Atlanta, GA	Sep-04	15	1,696,757	191,190	19,804
First Street Technology[2]	San Francisco, CA	Dec-04	1	67,582	4,760	
Valley Business Park I[3]	San Francisco, CA	Dec-04	2	67,785	6,543	

1 We recognized an impairment loss of $3.0 million on this property in the fourth quarter of 2003.
2 We recognized an impairment loss of $2.2 million on this property in the fourth quarter of 2004.
3 We recognized an impairment loss of $0.3 million on this property in the fourth quarter of 2004.
* 15 operating office buildings located in Atlanta, Georgia. The properties were Glenridge, Holcomb Place, Midori, Parkwood, Summit, Spalding Ridge, 2400 Lake Park Dr., 680 Engineering Dr., Embassy Row, Waterford and Forum.

2003

Property Name	Market	Sale Date	Number of Buildings	Square Footage	Net Cash Proceeds (000)	Gain Recognized (000)
Wateridge	San Diego, CA	May-03	1	62,194	$ 9,277	$ 3,571
Katella	Los Angeles, CA	Aug-03	1	80,609	10,138	3,627
Pacificare	Los Angeles, CA	Sep-03	1	104,377	14,485	6,380
Lakewood[1]	Atlanta, GA	Sep-03	1	80,816	4,621	48
Century Springs	Atlanta, GA	Nov-03	1	95,206	7,091	310

[1] We recognized an impairment loss of $2.7 million on this property in the second quarter of 2003.

	2002					
Property Name	Market	Sale Date	Number of Buildings	Square Footage	Net Cash Proceeds (000)	Gain Recognized (000)
Wasatch 17	Salt Lake City, UT	May-02	1	72,088	$ 10,699	$ 3,340
Commons @ Las Colinas	Dallas, TX	Aug-02	3	604,234	118,720	19,085
Braker Point	Austin, TX	Aug-02	1	195,230	38,469	7,041

During 2004, we disposed of 12 operating properties (17 buildings) recognizing gains $19.9 million. We also disposed of two operating properties (3 buildings) on which we recognized impairment losses of $2.5 million. We have no continuing involvement with these properties and, accordingly, the gains on these sales and impairment losses are classified as discontinued operations.

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During the fourth quarter of 2004, an unconsolidated entity in which we held an interest sold an office property. We recognized a gain from this sale of $20.1 million which is classified as continuing operations. In addition, we reversed a tax provision of $7.5 million related to a property sale in 2000 as a result of the favorable resolution of a tax contingency.

During 2003, we disposed of five operating properties and one parcel of land, recognizing a gain of $14.5 million, $10.3 million of which is classified as discontinued operations. We continue to manage two properties (Wateridge and Lakewood) under management agreements and the gain on these sales and the operating results of these properties are not classified as discontinued operations due to our continuing involvement. We have no continuing involvement with the Katella, Pacificare and Century Springs properties and, accordingly, the gains on these sales and the operating results of the properties are classified as discontinued operations. We also recognized an impairment loss of $2.7 million on the Lakewood property and an impairment loss of $1.5 million on land holdings which are classified as continuing operations and an impairment loss of $3.0 million on our Tower of the Hills property which is classified as discontinued operations. Tower of the Hills was subject to a contract of sale at December 31, 2003, and met our criteria for the property and related assets to be classified as held for sale at that date. The sale of the property closed in the first quarter of 2004

During 2002, we disposed of four operating properties (five buildings), recognizing a gain of $29.8 million, $19.1 million of which is classified as discontinued operations. We had no continuing involvement with Commons at Las Colinas and, accordingly, the gain on sale and results of operations of that property are classified as discontinued operations. We continued to manage two of the properties (Wasatch 17 and Braker Point) under management agreements and, accordingly, the gains on these sales and operating results of these properties are classified as continuing operations due to our continuing involvement. We also recognized impairment losses of $2.5 million on land holdings and our share of a gain on a sale of a property in which we held an interest through an unconsolidated entity ($4.9 million) in continuing operations.

