

CARRAMERICA REALTY CORP  
Form 424B5  
March 19, 2004

Filed Pursuant to Rule 424(b)(5)

Registration No. 333-53751

Prospectus Supplement

(To Prospectus dated January 8, 2002)

**\$225,000,000**

## **CarrAmerica Realty Corporation**

### **3.625% Senior Notes due 2009**

The notes will mature on April 1, 2009. Interest will accrue from March 23, 2004. We will pay interest on April 1 and October 1 of each year beginning October 1, 2004. The notes will be unconditionally guaranteed by CarrAmerica Realty, L.P., an affiliate of ours. We may redeem the notes, at our option, in whole or in part at any time at the redemption price described on page S-6.

We currently intend to convert to an UPREIT structure. If the proposed UPREIT conversion is consummated, our new directly and indirectly wholly-owned operating partnership will expressly assume payment of the principal of and interest on all of the notes offered hereby and the due and punctual performance and observance of all covenants and conditions in the indenture governing the notes. See Recent Developments.

**See Risk Factors on page 2 of the accompanying prospectus and on page 13 of our annual report on Form 10-K for the year ended December 31, 2003 to read about factors you should consider before buying the notes.**

Neither the Securities and Exchange Commission nor any other regulatory body commission has approved or passed upon the accuracy or adequacy of this prospectus supplement and the accompanying prospectus. Any representation to the contrary is a criminal offense.

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**Price to Public (1)**

**Underwriting Discounts**

**Proceeds to Us**

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		<u>and Commissions</u>	<u>(before expenses)</u>
Per Note	99.663%	0.600%	99.063%
Total	\$ 224,241,750	\$1,350,000	\$ 222,891,750

(1) Plus accrued interest, if settlement occurs after March 23, 2004.

The notes will not be listed on any securities exchange. Currently, there is no public market for the notes.

We expect to deliver the notes to investors through the book-entry delivery system of The Depository Trust Company on or about March 23, 2004.

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**Banc of America Securities LLC**

**JPMorgan**

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**Citigroup**

**Goldman, Sachs & Co.**

**Morgan Stanley**

**Wachovia Securities**

**Legg Mason Wood Walker**

**Incorporated**

**Piper Jaffray**

**PNC Capital Markets, Inc.**

**SunTrust Robinson Humphrey**

**Wells Fargo Institutional Brokerage and Sales**

Prospectus Supplement dated March 18, 2004.

No person is authorized to give any information or to make any representations other than those contained or incorporated by reference in this prospectus supplement or the accompanying prospectus and, if given or made, such information or representations must not be relied upon as having been authorized. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this prospectus supplement or an offer to sell or the solicitation of an offer to buy such securities under any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus supplement or the accompanying prospectus, nor any sale made hereunder and thereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus supplement, or that the information contained or incorporated by reference herein or therein is correct as of any time subsequent to the date of such information.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this prospectus supplement and accompanying prospectus, and in the documents incorporated by reference in this prospectus supplement and accompanying prospectus, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance, dividends, achievements or transactions or industry results to be materially different from any future results, performance, dividends, achievements or transactions expressed or implied by such forward-looking statements. Such factors include, among others, the following:

national and local economic, business and real estate conditions that will, among other things, affect:

demand for office space,

the extent, strength and duration of any economic recovery, including the effect on demand for office space and the creation of new office development,

availability and creditworthiness of tenants,

the level of lease rents, and

the availability of financing for both tenants and us;

adverse changes in the real estate markets, including, among other things:

the extent of tenant bankruptcies, financial difficulties and defaults,

the extent of future demand for office space in our core markets and barriers to entry into markets which we may seek to enter in the future,

our ability to identify and consummate attractive acquisitions on favorable terms,

our ability to consummate any planned dispositions in a timely manner on acceptable terms, and

changes in operating costs, including real estate taxes, utilities, insurance and security costs;

actions, strategies and performance of affiliates that we may not control or companies in which we have made investments;

ability to obtain insurance at a reasonable cost;

ability to maintain our status as a REIT for federal and state income tax purposes;

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ability to complete our UPREIT restructuring;

ability to raise capital;

effect of any earthquake, terrorist activity or other heightened geopolitical risks;

governmental actions and initiatives; and

environmental/safety requirements.

For a further discussion of these and other factors that could impact our future results, performance, dividends, achievements or transactions, see the documents filed by us from time to time with the Securities and Exchange Commission, or the SEC. In particular, see the section titled "The Company Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2003, the information regarding material federal income tax considerations included in our current report on Form 8-K filed with the SEC on March 18, 2004 and in the section titled "Risk Factors" beginning on page 2 of the accompanying prospectus.

## THE COMPANY

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

As of December 31, 2003, we owned, directly and indirectly through our subsidiaries, including CarrAmerica Realty, L.P., greater than 50% interests in 259 operating office buildings and one residential property under construction. We also owned minority interests, ranging from 15% to 50%, in 38 operating office buildings and one building under construction.

## THE GUARANTOR

CarrAmerica Realty, L.P., or the Guarantor, will be unconditionally guaranteeing the notes we are offering. We indirectly serve as the Guarantor's sole general partner. As of December 31, 2003, we indirectly owned approximately 91% of the Guarantor's partnership units. The Guarantor focuses on the acquisition, development, ownership and operation of office properties, located primarily in selected markets across the United States.

As of December 31, 2003, the Guarantor owned a controlling interest in 55 of the 259 operating office buildings in which we had greater than 50% interests. As of December 31, 2003, the Guarantor also owned minority interests, ranging from 21.2% to 49%, in 30 operating office buildings.

## RECENT DEVELOPMENTS

### UPREIT Restructuring

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 have formed a new directly and indirectly wholly-owned partnership, CarrAmerica Realty Operating Partnership, L.P., or the operating partnership, to which we intend to contribute substantially all of our assets and liabilities, including the assumption of the obligations under our unsecured credit facility and our senior unsecured notes, in exchange for the general partnership interest and units of limited partnership in the operating partnership. Following the UPREIT restructuring, substantially all of our business will be conducted through the operating partnership and our primary asset will be our interest in the operating partnership.

We are undertaking 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 an UPREIT, we anticipate that the operating partnership will be able to 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. In addition, due to certain tax and timing considerations, the UPREIT restructuring should better position us to take advantage of merger or strategic acquisition opportunities that may present themselves in the future. We have not currently identified and we are not currently pursuing any material acquisitions that would be structured as operating partnership contributions or merger opportunities.

The UPREIT restructuring is contingent on our ability to secure consents from third party lenders, joint venture partners, and others with whom we have contractual relationships. Although we believe that we will be able to obtain all necessary consents and approvals for the UPREIT restructuring, the grant of those consents and approvals is not in our control and therefore there can be no assurance that the UPREIT restructuring will be completed. We do not expect that the UPREIT restructuring will require shareholder approval or the consent of any of the holders of our senior unsecured notes.

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If the UPREIT conversion is consummated, the operating partnership will expressly assume payment of the principal of and interest on all of the notes offered hereby and the due and punctual performance and observance of all covenants and conditions in the indenture governing the notes in accordance with the provisions of Sections 801 and 803 of such indenture. See Description of Debt Securities Merger, Consolidation or Sale on page 13 of the accompanying prospectus. CarrAmerica Realty, L.P. will become a subsidiary of the operating partnership and will continue to guarantee the notes.

#### **Rating Agency Action**

On March 16, 2004, Moody's Investors Service confirmed its Baa2 rating for our senior unsecured debt securities and revised the rating outlook from negative to stable. As of March 16, 2004, Fitch Rating Services and Standard & Poor's Ratings Services have each assigned their BBB rating to our senior unsecured debt securities.

#### **Interest Rate Swap**

On March 18, 2004, in connection with the pricing of the notes, we entered into an interest rate swap with respect to \$100 million of the notes, effectively converting such notes from a fixed rate to a floating rate of 26.75 basis points over the six-month LIBOR rate payable in arrears. The swap will terminate on April 1, 2009.

#### **USE OF PROCEEDS**

We expect to use a substantial portion of the net proceeds of approximately \$222.9 million (after deducting the underwriting discounts and commissions and our offering expenses) to repay indebtedness under our \$500.0 million unsecured credit facility with JPMorgan Chase Bank, as agent for a group of banks. The line of credit expires in June 2004, and we can extend the line for an additional year at our option. As of March 15, 2004, \$266.0 million was drawn on the credit facility, \$14.0 million in letters of credit were outstanding and \$220.0 million was available for borrowing. As of March 15, 2004, the facility carried an interest rate of 1.79%, or 70 basis points over 30-day LIBOR. The total commitment carries a 20 basis point facility fee. We intend to use the increased availability under our credit facility for general corporate purposes, including funding anticipated capital needs (including tenant-related capital costs) and potential acquisitions. Affiliates of Banc of America Securities LLC, J.P. Morgan Securities Inc., Citigroup Global Markets Inc., Wachovia Capital Markets, LLC, Piper Jaffray & Co., PNC Capital Markets, Inc., SunTrust Capital Markets, Inc. and Wells Fargo Brokerage Services, LLC are lenders under our credit facility. These affiliates will receive their proportionate share of the amount of the credit facility to be repaid with the proceeds of this offering. U.S. Bank National Association, the trustee under the indenture governing the notes offered hereby, is an affiliate of Piper Jaffray & Co.

#### **RATIOS OF EARNINGS TO FIXED CHARGES**

The following table sets forth our and the Guarantor's ratios of earnings to fixed charges for the periods indicated. For this purpose, earnings consist of income from continuing operations before income taxes, minority interest and earnings from equity investments; fixed charges as defined below; amortization of capitalized interest; and distributed income from equity investments. Fixed charges consist of interest expense (including interest costs capitalized) and the amortization of debt issuance costs.

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	Year Ended December 31,				
	1999	2000	2001	2002	2003
Ratio of Earnings to Fixed Charges of CarrAmerica	2.17	2.46	1.85	1.94	1.66
Ratio of Earnings to Fixed Charges of CarrAmerica Realty, L.P.	1.92	2.30	1.18	2.26	2.98

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CarrAmerica's ratios of earnings to fixed charges have been restated for each period presented to reflect the effect of classifying certain properties that we disposed of as a part of discontinued operations on a retroactive basis consistent with the Statement of Financial Accounting Standards No. 144 (SFAS 144). Therefore, the ratios referred to above may not be consistent with the ratios previously disclosed as a result of the disposition of additional properties and the requirements under SFAS 144 to retroactively restate our results of operations to reflect certain of the disposed properties as discontinued operations.

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## DESCRIPTION OF NOTES

The following description of the particular terms of the notes offered hereby supplements, and, to the extent inconsistent, replaces the description of the general terms and provisions of debt securities set forth under the caption "Description of Debt Securities" beginning on page 10 of the accompanying prospectus.

The notes will constitute a separate series of securities to be issued pursuant to the indenture, dated as of January 11, 2002, among us, CarrAmerica Realty, L.P., as guarantor, and U.S. Bank National Association, as trustee, and pursuant to resolutions of our board of directors and an officers' certificate, to be dated as of March 23, 2004, setting forth the principal, interest and other terms of the notes. The terms of the notes will include those provisions contained in the indenture and the officers' certificate and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended. The following summary of the notes is qualified in its entirety by reference to the indenture and the officers' certificate.

### General

The notes will be our direct, senior unsecured obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding. However, the notes are effectively subordinated to our mortgages and other of our secured indebtedness and certain indebtedness of our consolidated subsidiaries. We had approximately \$390.0 million of secured debt outstanding at December 31, 2003. Our total outstanding indebtedness at that date (which consists of our debt and the debt of our consolidated subsidiaries, all on a consolidated basis) was approximately \$1.7 billion.

The notes will bear interest at 3.625% per year and will mature on April 1, 2009. The notes will bear interest from March 23, 2004, payable semi-annually in arrears on April 1 and October 1 of each year, commencing on October 1, 2004 (each such date being an interest payment date) to the persons in whose name the notes are registered in the security register on the preceding March 15 or September 15, whether or not a business day, as the case may be (each such date being a regular record date). Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months.

If any interest payment date or the maturity date falls on a day that is not a business day, the required payment will be made on the next business day as if it were made on the date such payment was due and no interest shall accrue on the amount so payable for the period from and after that interest payment date or the maturity date, as the case may be. A business day means any day, other than a Saturday or Sunday, on which banks in The City of New York are not required or authorized by law or executive order to close.

We may, from time to time, without the consent of existing noteholders, create and issue further notes having the same terms and conditions of the notes in all respects, except for the issue date, the issue price and, in some cases, the first payment of interest. Additional notes issued in this manner will be consolidated with and will form a single series with the previously outstanding notes.

The notes will be payable at the corporate trust office maintained by the trustee for that purpose at 100 Wall Street, 16th Floor, New York, New York 10005, or elsewhere as provided in the indenture, provided that, at our option, payment of interest may be made by check mailed to the address of the person entitled thereto as it appears in the security register or by wire or other transfer of funds to that person at an account maintained within the United States.

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The notes will only be issued in fully registered book-entry form in denominations of \$1,000 and integral multiples of \$1,000. See Global Securities in this prospectus supplement and Book-Entry Securities in the accompanying prospectus.

The notes are not repayable at the option of any holder before maturity. The notes will not be subject to a sinking fund.

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The defeasance and covenant defeasance provisions of the indenture, described under Description of Debt Securities Discharge, Defeasance and Covenant Defeasance in the accompanying prospectus, apply to the notes.

Please refer to the section entitled Description of Debt Securities Events of Default in the accompanying prospectus for a description of the events of default under the indenture.

Please refer to the sections entitled Certain Covenants in this prospectus supplement and Description of Debt Securities Additional Covenants and/or Modifications to the Covenants Described Above in the accompanying prospectus for a description of the covenants applicable to the notes.

Except as described in this prospectus supplement under Certain Covenants and under Description of Debt Securities Merger, Consolidation or Sale in the accompanying prospectus, the indenture does not contain any other provisions that would limit our ability to incur indebtedness or that would afford holders of the notes protection in the event of

a highly leveraged or similar transaction involving us or any of our subsidiaries or affiliates,

a change of control, or

a reorganization, restructuring, merger or similar transaction involving us that may adversely affect the holders of the notes.

In addition, subject to the limitations set forth under Description of Debt Securities Merger, Consolidation or Sale in the accompanying prospectus, we may, in the future, enter into certain transactions such as the sale of all or substantially all of our assets or the merger or consolidation of us that would increase the amount of indebtedness or substantially reduce or eliminate our assets, which may have an adverse effect on our ability to service our indebtedness, including the notes. We have no present intention to enter into any such transaction.

If the proposed UPREIT conversion is consummated, the operating partnership will expressly assume payment of the principal of and interest on all of the notes offered hereby and the due and punctual performance and observance of all covenants and conditions in the indenture governing the notes in accordance with the provisions of Sections 801 and 803 of such indenture. We expect that the assumption by the operating partnership of payment of the principal of and interest on all of the notes if and when the UPREIT conversion is consummated will not be treated as a taxable exchange of the notes by the noteholders for federal income tax purposes.