The operating results of the properties classified as discontinued operations are summarized as follows:

(In thousands)	**2004**	**2003**	**2002**
Revenues	$ 22,203	$ 37,427	$ 48,419
Property expenses	9,733	15,206	15,713
Depreciation and amortization	5,375	10,792	15,297
Net operations of properties sold	7,095	11,429	17,409
Impairment losses	(2,524)	(3,045)	
Gain on sale of properties	19,870	10,317	19,085
Discontinued operations	$ 24,441	$ 18,701	$ 36,494
Number of buildings	20	23	26

We are currently marketing for sale CarrAmerica Corporate Center, an approximately 1.0 million rentable square feet property, in the San Francisco Bay area of California and two properties with approximately 0.3 million rentable square feet in Southern California. The three properties had a net book value at December 31, 2004 of approximately $132.7 million. The properties did not meet our criteria to be classified as held for sale for financial reporting purposes at December 31, 2004.

(11) Acquisitions

During 2004, we acquired six operating properties from third parties. The acquisitions involved properties totaling almost 1.5 million rentable square feet and our investment was approximately $449.2 million. The table below details our 2004 consolidated acquisitions.

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Property Name	Market	Month Acquired	Number of Buildings	Rentable Square Footage	Purchase Price (000)
Commonwealth Tower	Washington, DC	Jun-04	1	339,599	$ 130,593
Corporate Technology Centre I	San Francisco, CA	Jul-04	2	176,280	25,604
Commercial National Bank	Washington, DC	Aug-04	1	205,869	85,044
Corporate Technology Centre II	San Francisco, CA	Sep-04	5	331,950	43,594
Corporate Plaza II	San Diego, CA	Sep-04	2	116,166	35,544
Mission Tower I	San Francisco, CA	Dec-04	1	282,080	128,791
			12	1,451,944	$ 449,170

During 2003, we acquired one operating property from a third party and the remaining outside 50% interest in a joint venture which owns an operating property. These properties have a total of approximately 340,000 rentable square feet and the purchase cost was approximately $85.2 million, including assumed debt. The table below details our 2003 acquisitions.

Property Name	Market	Month Acquired	Number of Buildings	Rentable Square Footage	Purchase Price (000)
500 Forbes	San Francisco, CA	Sep-03	1	156,000	$ 51,122
1717 Pennsylvania[1]	Washington, DC	Oct-03	1	184,446	34,060
			2	340,446	$ 85,182

1 We acquired the 50% interest of our partner.

The aggregate purchase cost of properties acquired in 2004 and 2003 was allocated as follows:

(In thousands)	2004	2003
Land	$ 124,477	$ 23,204
In-place lease intangibles	77,209	8,328
Building and tenant improvements	254,768	53,228

Deferred revenue and other	(7,284)	422
	$ 449,170	$ 85,182

(12) Commitments and Contingencies

At December 31, 2004, we were contingently liable on $36.8 million in letters of credit. The letters of credit included $1.6 million related to various completion escrows and performance bonds, $34.9 million securing notes payable and $0.3 million for insurance.

We have a 401(k) plan for employees under which we match 75% of employee contributions up to the first 6% of pay. We also have the option to make an additional contribution of up to 3% of pay for participants who remain employed on December 31 (end of the plan year). Our contributions to the plan are subject to an initial four-year vesting, 25% per year. Our contributions to the plan were $3.1 million in 2004, $3.2 million in 2003 and $3.1 million in 2002.

The following legal actions are ongoing:

HQ Global Stockholders

We are currently involved in a lawsuit filed in April 2000 by two stockholders of HQ Global arising out of the June 2000 merger transaction involving HQ Global and VANTAS Incorporated. These two stockholders originally brought claims against HQ Global, the board of directors of HQ Global, FrontLine Capital Group and us in Delaware Chancery Court. The two stockholders allege that, in connection with the merger transaction, we breached

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our fiduciary duties to the two stockholders and breached a contract with the stockholders. The claim relates principally to the allocation of consideration paid to us with respect to our interest in an affiliate of HQ Global that conducted international executive suites operations. The stockholders asked the court to rescind the transaction, or in the alternative to award compensatory and rescissory damages. The court determined that it would not rescind the merger transaction, but held open the possibility that compensatory damages could be awarded or that another equitable remedy might be available.

In connection with the HQ Global/VANTAS merger transaction, we agreed to indemnify all of the individuals who served as directors of HQ Global at the time of the transaction, including Oliver T. Carr, Jr. (who retired from our Board of Directors as of April 29, 2004), Thomas A. Carr and Philip L. Hawkins, who currently serve as directors and executive officers of us, with respect to any losses incurred by them arising out of the above litigation (as well as related litigation that was resolved in our favor in the second quarter of 2003), if they first tried and were unsuccessful in getting the losses reimbursed by HQ Global or from insurance proceeds. It was expected at the time that these former directors would be indemnified against any of these losses by HQ Global, as required by HQ Global s certificate of incorporation and bylaws. HQ Global indicated that it did not intend to satisfy its indemnity obligation to these directors. As a result, we have paid the costs incurred by these directors in connection with the above litigation. We have paid approximately $846,000 of costs pursuant to this indemnification arrangement, all of which represents amounts paid to legal counsel for these directors for this suit and the related litigation that was resolved in our favor in the second quarter of 2003. The directors of HQ Global involved in the Delaware litigation filed a proof of claim in the company s bankruptcy proceedings for their legal fees. A settlement of this claim was reached on June 25, 2004. In pertinent part, pursuant to the terms of the settlement agreement, the parties: (i) executed a mutual release of claims; (ii) agreed that the directors will be deemed to hold collectively a single allowed unsecured non-priority claim in the amount of $300,000 against the estate of HQ Global; and (iii) preserved the rights of the directors to pursue claims, if any, they may have against HQ Global s insurance carriers which have denied coverage for the claims in the Delaware litigation. This settlement has been approved by the bankruptcy court. We do not expect to receive any material proceeds as a result of the directors settlement of their proof of claim.

We believe that these claims, including those asserted against us and against the former directors who we are obligated to indemnify, are without merit and that we and the former directors will ultimately prevail in this action, although we cannot assure you that the court will not find in favor of these stockholders. If the court did find in favor of these stockholders, such adverse result or any indemnification obligation arising from such adverse result could have a material adverse effect on our results of operations. Currently, these stockholders have not asserted the amount of any potential damages and, based on the preliminary proceedings to date, we are unable to determine a potential range of loss with respect to the claims against us or the former directors.

Other Proceedings

We are party to a variety of other legal proceedings arising in the ordinary course of business. All of these matters, taken together, are not expected to have a material adverse impact on us.

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(13) Guarantees

Our obligations under guarantee agreements at December 31, 2004 are summarized as follows:

Type of Guarantee	Project Relationship	Term	Maximum Exposure	Carrying Value
Loan[1]	575 7th Street	Apr-05	$ 40,000,000	$
Loan[2]	Atlantic Building	Mar-07	25,000,000	160,000
Completion[3]	Atlantic Building	Mar-07	72,497,000	250,000
Indemnification[4]	HQ Global		unknown	
Loan[5]	Square 320	Mar-05	16,070,000	135,000
Loan[6]	10UCP	Nov-06	1,015,000	
Completion[7]	Shakespeare Theatre	Dec-06	47,458,000	725,000

1. Loan guarantee to a lender on behalf of a joint venture. If the joint venture defaults on the loan, we may be required to perform under the guarantee. We have a reimbursement guarantee from the other joint venture partner to repay us its proportionate share (70%) of any monies we pay under the guarantee.
2. Loan guarantee relates to a third party project for which we are the developer. It is a payment guarantee to the lender. If the third party defaults on the loan, we may be required to perform under the guarantee. We have a security interest in the third party s interest in the underlying property. In the event of a default, we can exercise our rights under the security agreement to take title to the property and sell the property to mitigate our exposure under the guarantee. We have entered into an agreement with the lender that permits us to acquire the lender s first position mortgage securing the loan if the third party defaults on the loan and we then make payment in full to the lender under the guarantee.
3. Completion guarantee relates to a third party project for which we are the developer. It is a completion guaranty to the lender. If the third party defaults on its obligation to construct the building, we may be required to perform. As long as there is no Event of Default under the loan agreement, the lender will continue to make funds available from the construction loan to complete the project.
4. See note 12 for further discussion.
5. Loan guarantee relates to a third party project for which we are the developer. It is a payment guarantee to the lender. If the third party defaults on the loan, we may be required to perform under the guarantee. We have a security interest in the third party s interest in the underlying property. In the event of a default, we can exercise our rights under the security agreement to take title to the property and sell the property to mitigate our exposure under the guarantee. We have entered into an agreement with the lender that permits us to acquire the lender s first position mortgage securing the loan if the third party defaults on the loan and we then make payment in full to the lender under the guarantee.
6. Lease-up guarantee to a lender. Funds related to this guarantee are being held in escrow by a joint venture in which we own a minority interest.
7. Completion guarantee relates to a third party project for which we are the developer. It is a completion guaranty to the lender and/or owners. If the third party defaults on its obligation to construct the building, we may be required to perform. As long as there is no Event of Default under the loan agreement, the lender will continue to make funds available from the construction loan to complete the project.