## **Guarantee**

The notes will be guaranteed as to payment of principal, interest and premium (arising from the Make-Whole Amount), if any, by CarrAmerica Realty, L.P., as described in the accompanying prospectus under Description of Debt Securities Guarantee. Through a wholly-owned subsidiary, we serve as the Guarantor's sole general partner, and as of December 31, 2003, we indirectly owned approximately 91% of the Guarantor's partnership units. The guarantee of the notes is:

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an unsecured obligation of the Guarantor,

is effectively subordinated to mortgage and other secured indebtedness of the Guarantor, and

ranks equally with prior guarantees by the Guarantor of our other publicly held debt and the Guarantor's other unsecured and unsubordinated indebtedness from time to time outstanding.

As of December 31, 2003, the Guarantor had approximately \$117.7 million of outstanding indebtedness, of which \$45.8 million was owed to us and \$71.9 million was secured by properties owned by the Guarantor. The indenture does not limit the Guarantor's ability to incur additional indebtedness, including secured indebtedness.

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If we sell or dispose of all of the Capital Stock of the Guarantor to another person in compliance with the indenture, the Guarantor will be released from its guarantee to the extent that it is also released from its other guarantees of our debt.

The Guarantor will become an indirect subsidiary of the operating partnership and continue to guarantee the notes as to payment of principal, interest and premium (arising from the Make-Whole Amount), if any, upon the consummation of the proposed UPREIT conversion.

### **Optional Redemption**

The notes may be redeemed at any time at our option, in whole or in part, at a Redemption Price equal to the sum of:

the principal amount of the notes being redeemed plus accrued interest thereon to the redemption date; and

the Make-Whole Amount, if any, with respect to those notes.

If notice of redemption has been given as provided in the indenture and funds for the redemption of any notes called for redemption have been made available on the redemption date specified in the notice, the notes will cease to bear interest on the date fixed for the redemption specified in the notice and the only right of the holders of the notes from and after the redemption date will be to receive payment of the Redemption Price upon surrender of the notes in accordance with the notice.

Notice of any optional redemption of any notes will be given to holders at their addresses, as shown in the security register, not more than 60 nor less than 30 days prior to the date fixed for redemption. The notice of redemption will specify, among other items, the Redemption Price and the principal amount of the notes held by holder to be redeemed.

If less than all the notes are to be redeemed at our option, we will notify the trustee under the indenture at least 45 days prior to the giving of notice of redemption, or such shorter period as may be satisfactory to the trustee, of the aggregate principal amount of the notes to be redeemed and their redemption date. The trustee under the indenture will select, in such manner as it deems fair and appropriate, no less than 60 days prior to the date of redemption, the notes to be redeemed in part.

As used in this prospectus supplement **Make-Whole Amount** means, in connection with any optional redemption of any notes, the excess, if any, of:

the aggregate present value as of the date of redemption or accelerated payment of each dollar of principal being redeemed or paid and the amount of interest, exclusive of interest accrued to the date of redemption or accelerated payment, that would have been payable in respect of each dollar if the redemption or accelerated payment had not been made, determined by discounting, on a semi-annual basis, the principal and interest at the Reinvestment Rate (as defined below), determined on the third business day preceding the date notice of the redemption is given, from the respective dates on which the principal and interest would have been payable if the redemption or accelerated payment had not been made, to the date of redemption or accelerated payment; over



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the aggregate principal amount of the notes being redeemed or paid.

Reinvestment Rate means 0.15% plus the arithmetic mean of the yields under the headings Week Ending published in the most recent Statistical Release under the caption Treasury Constant Maturities for the maturity (rounded to the nearest month) corresponding to the remaining life to maturity of the notes, as of the payment date of the principal being redeemed. If no maturity exactly corresponds to the maturity, yields for the two published maturities most closely corresponding to that maturity shall be calculated pursuant to the

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immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from those yields on a straight-line basis, rounding each of the relevant periods to the nearest month. For purposes of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

Statistical Release means the statistical release designated H.15(519) or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded United States government securities adjusted to constant maturities or, if the statistical release is not published at the time of any determination of the Make-Whole Amount, then such other reasonably comparable index which shall be designated by us.

### **Certain Covenants**

The indenture contains four principal covenants on the limitation of Indebtedness (as defined below). Each of these covenants is described as follows.

#### ***Debt to Total Assets Ratio Covenant***

Under the indenture, neither we nor any of our Subsidiaries (as defined below) will be permitted to incur any Indebtedness if, immediately after giving effect to the incurrence of that additional Indebtedness and the application of the proceeds thereof, the aggregate principal amount of our and our Subsidiaries' outstanding Indebtedness on a consolidated basis determined in accordance with generally accepted accounting principles, or GAAP, is greater than 60% of the sum of (without duplication):

our and our Subsidiaries' Total Assets (as defined below) as of the end of the calendar quarter covered in our Annual Report on Form 10-K or our Quarterly Report on Form 10-Q, as the case may be, most recently filed with the SEC (or, if the filing is not permitted under the Securities Exchange Act of 1934, as amended (the Exchange Act ), with the trustee) before the incurrence of the additional Indebtedness, and

the purchase price of any real estate assets or mortgages receivable acquired and the amount of any securities offering proceeds received (to the extent that the proceeds were not used to acquire real estate assets or mortgages receivable or used to reduce Indebtedness) by us or any of our Subsidiaries since the end of the calendar quarter, including those proceeds obtained in connection with the incurrence of the additional Indebtedness.

#### ***Secured Debt to Total Assets Ratio Covenant***

Neither we nor any of our Subsidiaries will be permitted to incur any Indebtedness secured by any Encumbrance (as defined below) upon any of our or our Subsidiaries' property if, immediately after giving effect to the incurrence of the additional Indebtedness and the application of the proceeds thereof, the aggregate principal amount of all our and our Subsidiaries' outstanding Indebtedness on a consolidated basis which is secured by any Encumbrance on our and our Subsidiaries' property is greater than 40% of the sum of (without duplication):

our and our Subsidiaries' Total Assets as of the end of the calendar quarter covered in our Annual Report on Form 10-K or our Quarterly Report on Form 10-Q, as the case may be, most recently filed with the SEC (or, if the filing is not permitted under the

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Exchange Act, with the trustee) before the incurrence of the additional Indebtedness, and

the purchase price of any real estate assets or mortgages receivable acquired and the amount of any securities offering proceeds received (to the extent that the proceeds were not used to acquire real estate assets or mortgages receivable or used to reduce Indebtedness) by us or any of our Subsidiaries since the end of the calendar quarter, including those proceeds obtained in connection with the incurrence of the additional Indebtedness.

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***Total Unencumbered Assets to Unsecured Debt Ratio Covenant***

We and our Subsidiaries will not be permitted at any time to own Total Unencumbered Assets (as defined below) equal to less than 150% of the aggregate outstanding principal amount of our and our Subsidiaries' Unsecured Indebtedness (as defined below) on a consolidated basis.

***Debt Service Coverage Ratio Covenant***

Neither we nor any of our Subsidiaries will be permitted to incur any Indebtedness if the ratio of Consolidated Income Available for Debt Service (as defined below) to the Annual Service Charge (as defined below) for the four consecutive fiscal quarters most recently ended before the date on which the additional Indebtedness is to be incurred shall have been less than 1.5:1 on a pro forma basis after giving effect thereto and to the application of the proceeds therefrom, and calculated on the assumption that:

the Indebtedness and any other Indebtedness incurred by us and our Subsidiaries since the first day of the four-quarter period and the application of the proceeds therefrom, including Indebtedness to refinance other Indebtedness, had occurred at the beginning of the period, the repayment or retirement of any other Indebtedness by us and our Subsidiaries since the first day of the four-quarter period had been repaid or retired at the beginning of that period (except that, in making the computation, the amount of Indebtedness under any revolving credit facility is to be computed based upon the average daily balance of the Indebtedness during that period),

in the case of Acquired Indebtedness (as defined below) or Indebtedness incurred in connection with any acquisition since the first day of the four-quarter period, the related acquisition had occurred as of the first day of the period with the appropriate adjustments with respect to the acquisition being included in the pro forma calculation, and

in the case of any acquisition or disposition by us or any of our Subsidiaries of any asset or group of assets since the first day of the four-quarter period, whether by merger, stock purchase or sale, or asset purchase or sale, the acquisition or disposition and any related repayment of Indebtedness had occurred as of the first day of the period with the appropriate adjustments with respect to the acquisition or disposition being included in the pro forma calculation.

**Certain Definitions**

As used herein and in the indenture:

Acquired Indebtedness means Indebtedness of a person:

existing at the time the person becomes a Subsidiary, or

assumed in connection with the acquisition of assets from the person, in each case, other than Indebtedness incurred in connection with, or in contemplation of, the person becoming a Subsidiary or that acquisition.

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Acquired Indebtedness shall be deemed to be incurred on the date of the related acquisition of assets from any person or the date the acquired person becomes a Subsidiary.

Annual Service Charge for any period means the aggregate interest expense for the period in respect of, and the amortization during the period of any original issue discount of, our and our Subsidiaries' Indebtedness and the amount of dividends which are payable during the period in respect of any Disqualified Stock.

Capital Stock means, with respect to any person, any capital stock (including preferred stock), shares, interests, participations or other equity ownership interests (however designated, voting or non voting) of the person and any rights (other than debt securities convertible into or exchangeable for corporate Capital Stock), warrants or options to purchase any thereof.

Consolidated Income Available for Debt Service for any period means our and our Subsidiaries Earnings from Operations (as defined below) plus amounts which have been deducted, and minus amounts which have been added, for the following (without duplication):

interest expense on our and our Subsidiaries Indebtedness,

provision for our and our Subsidiaries taxes based on income,

amortization of debt discount,

provisions for gains and losses on properties and property depreciation and amortization,

the effect of any noncash charge resulting from a change in accounting principles in determining Earnings from Operations for the period, and

amortization of deferred charges.

Disqualified Stock means, with respect to any person, any Capital Stock of the person which by the terms of that Capital Stock (or by the terms of any security into which it is convertible or for which it is exchangeable or exercisable), upon the happening of any event or otherwise:

matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise (other than Capital Stock which is redeemable solely in exchange for common stock),

is convertible into or exchangeable or exercisable for Indebtedness or Disqualified Stock, or

is redeemable at the option of the holder thereof, in whole or in part (other than Capital Stock which is redeemable solely in exchange for Capital Stock which is not Disqualified Stock or the redemption price of which may, at the option of that person, be paid in Capital Stock which is not Disqualified Stock),

in each case on or before the stated maturity of the notes; provided, however, that equity interests whose holders have (or will have after the expiration of an initial holding period) the right to have such equity interests redeemed for cash in an amount determined by the value of our common stock or for shares of our common stock (including, without limitation, certain equity interests in CarrAmerica Realty, L.P. and Carr Realty Holdings, L.P.) do not constitute Disqualified Stock.

Earnings from Operations for any period means net earnings excluding gains and losses on sales of investments, extraordinary items, and property valuation losses, net, as reflected in the our and our Subsidiaries financial statements for the period determined on a consolidated basis in accordance with GAAP.

Encumbrance means any mortgage, lien, charge, pledge or security interest of any kind.

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Indebtedness means any of our and our Subsidiaries' indebtedness, whether or not contingent, in respect of:

borrowed money or indebtedness evidenced by bonds, notes, debentures or similar instruments,

borrowed money or indebtedness evidenced by bonds, notes, debentures or similar instruments secured by any Encumbrance existing on property owned by us or any of our Subsidiaries,

reimbursement obligations in connection with any letters of credit actually issued or amounts representing the balance deferred and unpaid of the purchase price of any property or services, except any such balance that constitutes an accrued expense or trade payable, or all conditional sale obligations or obligations under any title retention agreement,

the amount of all of our and our Subsidiaries' obligations with respect to redemption, repayment or other repurchase of any Disqualified Stock, and

any lease of property by us or any of our Subsidiaries as lessee which is reflected on our consolidated balance sheet as a capitalized lease in accordance with GAAP, to the extent, in the case of items of

indebtedness under the items listed above, that any such items (other than letters of credit) would appear as a liability on our consolidated balance sheet in accordance with GAAP, and also includes, to the extent not otherwise included, any of our or our Subsidiaries' obligation to be liable for, or to pay, as obligor, guarantor or otherwise (other than for purposes of collection in the ordinary course of business), Indebtedness of another person (other than us or any of our Subsidiaries) (it being understood that Indebtedness shall be deemed to be incurred by us or any of our Subsidiaries whenever we or the Subsidiary shall create, assume, guarantee or otherwise become liable in respect thereof).

Subsidiary means a corporation, partnership or other entity a majority of the voting power of the voting equity securities or the outstanding equity interests of which are owned, directly or indirectly, by us or by one or more other of our Subsidiaries. For the purposes of this definition, voting equity securities means equity securities having voting power for the election of directors, whether at all times or only so long as no senior class of security has such voting power by reason of any contingency.

Total Assets as of any date means the sum of:

the Undepreciated Real Estate Assets, and

all of our and our Subsidiaries' other assets determined in accordance with GAAP (but excluding intangibles).

Total Unencumbered Assets means the sum of:

those Undepreciated Real Estate Assets not subject to an Encumbrance for borrowed money, and

all of our and our Subsidiaries' other assets not subject to an Encumbrance for borrowed money determined in accordance with GAAP (but excluding intangibles).

Undepreciated Real Estate Assets as of any date means the cost (original cost plus capital improvements) of our and our Subsidiaries' real estate assets on that date, before depreciation and amortization, determined on a consolidated basis in accordance with GAAP.

Unsecured Indebtedness means Indebtedness which is not secured by any Encumbrance upon any of our or any Subsidiaries' properties.

### **Global Securities**

Rather than issue the notes in the form of physical certificates, we will generally issue the notes in book-entry form evidenced by one or more global securities. We anticipate that any global securities will be deposited with, or on behalf of, The Depository Trust Company, or DTC, and registered in the name of Cede & Co., as DTC's nominee.

DTC holds securities for its participants to facilitate the clearance and settlement of securities transactions, such as transfers and pledges, among participants through electronic book-entry changes to accounts of its participants, thereby eliminating the need for physical movement of securities certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and other organizations.



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Some of the participants, or their representatives, together with other entities, own DTC.

Purchases of notes under the DTC system must be made by or through participants, which will receive a credit for the notes on DTC's records. Holders who are DTC participants may hold their interests in global securities directly through DTC. Holders who are not DTC participants may beneficially own interests in a global security held by DTC only through DTC participants, or through banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a participant and have indirect access to the DTC system. The ownership interest of each actual purchaser is recorded on the participant's and indirect participants' records.

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Purchasers will not receive written confirmation from DTC of their purchase, but should receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the participant or indirect participant through which the purchasers entered into the transaction.

So long as Cede & Co. is the registered owner of any global security, Cede & Co. for all purposes will be considered the sole holder of the global security.

The deposit of notes with DTC and their registration in the name of Cede & Co. will not change the beneficial ownership of the notes. DTC has no knowledge of the actual beneficial owners of the notes. DTC's records reflect only the identity of the participants to whose accounts the notes are credited, which may or may not be the beneficial owners. The participants are responsible for keeping account of their holdings on behalf of their customers.