In the normal course of business, we guarantee our performance of services or indemnify third parties against our negligence.

(14) Intangible Assets

The following is a summary of our intangible assets as of December 31, 2004 and 2003:

(In thousands)	December 31, 2004	December 31, 2003
Deferred financing costs	$ 12,589	$ 19,826
Management contracts	2,517	5,383
Customer relationships	2,677	1,655
Leasing contracts - above market	53,285	
Lease incentive costs	6,187	1,129
In-place lease intangibles	34,061	18,174
	111,316	46,167
Less: Accumulated amortization	(12,962)	(22,201)
Net intangible assets	$ 98,354	$ 23,966

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(15) Selected Quarterly Financial Information (unaudited)

The following is a summary of the quarterly results of operations for 2004 and 2003:

(In thousands, except per share data)

2004	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Rental revenue	$ 114,282	$ 116,011	$ 117,938	$ 120,762
Real estate service revenue	5,466	5,301	6,234	6,327
Real estate operating income	39,075	40,390	40,148	39,482
(Loss) gain on sale of properties	(10)	(48)		27,658
Income from continuing operations	13,268	12,615	13,762	29,501
Income (loss) from discontinued operations	1,962	1,392	23,794	(2,707)
Net income	15,230	14,007	37,556	26,794
Basic net income per common share:				
Continuing operations	0.17	0.16	0.19	0.47
Discontinued operations	0.04	0.03	0.43	(0.05)
Net income	0.21	0.19	0.62	0.42
Diluted net income per common share:				
Continuing operations	0.17	0.16	0.18	0.47
Discontinued operations	0.04	0.03	0.43	(0.05)
Net income	0.21	0.19	0.61	0.42

(In thousands, except per share data)

2003	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Rental revenue	$ 117,764	$ 112,781	$ 113,081	$ 117,564
Real estate service revenue	5,555	7,478	6,518	4,786
Real estate operating income	43,992	39,780	38,838	39,243
HQ lease guarantees			(811)	
Impairment losses on real estate		(2,701)		(1,509)
(Loss) gain on sale of properties	(277)	3,522	120	795
Income from continuing operations	15,939	13,704	11,264	13,329

Income (loss) from discontinued operations	3,032	3,125	12,723	(179)
Net income	18,971	16,829	23,987	13,150
Basic net income per common share:[1]				
Continuing operations	0.18	0.18	0.13	0.06
Discontinued operations	0.05	0.06	0.24	(0.01)
Net income	0.23	0.24	0.37	0.05
Diluted net income per common share:[1]				
Continuing operations	0.18	0.19	0.13	0.06
Discontinued operation	0.05	0.05	0.24	(0.01)
Net income	0.23	0.24	0.37	0.05

1. Net of issuance costs for redeemed preferred stock of $0.03 per share in the 1st quarter and $0.12 per share in the 4th quarter.

(16) Segment Information

Our only reportable operating segment is real estate property operations. Other business activities and operating segments that are not reportable are included in other operations. The performance measure we use to assess results for real estate property operations is property operating income. We define property operating income as total rental revenue less property expenses, which include property operating expenses (other than depreciation and amortization) and real estate taxes. The real estate property operations segment includes the operation and management of rental properties including those classified as discontinued operations. The accounting policies of the segments are the same as those described in note 1.

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Operating results of our reportable segment and our other operations are summarized as follows:

	As of and for the year ended December 31, 2004			
(In millions)	Real Estate Property Operations	Other Operations and Unallocated	Reclassification - Discontinued Operations	Total
Revenue	$ 491.2	$ 23.3	$ (22.2)	$ 492.3
Segment expense	171.4	41.8	(9.7)	203.5
Property/Segment operating income (loss)	319.8	(18.5)	(12.5)	288.8
Depreciation expense				129.7
Operating income				159.1
Interest expense				(115.0)
Other income				9.5
Gain on sale of properties and impairment losses				27.6
Minority interest and taxes				(12.0)
Discontinued operations				24.4
Net income				$ 93.6
Total assets	$ 2,855.3	$ 225.9	$	$ 3,081.2
Expenditures for long-lived assets	$ 461.7	$ 5.4	$	$ 467.1