Neither DTC nor Cede & Co. consents or votes with respect to the notes. Under its usual procedures, DTC mails a proxy to the issuer as soon as possible after the record date. The proxy assigns Cede & Co.'s consenting or voting rights to the participants whose accounts are credited with the notes on the record date. DTC has advised us that it will take any action permitted to be taken by a holder of notes only at the direction of participants whose accounts are credited with DTC interests in the relevant global security.

Unless our use of the book-entry system is discontinued, owners of beneficial interests in a global security will not be entitled to have certificates registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form, and will not be considered the holders of the global security. The laws of some jurisdictions require that some purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability of those holders to transfer their beneficial interests in the global security.

The global securities will be exchangeable for certificated notes only if:

we, in our sole discretion, elect to do so,

DTC is unwilling or unable to continue as depository and a successor depository is not appointed by us within 90 days, or

an event of default has occurred and is continuing with respect to any series of notes and beneficial owners representing a majority in aggregate principal amount of that series advises DTC to cease acting as depository.

In any of the foregoing events, certificates for the notes will be printed and delivered in exchange for interests in the global security. Any global security that is so exchanged will be exchanged for notes of equal terms and rank, in authorized denominations and registered as directed by DTC. We expect that DTC's instruction will be based upon directions received by DTC from its participants with respect to ownership of beneficial interests in the global security.

Delivery of notices and other communications by DTC to participants, by participants to indirect participants and by participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements that may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the principal amount of the global securities of the same series is being redeemed, DTC's practice is to determine by lot the amount of the interest of each participant in the global securities to be redeemed.

Principal, Make-Whole Amounts and interest payments on the notes will be made to Cede & Co. by wire transfer of immediately available funds. DTC's practice is to credit participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC believes that it will not receive

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payment on the payment date. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in a street name, and will be the responsibility of the participants and indirect participants.

DTC has advised us that it is a limited purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we are not responsible for its accuracy. The rules applicable to DTC and its participants are on file with the SEC. Neither we nor any trustee, registrar or paying agent are responsible for the performance by DTC or their participants or indirect participants under the rules and procedures governing their operations or for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global securities or for maintaining, supervising or reviewing any records relating to beneficial ownership interests.

### **Governing Law**

The indenture is governed by and is to be construed in accordance with the laws of the State of New York.

### **Trustee**

U.S. Bank National Association, the trustee under the indenture governing the notes, is a lender under our unsecured credit facility and is an affiliate of Piper Jaffray & Co.

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**UNDERWRITING**

Under the terms and subject to the conditions in the underwriting agreement dated the date of this prospectus supplement, we have agreed to sell to each of the underwriters named below, severally, and each of the underwriters has severally agreed to purchase, the principal amount of the notes set forth opposite its name below:

<b>Underwriter</b>	<b>Principal Amount  of Notes</b>
Banc of America Securities LLC	\$ 73,125,000
J.P. Morgan Securities Inc.	73,125,000
Citigroup Global Markets Inc.	14,063,000
Goldman, Sachs & Co.	14,063,000
Morgan Stanley & Co. Incorporated	14,062,000
Wachovia Capital Markets, LLC.	14,062,000
Legg Mason Wood Walker, Incorporated	4,500,000
Piper Jaffray & Co.	4,500,000
PNC Capital Markets, Inc.	4,500,000
SunTrust Capital Markets, Inc.	4,500,000
Wells Fargo Brokerage Services, LLC.	4,500,000
<b>Total</b>	<b>\$ 225,000,000</b>

Under the terms and conditions of the underwriting agreement, if the underwriters take any of the notes, then the underwriters are obligated to take and pay for all of the notes.

The notes are a new issue of securities with no established trading market and will not be listed on any national securities exchange or automated dealer quotation system. The underwriters have advised us that they intend to make a market for the notes, but they have no obligation to do so and may discontinue market making at any time without providing any notice. No assurance can be given as to the liquidity of any trading market for the notes or that an active public market for the notes will develop. If an active public trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected.

The underwriters initially propose to offer part of the notes directly to the public at the offering prices described on the cover page and part to certain dealers at a price that represents a concession not in excess of 0.35% of the principal amount of the notes. Any underwriter may allow, and any such dealer may reallow, a concession not in excess of 0.25% of the principal amount of the notes to certain other dealers. After the initial offering of the notes, the underwriters may from time to time vary the offering price and other selling terms.

We have also agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments which the underwriters may be required to make in respect of any such liabilities.

In connection with the offering of the notes, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the underwriters may over allot in connection with the offering of the notes, creating a syndicate short position. In

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addition, the underwriters may bid for, and purchase, notes in the open market to cover syndicate short positions or to stabilize the price of the notes. Finally, the underwriting syndicate may reclaim selling concessions allowed for distributing the notes in the offering of the notes, if the syndicate repurchases previously distributed notes in syndicate covering transactions, stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the notes above independent market levels. The underwriters are not required to engage in any of these activities, and may end any of them at any time.

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The expenses of this offering, excluding the underwriting discounts and commissions, are estimated at \$200,000 and are payable by us.

Banc of America Securities LLC and J.P. Morgan Securities Inc. will make the notes available for distribution on the Internet through a proprietary web site and/or a third-party system operated by Market Axess Inc., an Internet-based communications technology provider. Market Axess Inc. is providing the system as a conduit for communications between Banc of America Securities LLC, J.P. Morgan Securities Inc. and their respective customers and is not a party to any transactions. Market Axess Inc., a registered broker-dealer, will receive compensation from Banc of America Securities LLC and J.P. Morgan Securities Inc. based on transactions Banc of America Securities LLC and J.P. Morgan Securities Inc. conduct through the system. Banc of America Securities LLC and J.P. Morgan Securities Inc. will make the notes available to their respective customers through the Internet distributions, whether made through a proprietary or third-party system, on the same terms as distributions made through other channels.

From time to time, the underwriters and certain of their affiliates have engaged, and may in the future engage, in transactions with, and perform certain investment banking and/or commercial banking services for, us and our affiliates in the ordinary course of business for which they have received customary fees. Affiliates of Banc of America Securities LLC, J.P. Morgan Securities Inc., Citigroup Global Markets Inc., Wachovia Capital Markets, LLC, Piper Jaffray & Co., PNC Capital Markets, Inc., SunTrust Capital Markets, Inc. and Wells Fargo Brokerage Services, LLC are lenders under our credit facility. These affiliates will receive their proportional share of the amount of the credit facility to be repaid from the proceeds of this offering. U.S. Bank National Association, the trustee under the indenture governing the notes offered hereby, is an affiliate of Piper Jaffray & Co.

#### **LEGAL MATTERS**

The legality of the notes will be passed upon for us by Hogan & Hartson L.L.P., and certain legal matters will be passed upon for the underwriters by Clifford Chance US LLP, New York, New York.

#### **EXPERTS**

The consolidated financial statements and schedules of us and the Guarantor as of December 31, 2003 and 2002, and for each of the years in the three-year period ended December 31, 2003, have been incorporated by reference herein and in the registration statement in reliance upon the reports of KPMG LLP, independent accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing. The audit report covering our consolidated financial statements and schedules refers to our implementation of 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* in 2003 and adoption of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* in 2002. The audit report covering the Guarantor's consolidated financial statements and schedules refers to the Guarantor's adoption of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* in 2002.

#### **AVAILABLE INFORMATION**

We are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, file reports and other information with the SEC. Such reports and other information can be inspected and copied at the Public Reference Section of the SEC located at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and information on the operation of the Public Reference Room can be obtained

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by calling 1-800-SEC-0330. Copies of such material can be obtained from the Public Reference Section of the SEC at prescribed rates. Such material may also be accessed electronically by means of the SEC's home page on the internet (<http://www.sec.gov>).

#### **INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The SEC allows us to incorporate by reference information that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement. This prospectus supplement and the information that we file later with the SEC may update and supersede the information we incorporated by reference. We incorporate by reference the documents listed below:

Annual Report on Form 10-K for the fiscal year ended December 31, 2003; and

Current Report on Form 8-K filed on March 18, 2004.

In addition, except as specified below, any filings made by us with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 prior to the termination of this offering, are hereby deemed to be incorporated by reference.

Information furnished under Items 9 or 12 of any of our Current Reports on Form 8-K is not incorporated by reference in this prospectus supplement or the registration statement.

We will provide to each person to whom this prospectus supplement is delivered a copy of any or all of the information that we have incorporated by reference into this prospectus supplement but not delivered with this prospectus supplement. To receive a free copy of any of the documents incorporated by reference in this prospectus supplement, other than exhibits, unless they are specifically incorporated by reference in those documents, call or write to our Secretary, CarrAmerica Realty Corporation, 1850 K Street, N.W., Suite 500, Washington, D.C. 20006 ((202) 729-1700). The information relating to us contained in this prospectus supplement does not purport to be comprehensive and should be read together with the information contained in the documents incorporated or deemed to be incorporated by reference in this prospectus supplement.

You should rely only upon the information provided in this document or incorporated in this document by reference. We have not authorized anyone to provide you with different information. You should not assume that the information in this document, including any information incorporated by reference, is accurate as of any date other than the date indicated on the front cover.

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PROSPECTUS

\$850,000,000

**CarrAmerica Realty Corporation**

**Debt Securities, Preferred Stock, Common Stock,  
Common Stock Warrants, Debt Warrants And Depositary Shares**

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CarrAmerica Realty Corporation (the "Company") may from time to time offer in one or more series its (i) unsecured debt securities ("Debt Securities"), (ii) preferred stock, par value \$0.01 per share ("Preferred Stock"), (iii) common stock, par value \$0.01 per share ("Common Stock"), (iv) warrants exercisable for Common Stock ("Common Stock Warrants"), (v) warrants exercisable for Debt Securities ("Debt Warrants") and, together with Common Stock Warrants, "Warrants") and (vi) shares of Preferred Stock represented by depositary shares ("Depositary Shares") with an aggregate initial public offering price of up to \$850,000,000 (or its equivalent based on the exchange rate at the time of sale) in amounts, at prices and on terms to be determined at the time of offering. The Debt Securities may be guaranteed by CarrAmerica Realty, L.P., a Delaware limited partnership (the "Guarantor"). The Debt Securities, Preferred Stock, Common Stock, Warrants and Depositary Shares (collectively, the "Securities") may be offered, separately or together, in separate series, in amounts, at prices and on terms to be described in one or more supplements to this Prospectus (each a "Prospectus Supplement").

The specific terms of the Securities in respect of which this Prospectus is being delivered will be set forth in the applicable Prospectus Supplement and will include, where applicable: (i) in the case of Debt Securities, the specific title, aggregate principal amount, currency, form (which may be registered or bearer, or certificated or global), authorized denominations, maturity, rate (or manner of calculation thereof) and time of payment of interest, terms of any guarantee, any terms for redemption at the option of the Company or repayment at the option of the holder, any terms for any sinking fund payments, any terms for conversion into Preferred Stock or Common Stock of the Company, covenants and public offering price; (ii) in the case of Preferred Stock, the specific title and stated value, any dividend, liquidation, redemption, conversion, voting and other rights, and public offering price; (iii) in the case of Common Stock, the public offering price; (iv) in the case of Warrants, the securities to which they relate, duration, detachability, exercise price and public offering price; and (v) in the case of Depositary Shares, the fractional shares of Preferred Stock represented by each such Depositary Share and public offering price. In addition, such specific terms may include limitations on direct or beneficial ownership and restrictions on transfer of the Securities, in each case as may be appropriate to preserve the status of the Company as a real estate investment trust for federal income tax purposes.

This Prospectus also may be used by certain holders of Securities to effect resales of the Securities. See "Plan of Distribution - Resales."

The applicable Prospectus Supplement also will contain information, where applicable, about certain U.S. federal income tax considerations relating to, and any listing on a securities exchange of, the Securities covered by such Prospectus Supplement.

The Securities may be offered directly, through agents designated from time to time by the Company or the selling security holders, or to or through underwriters or dealers. If any agents or underwriters are involved in the sale of any of the Securities, their names, and any applicable

purchase price, fee, commission or discount arrangement with, between or among them, will be set forth, or will be calculable from the information set forth, in an accompanying Prospectus Supplement. See Plan of Distribution. No Securities may be sold without delivery of a Prospectus Supplement describing the method and terms of the offering of such Securities.

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See **Risk Factors** beginning on page 2 for certain factors relating to an investment in the securities.

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**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE**

**SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION**

**PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS ANY**

**REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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**The Date of this Prospectus is January 8, 2002.**

## THE COMPANY

The Company is a fully integrated, self-administered and self-managed publicly-traded real estate investment trust (a REIT) that focuses primarily on the acquisition, development, ownership and operation of high-quality office properties in select markets across the United States. The Company was organized as a Maryland corporation on July 9, 1992.

If so specified in an applicable Prospectus Supplement, Debt Securities offered by means of this Prospectus will be guaranteed by the Guarantor, a Delaware limited partnership organized by the Company in March 1996. The Guarantor is managed indirectly by the Company, which indirectly serves as the sole general partner of the Guarantor and owned, as of September 30, 2001 approximately 91% of the partnership interests in the Guarantor.

Both the Company and the Guarantor are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and file reports and other information with the Securities and Exchange Commission. See Available Information.

The principal executive offices of both the Company and the Guarantor are located at 1850 K Street, N.W., Suite 500, Washington, D.C. 20006, and their telephone number is (202) 729-7500.

## RISK FACTORS

In addition to the other information in this prospectus and the information incorporated by reference herein, you should consider carefully the following risk factors in evaluating an investment in our securities.

### **Our Performance is Subject to Risks Associated with Real Estate Investment**

We are a real estate company that derives most of our income from the ownership and operation of office buildings. There are a number of factors that may adversely affect the income that our properties generate, including the following:

***Economic Downturns.*** Downturns in the national economy, or in regions or localities where our properties are located, generally will negatively impact the demand for office space.

***Oversupply of Office Space.*** An oversupply of space in markets where we own office properties would typically cause rental rates and occupancies to decline, making it more difficult for us to lease space at attractive rental rates.

***Competitive Properties.*** If our properties are not as attractive to tenants (in terms of rents, services or location) as other properties that are competitive with ours, we will lose tenants to those properties or could have to reduce our rental rates to compensate for that disparity.

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**Renovation Costs.** In order to maintain the quality of our office buildings and successfully compete against other properties, we periodically have to spend money to repair and renovate our properties.

**Tenant Risk.** Our performance depends on our ability to collect rent from our tenants. While no tenant in our portfolio accounted for more than 5% of our annualized base rent as of September 30, 2001, our financial position may be adversely affected by financial difficulties experienced by a major tenant, or by a number of smaller tenants, including bankruptcies, insolvencies or general downturns in business.

**Reletting Costs.** As leases expire, we try to either relet the space to an existing tenant or attract a new tenant to occupy the space. In either case, we likely will incur significant costs in the process. In addition, if market rents have declined since the time the expiring lease was entered into, the terms of any new lease signed likely will not be as favorable to us as the terms of the expiring lease, thereby reducing the income earned from that space.

**Regulatory Costs.** There are a number of government regulations, including zoning, tax and accessibility laws that apply to the ownership and operation of office buildings. Compliance with existing and newly adopted regulations may require us to spend a significant amount of money on our properties.

**Fixed Nature of Costs.** Most of the costs associated with owning and operating an office building are not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from the property.

**Environmental Problems.** 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. The clean up 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.

**Competition.** A number of other major real estate investors with significant capital compete with us. These competitors include publicly-traded REITs, private REITs, investment banking firms and private institutional investment funds.

### **New Developments and Acquisitions May Fail to Perform As Expected**

Over the last few years, we have embarked on a major acquisition and development program. In deciding whether to acquire or develop a particular property, we made certain assumptions regarding the expected future performance of that property. If a number of these new properties do not perform as expected, our financial performance will be adversely affected.

While our acquisition pace has declined significantly, we remain active in developing 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 will increase, and there may be costs incurred for projects that are not completed.

### **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 and the continued operations of operating properties. These investments involve risks not present in a wholly owned project. Risks related to these investments include:

Absence of exclusive control over the development, financing, leasing, management and other aspects of the project;

Possibility that our co-venturer or partner might:

become bankrupt;

have interests or goals that are inconsistent with ours;

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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.

### **Our Use of Debt Subjects Us to Various Financing Risks**

While we believe that we have a conservative borrowing policy, we do regularly borrow money to finance our business, particularly the acquisition and development of properties. We generally incur unsecured debt, although in many cases we will incur mortgage debt that is secured by one or more of our office buildings. There are risks inherent in borrowing money, including the following:

***No Limitation on Debt Incurrence.*** Our organizational documents do not limit the amount of debt we can incur. Our degree of leverage could have important consequences, including making it more difficult

for us to obtain additional financing in the future for business needs, as well as making us more vulnerable to an economic downturn.

***Possible Inability to Meet Scheduled Debt Payments.*** 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 the lender could foreclose on the property, resulting in a 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 almost every case, very little of the principal amount that we borrow is repaid prior to the maturity of the loan. We generally expect to refinance that debt when it matures, although in some cases we may pay off the loan. If principal amounts due at maturity cannot be refinanced, extended or paid with proceeds of other capital 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.

***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. These covenants may restrict our ability to engage in transactions that would otherwise be in our best interests.

***Variable Interest Rates Could Increase the Cost of Borrowing.*** A significant amount of our financing is through an unsecured line of credit. The line of credit is subject to variable floating interest rates. Because we have not hedged against interest fluctuations, significant increases in interest rates could dramatically increase our costs of borrowing on the line of credit. Additionally, interest rates on certain of our debt are based on the credit rating of our debt by independent agencies, and would be increased in the event that the credit ratings are downgraded.

#### **Our Business Structure Has Certain Risks Associated With It**

***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 units of limited partner interest in Carr Realty, 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, 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, L.P., have the exclusive authority to determine whether and on what terms Carr Realty, L.P. will sell or refinance an individual property, but the effect of certain transactions on these unitholders may influence decisions affecting these properties.

***We May Not Be Able to Sell Properties When Appropriate.*** Real estate property investments generally cannot be sold quickly. Agreements that we have entered into with respect to certain properties owned by CarrAmerica Realty, L.P. and Carr Realty, L.P. limit our ability to dispose of property. Also, the tax laws applicable to REITs restrict our ability to dispose of properties. Therefore, we may be unable to vary our portfolio promptly in response to market conditions, which may adversely affect our financial position.

***Lack of Voting Control Over Carr Real Estate Services, Inc.*** While most of our income is generated from the ownership and operation of our office buildings, we own an 8.1% voting and 95.8% nonvoting interest in Carr Real Estate Services, Inc., which produces a significant contribution to our income. Carr



Real Estate Services, Inc. conducts management and leasing operations for third parties and for office buildings in which we own less than a 100% interest. As of September 30, 2001, we owned approximately 95% of the economic interest in Carr Real Estate Services, Inc. through the ownership of nonvoting common stock. The voting common stock of Carr Real Estate Services, Inc. is owned by The Oliver Carr Company. As a result, we have no right to elect the directors of Carr Real Estate Services, Inc., and our ability to influence its operations is limited. Carr Real Estate Services, Inc. may engage in business activities that are not in our best interests.

***We Depend On External Capital.*** To qualify as a REIT, we generally must distribute to our stockholders each year at least 90% of our net taxable income excluding net capital gains. Because of this distribution requirement, we likely will not be able to fund all future capital needs, including capital for property development and acquisitions, with income from operations. We therefore will have to rely on third-party sources of capital, which may or may not be available on favorable terms, if at all. Our access to third-party sources of capital depends on a number of things, including the market's perception of our growth potential and our current and potential future earnings.

#### **Certain Factors May Inhibit Changes in Control of the Company**

***Charter and By-law Provisions.*** Certain provisions of our charter and by-laws may delay or prevent a change in control of the Company or other transactions that could provide our stockholders with a premium over the then-prevailing market price of our common stock or that might otherwise be in the best interests of our stockholders. These include a staggered board of directors and the ability of 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 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 5% of our outstanding common stock and/or 5% of any class or series of preferred stock. In accordance with the terms of our charter, our board of directors has increased these ownership limits to 9.8% from 5%. 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 capital stock that is actually owned by others, including family members and entities in which the stockholder has an ownership interest. Our board of directors could waive this restriction if it were satisfied that ownership in excess of these ownership limits would not jeopardize our status as a REIT and the board otherwise decided 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 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 shares of common stock. 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 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;

Our financial condition and performance;

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

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 common 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 stockholders. 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, some of which may not be totally within our control and some of which involve questions of interpretation. 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 have provided to tenants through an independent contractor in certain of our properties under arrangements where we bear part or all of the expenses of such services, are 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 in 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, we would be subject to federal income tax at regular corporate rates. Also, unless the IRS granted us relief under certain 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 affect 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 have undertaken a significant number of asset sales in recent years, 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 our taxable affiliates, including Carr Real Estate Services, Inc. and CarrAmerica Development, Inc., is subject to federal and state corporate income tax. 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 stockholders.

Prior to December 31, 2000, a REIT could not own securities in any one issuer if the value of those securities exceeded 5% of the value of the REIT's total assets or the securities owned by the REIT represented more than 10% of the issuer's outstanding voting securities. As a result of the REIT Modernization Act, after December 31, 2000, the 5% value test and the 10% voting security test were modified in two respects. First, the 10% voting securities test was expanded so that REITs also are prohibited from owning more than 10% of the value of the outstanding securities of any one issuer. Second, an exception to these tests allows a REIT to own securities of a subsidiary that exceed the 5% value test and the new 10% vote or value test if the subsidiary elects to be a taxable REIT subsidiary. Under a new asset test, for taxable years beginning after December 31, 2000, we are not able to own securities of taxable REIT subsidiaries that represent in the aggregate more than 20% of the value of our total assets.

Several provisions of the new law ensure that a taxable REIT subsidiary will be subject to an appropriate level of federal income taxation. For example, a taxable 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 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.

We currently own more than 10% of the total value of the outstanding securities of HQ Global Holdings Inc., Carr Real Estate Services, Inc. and CarrAmerica Development, Inc. These entities have elected to be taxable REIT subsidiaries.

### **Risks Associated with Debt Securities**

***Absence of Existing Public Market for the Notes on Resale.*** Prior to an offering of debt securities, there may have been no trading market for the debt securities. Any market making activity in the debt securities will be subject to the limits imposed by the Securities Act and the Securities Exchange Act of 1934, as amended (the Exchange Act). Accordingly, there can be no assurance that any market for the debt securities will develop or, if one does develop, that it will be maintained. If an active market for the debt securities fails to develop or be sustained, the trading price of the debt securities could be materially adversely affected.

***Effective Subordination of Notes.*** We derive a significant portion of our operating income from our subsidiaries. The holders of the debt securities will have no direct claim against the subsidiaries (except any guarantor) for payment under the debt securities. We must rely to a significant extent on dividends and other payments from our subsidiaries (or must raise funds in public or private equity or debt offerings or sell assets) to generate the funds necessary to meet our obligations, including the payment of principal and interest on the debt securities. If the dividends and other payments from our subsidiaries were insufficient to meet such obligations, there could be no assurance that our operating income would be sufficient to meet such obligations (or that we would be able to obtain such funds on acceptable terms or at all).

The debt securities will be unsecured and will be effectively subordinated to any of our secured indebtedness to the value of the assets securing such indebtedness. As of September 30, 2001, on a pro forma



basis, our and our subsidiaries' total secured indebtedness was approximately \$522.2 million. The indenture permits us and our subsidiaries to incur additional secured indebtedness provided certain conditions are met. See "Description of the Notes - Certain Covenants." Consequently, in the event of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding with respect to us, the holders of any secured indebtedness will be entitled to proceed against the collateral that secures such secured indebtedness and such collateral will not be available for satisfaction of any amounts owed under our unsecured indebtedness, including the debt securities.

The guarantee of the debt securities by the Guarantor is an unsecured obligation of the Guarantor, and is effectively subordinated to mortgage and other secured indebtedness of the Guarantor and ranks equally with the Guarantor's other unsecured and unsubordinated indebtedness.

**USE OF PROCEEDS**

Unless otherwise specified in the applicable Prospectus Supplement, the net proceeds from the sale of the Securities will be used for the acquisition of additional office properties or the development of office properties, as suitable opportunities arise, for the repayment of certain outstanding indebtedness at such time, for capital improvements to property and for working capital and other general corporate purposes.

**RATIOS OF EARNINGS TO FIXED CHARGES**

The following table sets forth our s and the Guarantor s ratio of earnings to fixed charges for the periods indicated:

	Nine Months Ended September 30,	Year Ended December 31,				
	2001	2000	1999	1998	1997	1996
CarrAmerica Realty Corporation	2.45	2.50	2.22	2.10	2.13	1.76
CarrAmerica Realty, L.P.	1.41	2.50	2.05	2.32	2.43	1.60

The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. For this purpose, earnings consist of income from continuing operations before income taxes and minority interests plus fixed charges (excluding interest cost capitalized) and the amortization of capitalized interest. Fixed charges consist of interest expense (including interest costs capitalized) and the amortization of debt issuance costs.

We issued preferred stock in 1996 and in August, November and December 1997. The following table sets forth our ratio of earnings to combined fixed charges and preferred stock dividends for the periods indicated:

	Nine Months Ended September 30,	Year Ended December 31,				
	2001	2000	1999	1998	1997	1996
1.77		1.91	1.71	1.57	1.82	1.73

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## DESCRIPTION OF DEBT SECURITIES

The following description sets forth certain general terms and provisions of the Debt Securities to which this Prospectus and any applicable Prospectus Supplement may relate. The particular terms of the Debt Securities being offered and the extent to which such general provisions may apply will be set forth in the applicable indenture and in an officers' certificate or in one or more indentures supplemental thereto and described in a Prospectus Supplement relating to such Debt Securities.

### General

The Debt Securities will be direct, unsecured obligations of the Company and may be either senior Debt Securities ( "Senior Securities" ) or subordinated Debt Securities ( "Subordinated Securities" ). The Debt Securities will be issued under one or more indentures (the "Indentures" ). Senior Securities and Subordinated Securities will be issued pursuant to separate indentures (respectively, a "Senior Indenture" and a "Subordinated Indenture" ), in each case between the Company and a trustee (a "Trustee" ). The Indentures will be subject to and governed by the Trust Indenture Act of 1939, as amended (the "TIA" ). The statements made under this heading relating to the Debt Securities and the Indentures are summaries of the anticipated provisions thereof, do not purport to be complete and are qualified in their entirety by reference to the Indentures and such Debt Securities. All section references appearing herein are to sections of each Indenture unless otherwise indicated and capitalized terms used but not defined under this heading shall have the respective meanings set forth in each Indenture.

The indebtedness represented by Subordinated Securities will be subordinated in right of payment to the prior payment in full of the Senior Debt of the Company as described below under "Ranking."

If so provided in an applicable Prospectus Supplement, the Debt Securities will have the benefit of a guarantee from the Guarantor. See "Guarantee" below. The Guarantor is a separate and distinct legal entity from the Company and has no obligation, contingent or otherwise, to pay any amounts due pursuant to the Debt Securities or to make any funds available therefor, whether by dividends, loans or other payments, other than as expressly provided in a guarantee. The payment of dividends or the making of loans and advances to the Company by the Guarantor may be subject to contractual, statutory or regulatory restrictions, which, if material, would be disclosed in the applicable Prospectus Supplement. Moreover, the payment of dividends and making of loans and advances would be contingent upon the earnings of the Guarantor. Any right of the Company to receive assets of the Guarantor upon liquidation or recapitalization of the Guarantor (and the consequent right of the holders of Debt Securities to participate in those assets) will be subject to the claims of the Guarantor's creditors. In the event that the Company is recognized as a creditor of the Guarantor, the Company's claims would still be subject to any security interest in the assets of the Guarantor and any indebtedness of the Guarantor senior to that of the Debt Securities, and would be dependent primarily upon the receipt of funds from the Guarantor.

Except as set forth in the applicable Indenture or in one or more indentures supplemental thereto and described in a Prospectus Supplement relating thereto, the Debt Securities may be issued without limit as to aggregate principal amount, in one or more series, in each case as established from time to time in or pursuant to authority granted by a resolution of the Board of the Company or as established in the applicable Indenture or in one or more indentures supplemental to such Indenture. All Debt Securities of one series need not be issued at the same time and, unless otherwise provided, a series may be reopened, without the consent of the Holders of the Debt Securities of such series, for issuances of additional Debt Securities of such series.

It is anticipated that each Indenture will provide that there may be more than one Trustee thereunder, each with respect to one or more series of Debt Securities. Any Trustee under an Indenture may resign or be removed with respect to one or more series of Debt Securities, and a successor Trustee may be appointed to act with respect to such series. In the event that two or more persons are acting as Trustee with respect to different series of Debt Securities, each such Trustee shall be a director of a trust under the applicable Indenture separate and apart from the trust



administered by any other Trustee, and, except as otherwise indicated herein, any action

described herein to be taken by each Trustee may be taken by each such Trustee with respect to, and only with respect to, the one or more series of Debt Securities for which it is Trustee under the applicable Indenture.