	As of and for the year ended December 31, 2003			
(In millions)	Real Estate Property Operations	Other Operations and Unallocated	Reclassification - Discontinued Operations	Total
Revenue	$ 498.7	$ 24.3	$ (37.5)	$ 485.5
Segment expense	174.9	42.8	(15.2)	202.5
Property/Segment operating income (loss)	323.8	(18.5)	(22.3)	283.0

Depreciation expense				121.2
Operating income				161.8
Interest expense				(104.5)
Other income, net				6.2
Gain on sale of properties and impairment losses				(0.1)
Minority interest and taxes				(9.3)
Discontinued operations				18.8
Net income				$ 72.9
Total assets	$ 2,641.8	$ 194.2	$	$ 2,836.0
Expenditures for long-lived assets	$ 189.9	$ 9.5	$	$ 199.4

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(In millions)	As of and for the year ended December 31, 2002			
	Real Estate Property Operations	Other Operations and Unallocated	Reclassification - Discontinued Operations	Total
Revenue	$ 511.0	$ 24.5	$ (48.5)	$ 487.0
Segment expense	172.8	41.7	(15.8)	198.7
Property/Segment operating income (loss)	338.2	(17.2)	(32.7)	288.3
Depreciation expense				114.8
Operating income				173.5
Interest expense				(99.0)
Other expense, net				(0.9)
Gain on sale of properties and impairment losses				13.2
Minority interest and taxes				(14.1)
Discontinued operations				36.6
Net income				$ 109.3
Total assets	$ 2,637.5	$ 180.4	$	$ 2,817.9
Expenditures for long-lived assets	$ 287.9	$ 13.7	$	$ 301.6

(17) Supplemental Cash Flow Information

We acquired $3.8 million of minority interest units which were redeemed for shares of our common stock during 2004.

In October 2003, we assumed $23.8 million of debt related to the purchase of an operating property. The total purchase price of the property was approximately $34.0 million.

In August 2002, we assumed $63.5 million of debt related to the purchase of two operating properties. The total purchase price of the properties was approximately $141.5 million.

In January 2002, 80,000 shares of our Series A Cumulative Convertible Redeemable Preferred Stock were converted to shares of common stock, retiring all remaining shares of Series A Cumulative Convertible Redeemable Preferred Stock.

Our employees converted approximately $0.8 million, $0.6 million and $1.8 million in restricted vested units to 34,609 shares, 25,978 shares, and 78,280 shares in 2004, 2003 and 2002, respectively.

CarrAmerica Realty Corporation and Subsidiaries

Schedule II: Valuations and Qualifying Accounts

(In Thousands)

Description	Balance Beginning of Period	Additions Charged to Costs & Expenses	Deductions from Reserve[1]	Balance End of Period
Allowance for Doubtful Accounts:				
Year Ended:				
December 31, 2004	$ 5,752	$ 1,552	$ (1,384)	$ 5,920
December 31, 2003	5,959	2,608	(2,815)	5,752
December 31, 2002	9,385	7,052	(10,478)	5,959

[1] Balance written off as uncollectible.

Description	Balance Beginning of Period	Additions Charged to Costs & Expenses	Deductions from Reserve	Balance End of Period
Deferred Tax Asset Valuation Allowance:				
Year Ended:				
December 31, 2004	$ 9,184	$ 1,978	$	$ 11,162
December 31, 2003	14,270	1,854	(6,940)[1]	9,184
December 31, 2002	15,497		(1,227)[2]	14,270

[1] Balance written off due to the restructuring of a taxable REIT subsidiary into the REIT at December 31, 2003

[2] Utilization of net operating loss carryforward.

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CarrAmerica Realty Corporation and Subsidiaries