The Prospectus Supplement relating to any series of Debt Securities being offered will contain the specific terms, including:

- (1) The title of such Debt Securities and whether such Debt Securities are Senior Securities or Subordinated Securities;
- (2) The aggregate principal amount of such Debt Securities and any limit on such aggregate principal amount;
- (3) The percentage of the principal amount at which such Debt Securities will be issued and, if other than the principal amount thereof, the portion of the principal amount thereof payable upon declaration of acceleration of the maturity thereof;
- (4) If convertible in whole or in part into Common Stock or Preferred Stock, the terms on which such Debt Securities are convertible, including the initial conversion price or rate (or method for determining the same), the portion that is convertible and the conversion period, and any applicable limitations on the ownership or transferability of the Common Stock or Preferred Stock receivable on conversion;
- (5) The date or dates, or the method for determining such date or dates, on which the principal of such Debt Securities will be payable;
- (6) The rate or rates (which may be fixed or variable), or the method by which such rate or rates shall be determined, at which such Debt Securities will bear interest, if any;
- (7) The date or dates, or the method for determining such date or dates, from which any such interest will accrue, the dates on which any such interest will be payable, the regular record dates for such interest payment dates, or the method by which such dates shall be determined, the persons to whom such interest shall be payable, and the basis upon which interest shall be calculated if other than that of a 360-day year of twelve 30-day months;
- (8) The place or places where the principal of (and premium, if any) and interest, if any, on such Debt Securities will be payable, where such Debt Securities may be surrendered for conversion or registration of transfer or exchange and where notices or demands to or upon the Company in respect of such Debt Securities and the applicable Indenture may be served;
- (9) The period or periods within which, the price or prices at which and the other terms and conditions upon which such Debt Securities may be redeemed, in whole or in part, at the option of the Company, if the Company is to have such an option;
- (10) The obligation, if any, of the Company to redeem, repay or purchase such Debt Securities pursuant to any sinking fund or analogous provision or at the option of a Holder thereof, and the period or periods within which or the date and dates on which the price or prices at which and the other terms and conditions upon which such Debt Securities will be redeemed, repaid or purchased, in whole or in part, pursuant to such obligation;
- (11) If other than U.S. dollars, the currency or currencies in which such Debt Securities are denominated and payable, which may be a foreign currency or units of two or more foreign currencies or a composite currency or currencies, and the terms and conditions relating thereto;
- (12)

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Whether the amount of payments of principal of (and premium, if any) or interest, if any, on such Debt Securities may be determined with reference to an index, formula or other method (which index, formula or method may be, based on a currency, currencies, currency unit or units or composite currency or currencies) and the manner in which such amounts shall be determined;

- (13) Any additions to, modifications of or deletions from the terms of such Debt Securities with respect to Events of Default or covenants set forth in the applicable Indenture;

- (14) Whether such Debt Securities will be issued in certificate or book-entry form;
- (15) Whether such Debt Securities will be in registered or bearer form and, if in registered form, the denominations thereof if other than \$1,000 and any integral multiple thereof and, if in bearer form, the denominations thereof and terms and conditions relating thereto;
- (16) The applicability, if any, of the defeasance and covenant defeasance provisions of Article Fourteen of the applicable Indenture;
- (17) Whether and under what circumstances the Company will pay any additional amounts on such Debt Securities in respect of any tax, assessment or governmental charge and, if so, whether the Company will have the option to redeem such Debt Securities in lieu of making such payment;
- (18) If such Debt Securities are to be issued upon the exercise of Debt Warrants, the time, manner and place for such Debt Securities to be authenticated and delivered;
- (19) Whether and the extent to which such Debt Securities are guaranteed by the Guarantor and the form of any such guarantee; and
- (20) Any other terms of such Debt Securities not inconsistent with the provisions of the applicable Indenture (Section 301).

The Debt Securities may provide for less than the entire principal amount thereof to be payable upon declaration of acceleration of the maturity thereof ( Original Issue Discount Securities ). Special federal income tax, accounting and other considerations applicable to Original Issue Discount Securities will be described in the applicable Prospectus Supplement.

Except as set forth in the applicable Indenture or in one or more indentures supplemental thereto, the applicable Indenture will not contain any provisions that would limit the ability of the Company to incur indebtedness or that would afford Holders of Debt Securities protection in the event of a highly leveraged or similar transaction involving the Company or in the event of a change of control. Restrictions on ownership and transfers of the Company's Common Stock and Preferred Stock are designed to preserve its status as a REIT and, therefore, may act to prevent or hinder a change of control. See Description of Preferred Stock Restrictions on Ownership and Description of Common Stock Restrictions on Transfer. Reference is made to the applicable Prospectus Supplement for information with respect to any deletions from, modifications of or additions to the Events of Default or covenants of the Company that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

#### **Denomination, Interest, Registration and Transfer**

Unless otherwise described in the applicable Prospectus Supplement, the Debt Securities of any series will be issuable in denominations of \$1,000 and integral multiples thereof (Section 302).

Unless otherwise specified in the applicable Prospectus Supplement, the principal of (and applicable premium, if any) and interest on any series of Debt Securities will be payable at the corporate trust office of the Trustee, the address of which will be stated in the applicable Prospectus Supplement; provided that, at the option of the Company, payment of interest may be made by check mailed to the address of the person entitled thereto as it appears in the applicable register for such Debt Securities or by wire transfer of funds to such person at an account maintained within the United States (Sections 301, 305, 306, 307 and 1002).

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Any interest not punctually paid or duly provided for on any Interest Payment Date with respect to a Debt Security ( Defaulted Interest ) will forthwith cease to be payable to the Holder on the applicable regular record date and may either be paid to the person in whose name such Debt Security is registered at the close of business on a special record date (the Special Record Date ) for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to the Holder of such Debt Security not less than ten days prior to such

Special Record Date, or may be paid at any time in any other lawful manner, all as more completely described in the Indenture (Section 307).

Subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series will be exchangeable for other Debt Securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations upon surrender of such Debt Securities at the corporate trust office of the applicable Trustee referred to above. In addition, subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series may be surrendered for conversion or registration of transfer or exchange thereof at the corporate trust office of the applicable Trustee. Every Debt Security surrendered for conversion, registration of transfer or exchange must be duly endorsed or accompanied by a written instrument of transfer. No service charge will be made for any registration of transfer or exchange of any Debt Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. If the applicable Prospectus Supplement refers to any transfer agent (in addition to the applicable Trustee) initially designated by the Company with respect to any series of Debt Securities, the Company may at any time rescind the designation of any such transfer agent or approve a change in the location through which any such transfer agent acts, except that the Company will be required to maintain a transfer agent in each place of payment for such series. The Company may at any time designate additional transfer agents with respect to any series of Debt Securities (Section 1002).

Neither the Company nor any Trustee shall be required to (i) issue, register the transfer of or exchange Debt Securities of any series during a period beginning at the opening of business 15 days before any selection of Debt Securities of that series to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption; (ii) register the transfer of or exchange any Debt Security, or portion thereof, called for redemption, except the unredeemed portion of any Debt Security being redeemed in part; or (iii) issue, register the transfer of or exchange any Debt Security that has been surrendered for repayment at the option of the Holder, except the portion, if any, of such Debt Security not to be so repaid (Section 305).

#### **Merger, Consolidation or Sale**

The Company will be permitted to consolidate, or sell, lease or convey all or substantially all of its assets to, or merge with or into, any other entity provided that (1) the Company shall be the continuing entity, or the successor entity (if other than the Company) formed by or resulting from any such consolidation or merger, shall expressly assume payment of the principal of (and premium, if any) and interest on all of the Debt Securities and the due and punctual performance and observance of all of the covenants and conditions contained in each Indenture; (2) immediately after giving effect to such transaction and treating any indebtedness that becomes an obligation of the Company or any Subsidiary (as defined below) as a result thereof as having been incurred by the Company or Subsidiary at the time of such transaction, no Event of Default under the Indentures, and no event which, after notice or the lapse of time, or both, would become such an Event of Default, shall have occurred and be continuing; and (3) an officer's certificate and legal opinion covering such conditions shall be delivered to each Trustee (Sections 801 and 803).

#### **Certain Covenants**

*Existence.* Except as described under Merger, Consolidation or Sale above, the Company will be required to do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights (by articles of incorporation, by-laws and statute) and franchises; provided, however, that the Company shall not be required to preserve any right or franchise if it determines that the preservation thereof is no longer desirable in the conduct of its business and that the loss thereof is not disadvantageous in any material respect to the Holders of the Debt Securities.

*Maintenance of Properties.* The Company will be required to cause all of its material properties used or useful in the conduct of its business or the business of any Subsidiary (as defined below) to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times (Section 1007); provided, however, that the Company and its Subsidiaries shall not be prevented from selling or otherwise disposing for value its properties in the ordinary course of business.

*Insurance.* The Company will be required to, and will be required to cause each of its Subsidiaries to keep all of its insurable properties insured against loss or damage to an extent that is commercially reasonable (Section 1008).

*Payment of Taxes and Other Claims.* The Company will be required to pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all taxes, assessments and governmental charges levied or imposed upon it or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, and (ii) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings (Section 1009).

*Provision of Financial Information.* Whether or not the Company is subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), the Company will be required, to the extent permitted under the Exchange Act, to file with the U.S. Securities and Exchange Commission (the Commission or the SEC) the annual reports, quarterly reports and other documents which the Company would have been required to file with the Commission pursuant to such Sections 13 or 15(d) if the Company were so subject (the Financial Information), such documents to be filed with the Commission on or prior to the respective dates (the Required Filing Dates) by which the Company would have been required so to file such documents if the Company were so subject. The Company also will in any event (x) within 15 days of each Required Filing Date (i) transmit by mail to all Holders of Debt Securities, as their names and addresses appear in the Security Register, without cost to such Holders, copies of the Financial Information and (ii) file with the Trustee copies of the Financial Information, and (y) if filing such documents by the Company with the Commission is not permitted under the Exchange Act, promptly upon written request and payment of the reasonable cost of duplication and delivery, supply copies of such documents to all Holders of Debt Securities, as their names and addresses appear on the Security Register and to any prospective Holder (Section 1010). The Guarantor may be subject to similar requirements to provide financial information, if the Debt Securities are guaranteed.

#### **Additional Covenants and/or Modifications to the Covenants Described Above**

Any additional covenants of the Company and/or modifications to the covenants described above with respect to any Debt Securities or series thereof, including any covenants relating to limitations on incurrence of indebtedness or other financial covenants, will be set forth in the applicable Indenture or an indenture supplemental thereto and described in the Prospectus Supplement relating thereto.

#### **Guarantee**

In order to enable the Company to obtain more favorable interest rates and other terms and conditions with respect to Debt Securities, payment of the principal of (and any premium) and interest on offered Debt Securities may (if so specified in the applicable Prospectus Supplement) be guaranteed by the Guarantor. The guarantee will be an unsecured obligation of the Guarantor. The ranking of any guarantee of the Debt Securities and the terms of the subordination, if any, will be set forth in the applicable Prospectus Supplement.

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The Indenture will provide that, in the event any guarantee of the Debt Securities by the Guarantor would constitute or result in a violation of any applicable fraudulent conveyance or similar law of any relevant



jurisdiction, the liability of the Guarantor under such guarantee will be reduced to the maximum amount, after giving effect to all other contingent and fixed liabilities of such Guarantor, permissible under the applicable fraudulent conveyance or similar law.

### Events of Default, Notice and Waiver

Each Indenture will provide that the following events are Events of Default with respect to any series of Debt Securities issued thereunder: (i) default in the payment of any installment of interest on any Debt Security of such series and continuance of such default for 30 days; (ii) default in the payment of principal of (or premium, if any, on) any Debt Security of such series when due and payable; (iii) default in the performance, or breach, of certain covenants or warranties on the part of the Company or a Guarantor contained in the applicable Indenture, continued for 60 days after written notice as provided in the applicable Indenture; (iv) default under any bond, debenture, note or other evidence of indebtedness for money borrowed by the Company, any Guarantor or any Subsidiary (including obligations under leases required to be capitalized on the balance sheet of the lessee under GAAP) representing recourse indebtedness or indebtedness guaranteed by such party in an aggregate principal amount in excess of \$5,000,000, or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company, any Guarantor or any Subsidiary (including the leases) in an aggregate principal amount in excess of \$5,000,000, whether the indebtedness now exists or shall hereafter be created, which default shall have resulted in the indebtedness becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, or the obligations being accelerated, without the acceleration having been rescinded or annulled; (v) certain events of bankruptcy, insolvency or reorganization, or court appointment of a receiver, liquidator or trustee of the Company, a Guarantor or any Significant Subsidiary (as defined in the Indenture and discussed below) for all or substantially all of the property of the Company, a Guarantor or any Significant Subsidiary; (vi) the guarantee of any Debt Security by a Guarantor is no longer in full force and effect, other than by reason of termination of the Indenture or release; and (vii) any other Event of Default provided with respect to a particular series of Debt Securities (Section 501).

Significant Subsidiary means any Subsidiary that is a significant subsidiary (within the meaning of Regulation S-X promulgated under the Securities Act) of the Company or a Guarantor.

Subsidiary means a corporation, partnership or other entity a majority of the voting power of the voting equity securities or the outstanding equity interests of which are owned, directly or indirectly, by the Company, a Guarantor or by one or more other Subsidiaries of the Company or a Guarantor. For the purposes of this definition, voting equity securities means equity securities having voting power for the election of directors, whether at all times or only so long as no senior class of security has such voting power by reason of any contingency. The term Subsidiary does not include Carr Services, Inc., CarrAmerica Development, OmniOffices or Omni UK, as the Company does not own or control a majority of the outstanding voting stock of such entities.

If an Event of Default under any Indenture with respect to Debt Securities of any series at the time outstanding occurs and is continuing, then in every such case the applicable Trustee or the Holders of not less than 25% of the principal amount of the Outstanding Debt Securities of that series will have the right to declare the principal amount (or, if the Debt Securities of that series are Original Issue Discount Securities or indexed securities, such portion of the principal amount as may be specified in the terms thereof) of and premium, if any, on all the Debt Securities of that series to be due and payable immediately by written notice thereof to the Company (and to the applicable Trustee if given by the Holders). However, at any time after such a declaration of acceleration with respect to Debt Securities of such series (or of all Debt Securities then Outstanding under any Indenture, as the case may be) has been made, but before a judgment or decree for payment of the money due has been obtained by the applicable Trustee, the Holders of not less than a majority in principal amount of Outstanding Debt Securities of such series (or of all Debt Securities then Outstanding under the applicable Indenture, as the case may be) may rescind and annul such declaration and its consequences if (a) the Company

shall have deposited with the applicable Trustee all required payments of the principal of (and premium, if any) and interest on the Debt Securities of such series (or of all Debt Securities then Outstanding under the applicable Indenture, as the case may be), plus certain fees, expenses, disbursements and advances of the applicable Trustee and (b) all events of default, other than the non-payment of accelerated principal (or specified portion thereof), with respect to Debt Securities of such series (or of all Debt Securities then Outstanding under the applicable Indenture, as the case may be) have been cured or waived as provided in such Indenture (Section 502). Each Indenture also will provide that the Holders of not less than a majority in principal amount of the Outstanding Debt Securities of any series (or of all Debt Securities then Outstanding under the applicable Indenture, as the case may be) may waive any past default with respect to such series and its consequences, except a default (x) in the payment of the principal of (or premium, if any) or interest on any Debt Security of such series or (y) in respect of a covenant or provision contained in the applicable Indenture that cannot be modified or amended without the consent of the Holder of each Outstanding Debt Security affected thereby (Section 513).