Schedule III: Real Estate and Accumulated Depreciation

(In thousands)		Initial Costs		Costs Capitalized	Gross Amount at Which Carried at Close of Period					
Properties	**Encumbrances**	**Land**	**Buildings and Improvements**	**Subsequent to Acquisition [3]**	**Land**	**Building and Improvements**	**Total**	**Accumulated Depreciation**	**Date of Construction**	**Year of Acquisition**
Downtown Washington, D.C.:										
International Square[2]	$ 174,067[4]	$ 69,651	$ 100,921	$ 29,163	$ 69,651	$ 130,084	$ 199,735	$ 81,352	1977,1979,1982	1993
900 19th Street		1,985	13,358	4,889	1,985	18,247	20,232	9,991	1986	1993
2550 M Street		2,340	11,348	14,875	2,340	26,223	28,563	15,220	1978	1993
1730 Pennsylvania Avenue		2,196	11,013	15,704	2,196	26,717	28,913	16,861	1972	1993
1255 23rd Street	36,292[5]	10,793	40,214	5,096	10,793	45,310	56,103	22,939	1983	1993
1747 Pennsylvania Avenue		1,636	8,157	8,608	1,636	16,765	18,401	11,120	1970	1993
1775 Pennsylvania Avenue	11,317		19,000	3,435		22,435	22,435	6,871	1975	1994
1717 Pennsylvania Avenue		20,728	34,681	96	20,728	34,777	55,505	7,946	1960,1996	2003
675 E Street[1]				1,209		1,209	1,209		N/A	2001
Commercial National Bank Building		31,354	47,662	(434)	31,354	47,228	78,582	671	1917/1989	2004
Suburban Washington, D.C.:										
One Rock Spring Plaza			18,409	3,885		22,294	22,294	11,625	1989	1995
Sunrise Corporate Center		8,250	34,322	7,996	11,567	39,001	50,568	6,576	1987-1989	1996
Reston Crossing East & West		8,379		59,266	13,326	54,319	67,645	13,886	1987-1989	1996
Trans Potomac V Plaza		2,604	16,904	325	2,604	17,229	19,833	1,381	1982	2002
Canal Center		17,848	98,580	845	17,848	99,425	117,273	7,865	1986,1988	2002
Commonwealth Tower		28,470	95,265	(207)	28,470	95,058	123,528	1,893	1971/1995	2004
Orange County/Los Angeles:										
Scenic Business Park		2,469	4,503	2,838	2,469	7,341	9,810	3,402	1985	1996

Harbor Corporate Park		2,191	5,784	4,583	2,191	10,367	12,558	4,250	1987	1996
Warner Center		16,490	33,698	11,600	16,574	45,214	61,788	16,694	1981-1985	1996
South Coast Executive Center	14,114	3,324	17,212	7,427	3,388	24,575	27,963	8,195	1987	1996
Warner Premier		3,252	6,040	2,170	3,285	8,177	11,462	2,950	1990	1997
Von Karman		3,731	12,493	2,148	3,744	14,628	18,372	3,939	1981	1997
2600 W. Olive	18,092	3,855	25,054	5,255	3,904	30,260	34,164	8,707	1986	1997
Bay Technology Center		2,442	11,164	2,035	2,462	13,179	15,641	3,558	1985	1997
Pacific Corporate Plaza 1, 2, 3		5,756		13,563	5,928	13,391	19,319	4,718	1998	1997
Alton Deere Plaza		5,666	17,967	3,748	5,676	21,705	27,381	5,643	1989	1998
Westlake Spectrum		4,371	13,105	1,200	4,400	14,276	18,676	2,318	1988-1989	2000
San Diego:										
Del Mar Corporate Plaza		2,860	13,252	2,215	2,869	15,458	18,327	5,745	1986	1996
Towne Center Technology Park 1, 2, 3		4,929		19,777	5,073	19,633	24,706	10,343	1998	1997
Lightspan		1,438	5,710	854	1,440	6,562	8,002	2,145	1985	1997
La Jolla Spectrum 1 & 2		6,447		34,055	6,525	33,977	40,502	8,867	1999-2001	1998
Palomar Oaks Technology Park	9,048	4,698	12,495	2,779	4,714	15,258	19,972	3,989	1989	1998
Towne Center Technology Park		5,123	11,754	4,381	5,135	16,123	21,258	3,825	1989	1998
Highlands Corporate Center		10,156	30,369	3,592	10,075	34,042	44,117	6,949	2002	1999
Torrey Pines Research Center		6,711	12,343	1,135	6,711	13,478	20,189	1,211	1989	2002
Carroll Vista I & II		7,014	17,863	(404)	7,014	17,459	24,473	1,323	1986	2002
La Jolla Commons		2,868		374	3,242		3,242		N/A	2003
Corporate Plaza II		7,650	27,410	(746)	7,650	26,664	34,314	472	1990	2004

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CarrAmerica Realty Corporation and Subsidiaries