Each Trustee will be required to give notice to the Holders of Debt Securities within 90 days of a default under the applicable Indenture unless such default shall have been cured or waived; provided, however, that such Trustee may withhold notice to the Holders of any series of Debt Securities of any default with respect to such series (except a default in the payment of the principal of (or premium, if any) or interest on any Debt Security of such series or in the payment of any sinking fund installment in respect of any Debt Security of such series) if specified responsible officers of such Trustee consider such withholding to be in the interest of such Holders (Section 601).

Each Indenture will provide that no Holders of Debt Securities of any series may institute any proceedings, judicial or otherwise, with respect to such Indenture or for any remedy thereunder, except in the cases of failure of the applicable Trustee, for 60 days, to act after it has received a written request to institute proceedings in respect of an Event of Default from the Holders of not less than 25% in principal amount of the Outstanding Debt Securities of such series, as well as an offer of indemnity reasonably satisfactory to it (Section 507). This provision will not prevent, however, any Holder of Debt Securities from instituting suit for the enforcement of payment of the principal of (and premium, if any) and interest on such Debt Securities at the respective due dates thereof (Section 508).

Subject to provisions in each Indenture relating to its duties in case of default, no Trustee will be under any obligation to exercise any of its rights or powers under an Indenture at the request or direction of any Holders of any series of Debt Securities then Outstanding under such Indenture, unless such Holders shall have offered to the Trustee thereunder reasonable security or indemnity (Section 602). The Holders of not less than a majority in principal amount of the Outstanding Debt Securities of any series (or of all Debt Securities then Outstanding under an Indenture, as the case may be) shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the applicable Trustee, or of exercising any trust or power conferred upon such Trustee. However, a Trustee may refuse to follow any direction which is in conflict with any law or the applicable Indenture, which may involve such Trustee in personal liability or which may be unduly prejudicial to the Holders of Debt Securities of such series not joining therein (Section 512).

Within 120 days after the close of each fiscal year, the Company will be required to deliver to each Trustee a certificate, signed by one of several specified officers, stating whether or not such officer has knowledge of any default under the applicable Indenture and, if so, specifying each such default and the nature and status thereof (Section 1011).

### **Modification of the Indentures**

Modifications and amendments of an Indenture will be permitted to be made only with the consent of the Holders of not less than a majority in principal amount of all Outstanding Debt Securities issued under such Indenture which are affected by such modification or amendment; provided, however, that no such modification or amendment may, without the consent of the Holder of each such Debt Security affected thereby, (1) change



the stated maturity of the principal of, or any installment of interest (or premium, if any) on, any such Debt Security; (2) reduce the principal amount of, or the rate or amount of interest on, or any premium payable on redemption of, any such Debt Security, or reduce the amount of principal of an Original Issue Discount Security that would be due and payable upon declaration of acceleration of the maturity thereof or would be provable in bankruptcy, or adversely affect any right of repayment of the Holder of any such Debt Security; (3) change the place of payment, or the coin or currency, for payment of the principal of (or premium, if any) or interest on any such Debt Security; (4) impair the right to institute suit for the enforcement of any payment on or with respect to any such Debt Security; (5) reduce the above-stated percentage of Outstanding Debt Securities of any series necessary to modify or amend the applicable Indenture, to waive compliance with certain provisions thereof or certain defaults and consequences thereunder or to reduce the quorum or voting requirements set forth in the applicable Indenture; (6) modify any of the foregoing provisions or any of the provisions relating to the waiver of certain past defaults or certain covenants, except to increase the required percentage to effect such action or to provide that certain other provisions may not be modified or waived without the consent of the Holder of such Debt Security; or (7) release a Guarantor from its guarantee (Section 902).

The Holders of not less than a majority in principal amount of Outstanding Debt Securities of each series affected thereby will have the right to waive compliance by the Company with certain covenants in such Indenture (Section 1013).

Modifications and amendments of an Indenture will be permitted to be made by the Company and the respective Trustee thereunder without the consent of any Holder of Debt Securities for any of the following purposes: (1) to evidence the succession of another person to the Company or a Guarantor as obligor under such Indenture; (2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Debt Securities or to surrender any right or power conferred upon the Company in the Indenture; (3) to add Events of Default for the benefit of the Holders of all or any series of Debt Securities; (4) to add or change any provisions of an Indenture to facilitate the issuance of, or to liberalize certain terms of, Debt Securities in bearer form, or to permit or facilitate the issuance of Debt Securities in uncertificated form, provided that such action shall not adversely affect the interests of the Holders of the Debt Securities of any series in any material respect; (5) to change or eliminate any provisions of an Indenture, provided that any such change or elimination shall become effective only when there are no Debt Securities Outstanding of any series created prior thereto which are entitled to the benefit of such provision; (6) to secure the Debt Securities; (7) to establish the form or terms of Debt Securities of any series, including the provisions and procedures, if applicable, for the conversion of such Debt Securities into Common Stock or Preferred Stock of the Company; (8) to provide for the acceptance of appointment by a successor Trustee or facilitate the administration of the trusts under an Indenture by more than one Trustee; (9) to cure any ambiguity, defect or inconsistency in an Indenture, provided that such action shall not adversely affect the interests of Holders of Debt Securities of any series issued under such Indenture in any material respect; or (10) to supplement any of the provisions of an Indenture to the extent necessary to permit or facilitate defeasance and discharge of any series of such Debt Securities, provided that such action shall not adversely affect the interests of the Holders of the Debt Securities of any series in any material respect (Section 901).

Each Indenture will provide that in determining whether the Holders of the requisite principal amount of Outstanding Debt Securities of a series have given any request, demand, authorization, direction, notice, consent or waiver thereunder or whether a quorum is present at a meeting of Holders of Debt Securities, (1) the principal amount of an Original Issue Discount Security that shall be deemed to be Outstanding shall be the amount of the principal thereof that would be due and payable as of the date of such determination upon declaration of acceleration of the maturity thereof, (2) the principal amount of any Debt Security denominated in a foreign currency that shall be deemed Outstanding shall be the U.S. dollar equivalent, determined on the issue date for such Debt Security, of the principal amount (or, in the case of an Original Issue Discount Security, the U.S. dollar equivalent on the issue date of such Debt Security of the amount determined as provided in (1) above), (3) the principal amount of an indexed security that shall be deemed Outstanding shall be the principal face amount of such indexed security at original issuance, unless otherwise provided with respect to such indexed

security pursuant to the applicable Indenture, and (4) Debt Securities owned by the Company or any other obligor under the Debt Securities or any affiliate of the Company or of such other obligor shall be disregarded.

Each Indenture will contain provisions for convening meetings of the Holders of Debt Securities of a series (Section 1501). A meeting will be permitted to be called at any time by the applicable Trustee, and also, upon request, by the Company or the Holders of at least 10% in principal amount of the Outstanding Debt Securities of such series, in any such case upon notice given as provided in the Indenture. Except for any consent that must be given by the Holder of each Debt Security affected by certain modifications and amendments of an Indenture, any resolution presented at a meeting or adjourned meeting duly reconvened at which a quorum is present may be adopted by the affirmative vote of the Holders of a majority in principal amount of the Outstanding Debt Securities of that series; provided, however, that, except as referred to above, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action that may be made, given or taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Debt Securities of a series may be adopted at a meeting or adjourned meeting or adjourned meeting duly reconvened at which a quorum is present by the affirmative vote of the Holders of such specified percentage in principal amount of the Outstanding Debt Securities of that series. Any resolution passed or decision taken at any meeting of Holders of Debt Securities of any series duly held in accordance with an Indenture will be binding on all Holders of Debt Securities of that series. The quorum at any meeting called to adopt a resolution, and at any reconvened meeting, will be persons holding or representing a majority in principal amount of the Outstanding Debt Securities of a series; provided, however, that if any action is to be taken at such meeting with respect to a consent or waiver which may be given by the Holders of not less than a specified percentage in principal amount of the Outstanding Debt Securities of a series, the persons holding or representing such specified percentage in principal amount of the Outstanding Debt Securities of such series will constitute a quorum.

Notwithstanding the foregoing provisions, each Indenture will provide that if any action is to be taken at a meeting of Holders of Debt Securities of any series with respect to any request, demand, authorization, direction, notice, consent, waiver and other action that such Indenture expressly provides may be made, given or taken by the Holders of a specified percentage in principal amount of all Outstanding Debt Securities affected thereby, or the Holders of such series and one or more additional series: (i) there shall be no minimum quorum requirement for such meeting, and (ii) the principal amount of the Outstanding Debt Securities of such series that vote in favor of such request, demand, authorization, direction, notice, consent, waiver or other action shall be taken into account in determining whether such request, demand, authorization, direction, notice, consent, waiver or other action has been made, given or taken under such Indenture.

### **Ranking**

The terms and conditions, if any, upon which the Debt Securities and any guarantee of the Debt Securities are subordinated to other indebtedness of the Company and the Guarantor will be set forth in the applicable Prospectus Supplement relating thereto. Such terms will include a description of the indebtedness ranking senior to the Debt Securities and any guarantee, the restrictions on payments to the Holders of such Debt Securities and guarantees while a default with respect to such senior indebtedness is continuing, the restrictions, if any, on payments to the Holders of such Debt Securities following an Event of Default, and provisions requiring Holders of such Debt Securities to remit certain payments to holders of senior indebtedness.

### **Discharge, Defeasance and Covenant Defeasance**

The Company may be permitted under the applicable Indenture to discharge certain obligations to Holders of any series of Debt Securities issued thereunder that have not already been delivered to the applicable Trustee for cancellation and that either have become due and payable or will become due and payable (or scheduled for redemption) by irrevocably depositing with the applicable Trustee, in trust, funds in such currency or currencies, currency unit or units or composite currency or currencies in which such Debt Securities are payable in an



amount sufficient to pay the entire indebtedness on such Debt Securities in respect of principal (and premium, if any) and interest to the date of such deposit (if such Debt Securities have become due and payable) or to the stated maturity or redemption date, as the case may be.

Each Indenture will provide that, if the provisions of Article Fourteen are made applicable to the Debt Securities of or within any series pursuant to Section 301 of such Indenture, the Company may elect either (a) to defease and be discharged from any and all obligations with respect to such Debt Securities (except for the obligation to pay additional amounts, if any, upon the occurrence of certain events of tax, assessment or governmental charge with respect to payments on such Debt Securities, and the obligations to register the transfer or exchange of such Debt Securities, to replace temporary or mutilated, destroyed, lost or stolen Debt Securities, to maintain an office or agency in respect of such Debt Securities and to hold moneys for payment in trust) ( defeasance ) (Section 1402) or (b) to be released from its obligations with respect to such Debt Securities under certain specified sections of Article Ten of such Indenture as specified in the applicable Prospectus Supplement and any omission to comply with such obligations shall not constitute an Event of Default with respect to such Debt Securities ( covenant defeasance ) (Section 1403), in either case upon the irrevocable deposit by the Company with the applicable Trustee, in trust, of an amount, in such currency or currencies, currency unit or units or composite currency or currencies in which such Debt Securities are payable at stated maturity, or Government Obligations (as defined below), or both, applicable to such Debt Securities which through the scheduled payment of principal and interest in accordance with their terms will provide money in an amount sufficient without reinvestment to pay the principal of (and premium, if any) and interest on such Debt Securities, and any mandatory sinking fund or analogous payments thereon, on the scheduled due dates therefor.

Such a trust will only be permitted to be established if, among other things, the Company has delivered to the applicable Trustee an opinion of counsel (as specified in the applicable Indenture) to the effect that the Holders of such Debt Securities will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance or covenant defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance or covenant defeasance had not occurred, and such opinion of counsel, in the case of defeasance, will be required to refer to and be based upon a ruling of the Internal Revenue Service or a change in applicable U.S. federal income tax law occurring after the date of the Indenture (Section 1404).

Government Obligations means securities which are (i) direct obligations of the United States of America or the government which issued the foreign currency in which the Debt Securities of a particular series are payable, for the payment of which its full faith and credit is pledged or (ii) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States of America or such government which issued the foreign currency in which the Debt Securities of such series are payable, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States of America or such government, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such Government Obligation or a specific payment of interest on or principal of any such Government Obligation held by such custodian for the account of the Holder of a depository receipt, provided that (except as required by applicable law) such custodian is not authorized to make any deduction from the amount payable to the Holder of such depository receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of interest on or principal of the Government Obligation evidenced by such depository receipt (Section 101).

Unless otherwise provided in the applicable Prospectus Supplement, if after the Company has deposited funds and/or Government Obligations to effect defeasance or covenant defeasance with respect to Debt Securities of any series, (a) the Holder of a Debt Security of such series is entitled to, and does, elect pursuant to the applicable Indenture or the terms of such Debt Security to receive payment in a currency, currency unit or composite currency other than that in which such deposit has been made in respect of such Debt Security, or (b) a Conversion Event (as defined below) occurs in respect of the currency, currency unit or composite currency in which such deposit has been made, the indebtedness represented by such Debt Security will be deemed to have been, and will be, fully discharged and satisfied through the payment of the principal of (and premium, if any)

and interest on such Debt Security as they become due out of the proceeds yielded by converting the amount so deposited in respect of such Debt Security into the currency, currency unit or composite currency in which such Debt Security becomes payable as a result of such election or such cessation of usage based on the applicable market exchange rate. Conversion Event means the cessation of use of (i) a currency, currency unit or composite currency both by the government of the country which issued such currency and for the settlement of transactions by a central bank or other public institutions of or within the international banking community, (ii) the ECU both within the European Monetary System and for the settlement of transactions by public institutions of or within the European Communities or (iii) any currency unit or composite currency other than the ECU for the purposes for which it was established. Unless otherwise provided in the applicable Prospectus Supplement, all payments of principal of (and premium, if any) and interest on any Debt Security that is payable in a foreign currency that ceases to be used by its government of issuance shall be made in U.S. dollars.

In the event the Company effects covenant defeasance with respect to any Debt Securities and such Debt Securities are declared due and payable because of the occurrence of any Event of Default other than the Event of Default described in clause (iv) under Events of Default, Notice and Waiver above with respect to certain specified sections of Article Ten of each Indenture (which sections would no longer be applicable to such Debt Securities as a result of such covenant defeasance) or described in clause (vii) under Events of Default, Notice and Waiver above with respect to any other covenant as to which there has been covenant defeasance, the amount in such currency, currency unit or composite currency in which such Debt Securities are payable, and Government Obligations on deposit with the applicable Trustee, will be sufficient to pay amounts due on such Debt Securities at the time of their stated maturity but may not be sufficient to pay amounts due on such Debt Securities at the time of the acceleration resulting from such Default. However, the Company would remain liable to make payment of such amounts due at the time of acceleration.

The applicable Prospectus Supplement may further describe the provisions, if any, permitting such defeasance or covenant defeasance, including any modifications to the provisions described above, with respect to the Debt Securities of or within a particular series.

### **Conversion Rights**

The terms and conditions, if any, upon which the Debt Securities are convertible into Common Stock or Preferred Stock will be set forth in the applicable Prospectus Supplement relating thereto. Such terms will include whether such Debt Securities are convertible into Common Stock or Preferred Stock, the conversion price (or manner of calculation thereof), the conversion period, provisions as to whether conversion will be at the option of the Holders or the Company, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of such Debt Securities and any restrictions on conversion, including restrictions directed at maintaining the Company's REIT status.

### **Redemption of Securities**

The Indenture provides that the Debt Securities may be redeemed at any time at the option of the Company, in whole or in part, at the redemption price, except as may otherwise be provided in connection with any Debt Securities or series thereof.

From and after notice has been given as provided in the Indenture, if funds for the redemption of any Debt Securities called for redemption shall have been made available on such redemption date, such Debt Securities will cease to bear interest on the date fixed for such redemption specified in such notice, and the only right of the Holders of the Debt Securities will be to receive payment of the redemption price.



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Notice of any optional redemption of any Debt Securities will be given to Holders at their addresses, as shown in the Company's books and records, not more than 60 nor less than 30 days prior to the date fixed for redemption. The notice of redemption will specify, among other items, the redemption price and the principal amount of the Debt Securities held by such Holder to be redeemed.

If the Company elects to redeem Debt Securities, it will notify the Trustee at least 45 days prior to the redemption date (or such shorter period as satisfactory to the Trustee) of the aggregate principal amount of Debt Securities to be redeemed and the redemption date. If less than all of the Debt Securities are to be redeemed, the Trustee shall select the Debt Securities to be redeemed pro rata, by lot or in such manner as it shall deem fair and appropriate.

### DESCRIPTION OF PREFERRED STOCK

The Company is authorized to issue 35,000,000 shares of Preferred Stock. As of September 30, 2001, there were 80,000 shares of Series A Cumulative Convertible Redeemable Preferred Stock issued and outstanding (1,740,000 were issued originally) and 8,000,000 shares of Series B Cumulative Redeemable Preferred Stock. There were also 600,000 shares of Series C Cumulative Redeemable Preferred Stock issued and outstanding and underlying 6,000,000 depository shares, which are traded publicly, and 200,000 shares of Series D Cumulative Redeemable Preferred Stock issued and outstanding and underlying 2,000,000 depository shares which are traded publicly.

Under the Company's Articles of Incorporation, the Board may from time to time establish and issue one or more series of Preferred Stock. The Board may classify or reclassify any unissued Preferred Stock by setting or changing the number, designation, preference, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms or conditions of redemption of such series (a Designating Amendment).

The following description of the Preferred Stock sets forth certain general terms and provisions of the Preferred Stock to which any Prospectus Supplement may relate. The statements below describing the Preferred Stock are in all respects subject to and qualified in their entirety by reference to the applicable provisions of the Company's Articles of Incorporation and the Company's bylaws (the Bylaws).

#### General

The Board is empowered by the Company's Articles of Incorporation to designate and issue from time to time one or more series of Preferred Stock without stockholder approval. The Board may determine the relative rights, preferences and privileges of each series of Preferred Stock so issued. Because the Board has the power to establish the preferences and rights of each series of Preferred Stock, it may afford the holders of any series of Preferred Stock preferences, powers and rights, voting or otherwise, senior to the rights of holders of Common Stock. The Preferred Stock will, when issued, be fully paid and nonassessable.

The Prospectus Supplement relating to any Preferred Stock offered thereby will contain the specific terms thereof, including, without limitation:

- (1) The title and stated value of such Preferred Stock;
- (2) The number of such shares of Preferred Stock offered, the liquidation preference per share and the offering price of such Preferred Stock;
- (3) The dividend rate(s), period(s) and/or payment date(s) or method(s) of calculation thereof applicable to such Preferred Stock;

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- (4) The date from which dividends on such Preferred Stock will accumulate, if applicable;
- (5) The procedures for any auction and remarketing, if any, for such Preferred Stock;
- (6) The provision for a sinking fund, if any, for such Preferred Stock;
- (7) The provision for redemption, if applicable, of such Preferred Stock;
- (8) Any listing of such Preferred Stock on any securities exchange;

- (9) The terms and conditions, if applicable, upon which such Preferred Stock will be convertible into Common Stock of the Company, including the conversion price (or manner of calculation thereof);
- (10) Any other specific terms, preferences, rights, limitations or restrictions of such Preferred Stock;
- (11) A discussion of federal income tax considerations applicable to such Preferred Stock;
- (12) The relative ranking and preferences of such Preferred Stock as to dividend rights and rights upon liquidation, dissolution or winding up of the affairs of the Company;
- (13) Any limitations on issuance of any series of Preferred Stock ranking senior to or on a parity with such series of Preferred Stock as to dividend rights and rights upon liquidation, dissolution or winding up of the affairs of the Company; and
- (14) Any limitations on direct or beneficial ownership and restrictions on transfer, in each case as may be appropriate to preserve the status of the Company as a REIT.

#### **Rank**

Unless otherwise specified in the Prospectus Supplement, the Preferred Stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company, rank (i) senior to all classes or series of Common Stock of the Company, and to all equity securities ranking junior to such Preferred Stock, (ii) on a parity with all equity securities issued by the Company the terms of which specifically provide that such equity securities rank on a parity with the Preferred Stock, and (iii) junior to all equity securities issued by the Company the terms of which specifically provide that such equity securities rank senior to the Preferred Stock. The term "equity securities" does not include convertible debt securities.

#### **Dividends**

Holders of the Preferred Stock of each series will be entitled to receive, when, as and if declared by the Board, out of assets of the Company legally available for payment, cash dividends (or dividends in kind or in other property if expressly permitted and described in the applicable Prospectus Supplement) at such rates and on such dates as will be set forth in the applicable Prospectus Supplement. Each such dividend will be payable to holders of record as they appear on the stock transfer books of the Company on such record dates as are fixed by the Board.

Dividends on any series of Preferred Stock may be cumulative or non-cumulative, as provided in the applicable Prospectus Supplement. Dividends, if cumulative, will be cumulative from and after the date set forth in the applicable Prospectus Supplement. If the Board fails to declare a dividend payable on a dividend payment date on any series of the Preferred Stock for which dividends are non-cumulative, then the holders of such series of the Preferred Stock will have no right to receive a dividend in respect of the dividend period ending on such dividend payment date, and the Company will have no obligation to pay the dividend accrued for such period, whether or not dividends on such series are declared payable on any future dividend payment date.

Unless otherwise specified in the Prospectus Supplement, if any shares of Preferred Stock of any series are outstanding, no full dividends will be declared or paid or set apart for payment on any capital stock of the Company of any other series ranking, as to dividends, on a parity with or junior to the Preferred Stock of such series for any period unless (i) if such series of Preferred Stock has a cumulative dividend, full cumulative

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dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for such payment on the Preferred Stock of such series for all past dividend periods and the then current dividend period or (ii) if such series of Preferred Stock does not have a cumulative dividend, full dividends for the then current dividend period have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for such payment on the Preferred Stock of such series. When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon Preferred Stock of any series and the shares of any other series of Preferred Stock ranking on a parity as to dividends with the Preferred Stock of such series, all dividends declared upon Preferred Stock of such series and any other series

of Preferred Stock ranking on a parity as to dividends with such Preferred Stock will be declared pro rata so that the amount of dividends declared per share of Preferred Stock of such series and such other series of Preferred Stock will in all cases bear to each other the same ratio that accrued dividends per share on the Preferred Stock of such series (which will not include any accumulation in respect of unpaid dividends for prior dividend periods if such Preferred Stock do not have a cumulative dividend) and such other series of Preferred Stock bear to each other. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on Preferred Stock of such series which may be in arrears.

Except as provided in the immediately preceding paragraph, unless (i) if such series of Preferred Stock has a cumulative dividend, full cumulative dividends on the Preferred Stock of such series have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, and (ii) if such series of Preferred Stock does not have a cumulative dividend, full dividends on the Preferred Stock of such series have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for the then current dividend period, no dividends (other than in Common Stock or other capital stock ranking junior to the Preferred Stock of such series as to dividends and upon liquidation) will be declared or paid or set aside for payment or other distribution upon the Common Stock, or any other capital stock of the Company ranking junior to or on a parity with the Preferred Stock of such series as to dividends or upon liquidation, nor will any Common Stock, or any other capital stock of the Company ranking junior to or on a parity with the Preferred Stock of such series as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such stock) by the Company (except by conversion into or exchange for other capital stock of the Company ranking junior to the Preferred Stock of such series as to dividends and upon liquidation).

If for any taxable year, the Company elects to designate as capital gains dividends (as defined in Section 857 of the Code) any portion (the Capital Gains Amount ) of the dividends (within the meaning of the Code) paid or made available for the year to holders of all classes of capital stock (the Total Dividends ), then the portion of the Capital Gains Amount that will be allocable to the holders of shares of Preferred Stock will be the Capital Gains Amount multiplied by a fraction, the numerator of which shall be the total dividends (within the meaning of the Code) paid or made available to the holders of shares of Preferred Stock for the year and the denominator of which shall be the Total Dividends.

### **Redemption**

If so provided in the applicable Prospectus Supplement, the Preferred Stock will be subject to mandatory redemption or redemption at the option of the Company, in whole or in part, in each case upon the terms, at the times and at the redemption prices set forth in such Prospectus Supplement.

The Prospectus Supplement relating to a series of Preferred Stock that is subject to mandatory redemption will specify the number of shares of such Preferred Stock that will be redeemed by the Company in each year commencing after a date to be specified, at a redemption price per share to be specified, together with an amount equal to all accrued and unpaid dividends thereon (which will not, if such Preferred Stock does not have a cumulative dividend, include any accumulation in respect of unpaid dividends for prior dividend periods) to the date of redemption. The redemption price may be payable in cash or other property, as specified in the applicable Prospectus Supplement. If the redemption price for Preferred Stock of any series is payable only from the net proceeds of the issuance of capital stock of the Company, the terms of such Preferred Stock may provide that, if no such capital stock shall have been issued or to the extent the net proceeds from any issuance are insufficient to pay in full the aggregate redemption price then due, such Preferred Stock will automatically and mandatorily be converted into the applicable capital stock of the Company pursuant to conversion provisions specified in the applicable Prospectus Supplement.

Notwithstanding the foregoing, unless (i) if such series of Preferred Stock has a cumulative dividend, full cumulative dividends on all Preferred Stock of any series shall have been or contemporaneously are declared and



paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the current dividend period and (ii) if such series of Preferred Stock does not have a cumulative dividend, full dividends of the Preferred Stock of any series have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for the then current dividend period, no Preferred Stock of any series shall be redeemed unless all outstanding Preferred Stock of such series are simultaneously redeemed; provided, however, that the foregoing shall not prevent the purchase or acquisition of Preferred Stock of such series to preserve the REIT status of the Company or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding Preferred Stock of such series. In addition, unless (i) if such series of Preferred Stock has a cumulative dividend, full cumulative dividends on all outstanding shares of any series of Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividends periods and the then current dividend period, and (ii) if such series of Preferred Stock does not have a cumulative dividend, full dividends on the Preferred Stock of any series have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for the then current dividend period, the Company will not purchase or otherwise acquire directly or indirectly any Preferred Stock of such series (except by conversion into or exchange for capital stock of the Company ranking junior to the Preferred Stock of such series as to dividends and upon liquidation); provided, however, that the foregoing will not prevent the purchase or acquisition of Preferred Stock of such series to preserve the REIT status of the Company or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding Preferred Stock of such series.

If fewer than all of the outstanding shares of Preferred Stock of any series are to be redeemed, the number of shares to be redeemed will be determined by the Company and such shares may be redeemed pro rata from the holders of record of such shares in proportion to the number of such shares held or for which redemption is requested by such holder (with adjustments to avoid redemption of fractional shares) or by lot in a manner determined by the Company.

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of record of Preferred Stock of any series to be redeemed at the address shown on the stock transfer books of the Company. Each notice will state: (i) the redemption date; (ii) the number of shares and series of Preferred Stock to be redeemed; (iii) the redemption price; (iv) the place or places where certificates for such Preferred Stock are to be surrendered for payment of the redemption price; (v) that dividends on the shares to be redeemed will cease to accrue on such redemption date; and (vi) the date upon which the holder's conversion rights, if any, as to such shares shall terminate. If fewer than all of the Preferred Stock of any series are to be redeemed, the notice mailed to each such holder thereof will also specify the number of shares of Preferred Stock to be redeemed from each such holder. If notice of redemption of any Preferred Stock has been given and if the funds necessary for such redemption have been set aside by the Company in trust for the benefit of the holders of any Preferred Stock so called for redemption, then from and after the redemption date dividends will cease to accrue on such Preferred Stock, and all rights of the holders of such shares will terminate, except the right to receive the redemption price.

### **Liquidation Preference**

Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, then, before any distribution or payment is made to the holders of any Common Stock or any other class or series of capital stock of the Company ranking junior to the Preferred Stock in the distribution of assets upon any liquidation, dissolution or winding up of the Company, the holders of each series of Preferred Stock shall be entitled to receive out of assets of the Company legally available for distribution to stockholders liquidating distributions in the amount of the liquidation preference per share (set forth in the applicable Prospectus Supplement), plus an amount equal to all dividends accrued and unpaid thereon (which will not include any accumulation in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend). After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Preferred Stock will have no right or claim to any of the remaining assets of the Company. In the



event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, the available assets of the Company are insufficient to pay the amount of the liquidating distributions on all outstanding Preferred Stock and the corresponding amounts payable on all shares of other classes or series of capital stock of the Company ranking on a parity with the Preferred Stock in the distribution of assets, then the holders of the Preferred Stock and all other such classes or series of capital stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

If liquidating distributions shall have been made in full to all holders of Preferred Stock, the remaining assets of the Company will be distributed among the holders of any other classes or series of capital stock ranking junior to the Preferred Stock upon liquidation, dissolution or winding up, according to their respective rights and preferences and in each case according to their respective number of shares. For such purposes, the consolidation or merger of the Company with or into any other corporation, trust or entity, or the sale, lease or conveyance of all or substantially all of the property or business of the Company, will not be deemed to constitute a liquidation, dissolution or winding up of the Company.

### **Voting Rights**

Holders of Preferred Stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law or as indicated in the applicable Prospectus Supplement.

Whenever dividends on any Preferred Stock shall be in arrears for six or more consecutive quarterly periods, the holders of such Preferred Stock (voting separately as a class with all other series of Preferred Stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of two additional directors of the Company at a special meeting called by the holders of record of at least ten percent (10%) of any series of Preferred Stock so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the shareholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until (i) if such series of Preferred Stock has a cumulative dividend, all dividends accumulated on such shares of Preferred Stock for the past dividend periods and the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment or (ii) if such series of Preferred Stock do not have a cumulative dividend, four consecutive quarterly dividends shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In such case, the entire Board will be increased by two directors.