Schedule III: Real Estate and Accumulated Depreciation

(In thousands)		Initial Costs		Costs Capitalized	Gross Amount at Which Carried at Close of Period					
Properties	Encumbrances	Land	Buildings and Improvements	Subsequent to Acquisition [3]	Land	Building and Improvements	Total	Accumulated Depreciation	Date of Construction	Year of Acquisition
San Francisco Bay Area:										
CarrAmerica Corporate Center		33,035	75,720	16,070	32,946	91,879	124,825	39,839	1988	1996
Bayshore Centre 2		8,525	6,969	2,423	8,960	8,957	17,917	3,173	1984	1996
Rincon Centre		12,464	10,188	1,600	12,333	11,919	24,252	4,578	1984	1996
Valley Centre II		13,658	11,164	267	13,676	11,413	25,089	3,777	1980	1996
Valley Office Centre		6,134	5,014	996	6,142	6,002	12,144	1,798	1981	1996
Valley Centre		6,051	4,945	1,791	6,058	6,729	12,787	2,286	1980	1996
Valley Business Park II		8,753	7,155	3,855	8,765	10,998	19,763	3,833	1979	1996
Rio Robles		16,655	29,598	11,296	16,669	40,880	57,549	10,559	1985	1996
Baytech Business Park		14,958		23,732	13,973	24,717	38,690	9,081	1998	1997
3571 North First Street		6,297	8,862	418	6,326	9,251	15,577	2,473	1985	1997
San Mateo Center		15,426	24,682	6,527	15,527	31,108	46,635	8,866	1986	1997
Oakmead West		22,842		41,583	20,526	43,899	64,425	15,080	1998	1997
Hacienda West		6,468	24,062	3,391	6,492	27,429	33,921	7,283	1987	1998
Sunnyvale Technology Center		12,098	16,131	679	12,106	16,802	28,908	3,808	1971-1975	1998
Clarify Corporate Center 1, 2, 3, 4		17,574		30,963	17,470	31,067	48,537	11,929	1999	1998
Valley Technology Center 1, 2, 3, 4, 5, 6, 7		32,910		47,007	31,848	48,069	79,917	13,739	1998	1998
		21,112	51,689	8,084	21,166	59,719	80,885	15,076	1980-1984	1998

Golden Gateway Commons									
Techmart Commerce Center		36,594	5,010		41,604	41,604	10,349	1987	1998
Fremont Technology Park 1, 2, 3	10,122	10,797	248	8,433	12,734	21,167	5,178	1999	1998
Mountain View Gateway Center	13,637	37,946	14	13,630	37,967	51,597	4,694	1998	2001
Stanford Research Park		22,280			22,280	22,280	965	2000	2002
500 Forbes Blvd.	11,676	33,356	(4)	11,676	33,352	45,028	2,276	2003	2003
Corporate Technology Centre I & II	35,883	31,297	(434)	35,885	30,861	66,746	694	1999	2004
Mission Towers	21,120	53,134	1	21,120	53,135	74,255	100	2000	2004
Denver, CO:									
Harlequin Plaza	4,746	21,344	11,924	4,747	33,267	38,014	11,929	1981	1996
Quebec Court I & II	2,368	19,819	10,491	2,371	30,307	32,678	11,016	1979-1980	1996
Quebec Centre	1,423	5,659	2,233	1,423	7,892	9,315	3,059	1985	1996
Dry Creek Corporate Center	10,575		26,350	14,322	22,603	36,925	4,548	1999-2001	1998
Seattle, WA:									
Redmond East	6,957	32,390	5,651	6,939	38,059	44,998	12,582	1988-1992	1996
Redmond Hilltop B & C	2,511		8,009	2,489	8,031	10,520	3,571	1998	1996
Canyon Park	7,643	23,624	5,039	5,782	30,524	36,306	11,853	1989	1997
Willow Creek	1,709	6,972	88	1,724	7,045	8,769	1,790	1981	1997
Willow Creek Corp. Center 1, 2, 3, 4, 5, 6	6,485		41,992	5,778	42,699	48,477	14,086	1998	1997
Canyon Park Commons	5,592	9,958	20,613	6,749	29,414	36,163	7,930	1988,2000	1997
Canyon Point	6,225		4,170	10,359	36	10,395		N/A	2000
Salt Lake City, UT:									
Sorenson Research Park	5,879	25,304	10,527	7,322	34,388	41,710	10,322	1988-1997, 1999	1997
Wasatch Corporate Center	5,954	15,495	4,634	4,528	21,555	26,083	6,010	1996	1997
Wasatch Corporate Center 16	1,172		495	1,667		1,667		N/A	1999
Creekside I & II		3,150	8,521	3,211	8,460	11,671	2,408	2001	2000

CarrAmerica Realty Corporation and Subsidiaries

Schedule III: Real Estate and Accumulated Depreciation

(In thousands)		Initial Costs		Costs Capitalized	Gross Amount at Which Carried at Close of Period					
Properties	**Encumbrances**	**Land**	**Buildings and Improvements**	**Subsequent to Acquisition [3]**	**Land**	**Building and Improvements**	**Total**	**Accumulated Depreciation**	**Date of Construction**	**Year of Acquisition**
Chicago, IL:										
Parkway North I		3,727	29,146	4,559	3,733	33,699	37,432	10,395	1986-1989	1996
333 and 377 E. Butterfield Rd.		6,387	45,111	15,131	6,346	60,283	66,629	17,247	1984-1985	1996
The Crossings		5,268	34,215	6,615	5,289	40,809	46,098	12,340	1985	1997
Bannockburn I, II, IV		5,362	35,657	8,251	5,397	43,873	49,270	14,038	1980,1988	1997
Austin, TX:										
City View Centre		1,718	13,854	3,618	1,720	17,470	19,190	6,424	1985	1996
City View Center		1,890		13,757	2,107	13,540	15,647	5,143	1998	1996
Dallas, TX:										
Cedar Maple Plaza		1,220	10,982	2,418	1,225	13,395	14,620	4,086	1985	1997
Quorum North		1,357	9,078	2,754	1,368	11,821	13,189	3,890	1983	1997
Quorum Place		1,941	14,234	5,391	1,954	19,612	21,566	5,724	1981	1997
Tollway Plaza		5,482		49,106	6,734	47,854	54,588	14,147	1998	1997
Royal Ridge IV & V		6,586		1,520	8,106		8,106		N/A	2000
Two Mission Park		823	4,326	1,977	831	6,295	7,126	2,035	1983	1997
5000 Quorum		1,774	15,616	3,005	1,782	18,613	20,395	4,874	1984	1998
Phoenix, AZ:										
Qwest Communications		18,517	74,069	786	18,641	74,731	93,372	17,541	1988	1997
Portland, OR:										
Sunset Corporate Park		4,932		12,449	3,245	14,136	17,381	4,948	1999	1998
Rock Creek Corp Center		2,614		15,981	2,575	16,020	18,595	4,366	1999	1998
PROPERTY TOTALS	262,930	805,910	1,779,636	792,902	821,158	2,557,290	3,378,448	735,176		
Intercompany elimination				(39,806)		(39,806)	(39,806)	(5,441)		
Corporate fixed assets						41,588	41,588	20,795		
TOTAL	$ 262,930	$ 805,910	$ 1,779,636	$ 753,096	$ 821,158	$ 2,559,072	$ 3,380,230	$ 750,530		

Depreciation of rental properties is computed on a straight-line basis over the estimated useful lives of the assets. The estimated lives of our assets by class are as follows:

Base building	30 to 50 years
Building components	7 to 20 years
Tenant improvements	Lesser of the terms of the leases or useful lives of the assets
Leasehold improvements, furniture, fixtures and equipment	5 to 15 years

The aggregate cost for federal income tax purposes was approximately $2,749,692,000 at December 31, 2004.

The changes in total real estate assets and accumulated depreciation for the three years ended December 31, 2004, 2003 and 2002 are as follows:

	Real Estate Assets		
(In thousands)	**2004**	**2003**	**2002**
Balance, beginning of period	$ 3,175,356	$ 3,088,665	$ 2,953,659
Acquisitions	377,216	100,441	201,000
Improvements	67,892	67,165	79,371
Sales, retirements and write-offs	(240,234)	(80,915)	(145,365)
Balance, end of period	$ 3,380,230	$ 3,175,356	$ 3,088,665

	Accumulated Depreciation		
	2004	**2003**	**2002**
Balance, beginning of period	$ 692,901	$ 587,123	$ 491,497
Depreciation for the period	115,633	113,444	110,896
Sales, retirements and write-offs	(58,004)	(7,666)	(15,270)
Balance, end of period	$ 750,530	$ 692,901	$ 587,123

[1] Under construction as of December 31, 2004. Construction costs are shown under building and improvements until completion. At completion, costs will be allocated between land and building and improvements.
[2] We use approximately 63,000 square feet of office space for our headquarters.
[3] Costs capitalized are offset by retirements and writeoffs.
[4] Secured by International Square, 1730 Pennsylvania Avenue and 1255 23rd Street.
[5] Secured by International Square, 1730 Pennsylvania Avenue and 1255 23rd Street.