Unless provided otherwise for any series of Preferred Stock, so long as any shares of Preferred Stock remain outstanding, the Company will not, without the affirmative vote or consent of the holders of at least two-thirds of each series of shares of Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (such series voting separately as a class), (i) authorize or create, or increase the authorized or issued amount of, any class or series of capital stock ranking prior to such series of Preferred Stock with respect to the payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or reclassify any authorized capital stock of the Company into such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares, or (ii) amend, alter or repeal the provisions of the Company's Articles of Incorporation or the Designating Amendment for such series of Preferred Stock, whether by merger, consolidation or otherwise (an Event), so as to materially and adversely affect any right, preference, privilege or voting power of such series of Preferred Stock or the holders thereof; provided, however, with respect to the occurrence of any of the Events set forth in clause (ii) above, so long as the shares of Preferred Stock remain outstanding with the terms thereof materially unchanged, taking into account that upon the occurrence of an Event the Company may not be the surviving entity, the occurrence of any such Event will not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of Preferred Stock and provided further that (x) any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other series of Preferred Stock, or (y) any increase in the amount of authorized shares of such series or any other series of Preferred Stock, in each case ranking on a parity with or junior to the Preferred Stock of such series with respect to payment of dividends or the distribution of assets upon liquidation,

dissolution or winding up, will not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Preferred Stock of such series shall have been redeemed or called for redemption and sufficient funds shall have been deposited in trust to effect such redemption.

### **Conversion Rights**

The terms and conditions, if any, upon which any series of Preferred Stock is convertible into Common Stock will be set forth in the applicable Prospectus Supplement relating thereto. Such terms will include the number of shares of Common Stock into which the Preferred Stock are convertible, the conversion price (or manner of calculation thereof), the conversion period, provisions as to whether conversion will be at the option of the holders of the Preferred Stock or the Company, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of such series of Preferred Stock.

### **Restrictions On Ownership**

As discussed below under **Description of Common Stock Restrictions on Transfer Ownership Limits**, for the Company to qualify as a REIT under the Code, no more than 50% in value of its outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year (other than the first year) or during a proportionate part of a shorter taxable year. To assist the Company in meeting this requirement, no holder of Preferred Stock may own, or be deemed to own by virtue of certain attribution provisions of the Code, more than 9.8% of any class or series of Preferred Stock and/or more than 9.8% of the issued and outstanding shares of Common Stock, subject to certain exceptions specified in the Articles of Incorporation. See **Description of Common Stock Restrictions on Transfer Ownership Limits**.

### **Registrar And Transfer Agent**

The Registrar and Transfer Agent for the Preferred Stock will be set forth in the applicable Prospectus Supplement.

## **DESCRIPTION OF COMMON STOCK**

### **General**

The Company is authorized to issue 180,000,000 shares of Common Stock. The outstanding Common Stock entitles the holder to one vote on all matters presented to stockholders for a vote. Holders of Common Stock have no preemptive rights. As of December 1, 2001, there were 51,801,842 shares of Common Stock outstanding.

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Shares of Common Stock currently outstanding are listed for trading on the New York Stock Exchange (the NYSE ). The Company will apply to the NYSE to list the additional Common Stock to be sold pursuant to any Prospectus Supplement, and the Company anticipates that such shares will be so listed.

Subject to such preferential rights as may be granted by the Board in connection with the future issuance of Preferred Stock, holders of Common Stock are entitled to one vote per share on all matters to be voted on by stockholders and are entitled to receive ratably such dividends as may be declared on the Common Stock by the Board in its discretion from funds legally available therefor. In the event of the liquidation, dissolution or winding up of the Company, holders of Common Stock are entitled to share ratably in all assets remaining after payment of all debts and other liabilities and any liquidation preference of the holders of Preferred Stock.

Holders of Common Stock have no subscription, redemption, conversion or preemptive rights. Matters submitted for stockholder approval generally require a majority vote of the shares present and voting thereon.

### **Advance Notice of Director Nominations and New Business**

The Bylaws of the Company provide that, with respect to an annual meeting of stockholders, the proposal of business to be considered by stockholders may be made only (i) by or at the direction of the Board or (ii) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures set forth in the Bylaws. In addition, with respect to any meeting of stockholders, nominations of persons for election to the Board may be made only (i) by or at the direction of the Board or (ii) by any stockholder of the Company who is entitled to vote at the meeting and has complied with the advance notice provisions set forth in the Bylaws.

### **Restrictions on Transfer**

*Ownership Limits.* The Company's Articles of Incorporation contain certain restrictions on the number of shares of Common Stock that individual shareholders may own. For the Company to qualify as a REIT under the Internal Revenue Code of 1986, as amended, no more than 50% in value of its outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year (other than the first REIT year) or during a proportionate part of a shorter taxable year. The capital stock also must be beneficially owned by 100 or more persons during at least 335 days of a taxable year or during a proportionate part of a shorter taxable year. Because the Company intends to maintain its qualification as a REIT, the Company's Articles of Incorporation contain certain restrictions on the ownership and transfer of capital stock, including common stock, intended to ensure compliance with these requirements.

Subject to certain exceptions specified in the Articles of Incorporation, no holder may own, through either actual ownership or deemed ownership by virtue of certain attribution provisions of the Code, more than (A) 9.8% of the issued and outstanding shares of Common Stock (the Common Stock Ownership Limit) or (B) 9.8% of any class or series of Preferred Stock (the Preferred Stock Ownership Limit). (The Common Stock Ownership Limit and the Preferred Stock Ownership Limit, together with the Existing Holder Limit, the Special Shareholder Limit and the Non-U.S. Shareholder Limit, each as defined below, are referred to collectively herein as the Ownership Limits.) Certain stockholders, including Clark Enterprises Inc., The Oliver Carr Company, Oliver T. Carr, Jr. and A. James Clark, are not subject to the Common Stock Ownership Limit, but they are subject to special ownership limitations (the Existing Holder Limit). Furthermore, Security Capital and its affiliates are not subject to the Common Stock Ownership Limit, but are subject to a special ownership limit of 45% of the outstanding shares of Common Stock and 45% of the outstanding shares of each class or series of preferred stock (the Special Shareholder Limit). Security Capital's ownership interest may be permitted to exceed 45% to the extent that such increase occurs as a result of stock repurchases by the Company (as opposed to direct purchases by Security Capital). Notwithstanding the Special Shareholder Limit, Security Capital has entered into an agreement with the Company limiting Security Capital's ownership interest to 9.8% (on a fully-diluted basis). Furthermore, all holders are prohibited from acquiring any capital stock if such acquisition would cause five or fewer beneficial owners of capital stock (determined taking into account the relevant attribution provisions of the Code) who are treated as individuals for purposes of relevant provisions of the Code to own in the aggregate more than 50% in value of the outstanding capital stock.

In addition to the above restrictions on ownership of shares of capital stock of the Company, in order to assist the Company in qualifying as a domestically controlled REIT, the Articles of Incorporation contain certain provisions preventing any Non-U.S. Shareholder, as defined below, from acquiring additional shares of the Company's capital stock if, as a result of such acquisition, the Company would fail to qualify as a domestically controlled REIT (Non-U.S. Shareholder Limit). A Non-U.S. Shareholder is a nonresident alien individual, foreign corporation, foreign partnership and any other foreign shareholder. For a discussion of the taxation of a Non-U.S. Shareholder and the requirements for the Company to qualify as a domestically



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controlled REIT, see Federal Income Tax Considerations U.S. Taxation of Non-U.S. Stockholders and Taxation of CarrAmerica as a REIT.

*Violation of Ownership Limits.* The Articles of Incorporation provide that, if any holder of capital stock of the Company purports to transfer shares to a person or there is a change in the capital structure of the Company and either the transfer or the change in capital structure would result in the Company's failing to qualify as a REIT, or such transfer or the change in capital structure would cause the transferee to hold shares in excess of the applicable Ownership Limit, then the capital stock being transferred (or in the case of an event other than a transfer, the capital stock beneficially owned) that would cause one or more of the restrictions on ownership or transfer to be violated will be automatically transferred to a trust for the benefit of a designated charitable beneficiary. The purported transferee of such shares will have no right to receive dividends or other distributions with respect to such shares and will have no right to vote such shares. Any dividends or other distributions paid to such purported transferee prior to the discovery by the Company that the shares have been transferred to a trust will be paid by the purported transferee upon demand to the trustee of the trust for the benefit of the charitable beneficiary. The trustee of the trust will have all rights to dividends with respect to the shares of capital stock held in trust, which rights will be exercised for the exclusive benefit of the charitable beneficiary. Any dividends or distributions paid over to the trustee will be held in trust for the charitable beneficiary. The trustee will designate a transferee of such stock so long as such shares of stock would not violate the Ownership Limitations in the hands of such designated transferee. Upon the sale of such shares, the purported transferee will receive the lesser of (A) (i) the price per share such purported transferee paid for the capital stock in the purported transfer that resulted in the transfer of shares of capital stock to the trust, or (ii) if the transfer or other event that resulted in the transfer of shares of capital stock to the trust was not a transaction in which the purported record transferee of shares of capital stock gave full value for such shares, a price per share equal to the market price on the date of the purported transfer or other event that resulted in the transfer of the shares to the trust, or (B) the price per share received by the trustee from the sale or disposition of the shares held in the trust.

All certificates representing Common Stock will bear a legend referring to the restrictions described above.

Every beneficial owner of more than 5% (or such lower percentage as required by the Code or regulations thereunder) of the issued and outstanding shares of Common Stock must file a written notice with the Company containing the information specified in the Articles of Incorporation no later than December 31 of each year. In addition, each shareholder upon demand is required to disclose to the Company in writing such information as the Company may request in good faith in order to confirm the Company's status as a REIT.

#### **Registrar and Transfer Agent**

The Registrar and Transfer Agent for the Common Stock is EquiServe Trust Company, N.A.

#### **DESCRIPTION OF WARRANTS**

The Company may issue Common Stock Warrants for the purchase of Common Stock and Debt Warrants for the purchase of Debt Securities. Such Warrants may be issued separately or together with other Securities offered by a Prospectus Supplement and may be attached to or detached from such Securities. Each series of Warrants will be issued under a separate warrant agreement (each, a Warrant Agreement) to be entered into between the Company and a warrant agent specified in the applicable Prospectus Supplement (the Warrant Agent). The following sets forth certain general terms and provisions of the Warrants offered hereby. Further terms of the Warrants and the applicable Warrant Agreements will be set forth in the applicable Prospectus Supplement.

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The applicable Prospectus Supplement will describe the terms of the Warrants in respect of which this Prospectus is being delivered, including, where applicable, the following: (1) the title; (2) the currencies in which the Warrants are being offered; (3) the offering price or prices; (4) the number of Warrants offered, (5) the

Securities underlying the Warrants; (6) the date, if any, on and after which the Warrants and any related Securities will be separately transferable; (7) the price at which each of the Securities purchasable upon exercise of the Warrants may be purchased; (8) the date on which the right to exercise the Warrants shall commence and the date on which such right shall expire; (9) the minimum or maximum number of Warrants that may be exercised at any one time; (10) the procedures for exercise of the Warrants and the circumstances, if any, that will cause the Warrants to be deemed to be exercised automatically; (11) a discussion of certain federal income tax considerations; and (12) any other terms of the Warrants.

## DESCRIPTION OF DEPOSITARY SHARES

### General

The Company may issue receipts ( Depositary Receipts ) for Depositary Shares, each of which will represent a fractional interest of a share of a particular series of Preferred Stock, as specified in the applicable Prospectus Supplement. Shares of Preferred Stock of each series represented by Depositary Shares will be deposited under a separate deposit agreement (each, a Deposit Agreement ) among the Company, the depositary named therein (a Preferred Stock Depositary ) and the holders from time to time of the Depositary Receipts. Subject to the terms of the applicable Deposit Agreement, each owner of a Depositary Receipt will be entitled, in proportion to the fractional interest of a share of a particular series of Preferred Stock represented by the Depositary Shares evidenced by such Depositary Receipt, to all the rights and preferences of the Preferred Stock represented by such Depositary Shares (including dividend, voting, conversion, redemption and liquidation rights).

The Depositary Shares will be evidenced by Depositary Receipts issued pursuant to the applicable Deposit Agreement. Immediately following the issuance and delivery of the Preferred Stock by the Company to a Preferred Stock Depositary, the Company will cause such Preferred Stock Depositary to issue, on behalf of the Company, the Depositary Receipts. Copies of the applicable form of Deposit Agreement and Depositary Receipt may be obtained from the Company upon request, and the statements made hereunder relating to Deposit Agreements and the Depositary Receipts to be issued thereunder are summaries of certain anticipated provisions thereof and do not purport to be complete and are subject to, and qualified in their entirety by reference to, all of the provisions of the applicable Deposit Agreement and related Depositary Receipts.

### Dividends and Other Distributions

A Preferred Stock Depositary will be required to distribute all cash dividends or other cash distributions received in respect of the applicable Preferred Stock to the record holders of Depositary Receipts evidencing the related Depositary Shares in proportion to the number of such Depositary Receipts owned by such holders, subject to certain obligations of holders to file proofs, certificates and other information and to pay certain charges and expenses to such Preferred Stock Depositary.

In the event of a distribution other than in cash, a Preferred Stock Depositary will be required to distribute property received by it to the record holders of Depositary Receipts entitled thereto, subject to certain obligations of holders to file proofs, certificates and other information and to pay certain charges and expenses to such Preferred Stock Depositary, unless such Preferred Stock Depositary determines that it is not feasible to make such distribution, in which case such Preferred Stock Depositary may, with the approval of the Company, sell such property and distribute the net proceeds from such sale to such holders.

No distribution will be made in respect of any Depositary Share to the extent that it represents any Preferred Stock which has been converted or exchanged before the record date for such distribution.



**Withdrawal of Stock**

Upon surrender of the Depositary Receipts at the corporate trust office of the applicable Preferred Stock Depositary (unless the related Depositary Shares have previously been called for redemption or converted), the

holders thereof will be entitled to delivery at such office, to or upon each such holder's order, of the number of whole or fractional shares of the applicable Preferred Stock and any money or other property represented by the Depositary Shares evidenced by such Depositary Receipts. Holders of Depositary Receipts will be entitled to receive whole or fractional shares of the related Preferred Stock on the basis of the proportion of Preferred Stock represented by each Depositary Share as specified in the applicable Prospectus Supplement, but holders of such shares of Preferred Stock will not thereafter be entitled to receive Depositary Shares therefor. If the Depositary Receipts delivered by the holder evidence a number of Depositary Shares in excess of the number of Depositary Shares representing the number of shares of Preferred Stock to be withdrawn, the applicable Preferred Stock Depositary will be required to deliver to such holder at the same time a new Depositary Receipt evidencing such excess number of Depositary Shares.

### **Redemption of Depositary Shares**

Whenever the Company redeems shares of Preferred Stock held by a Preferred Stock Depositary, such Preferred Stock Depositary will be required to redeem as of the same redemption date the number of Depositary Shares representing shares of the Preferred Stock so redeemed, provided the Company shall have paid in full to such Preferred Stock Depositary the redemption price of the Preferred Stock to be redeemed plus an amount equal to any accrued and unpaid dividends thereon to the date fixed for redemption. The redemption price per Depositary Share will be equal to the redemption price and any other amounts per share payable with respect to the Preferred Stock. If fewer than all the Depositary Shares are to be redeemed, the Depositary Shares to be redeemed will be selected pro rata (as nearly as may be practicable without creating fractional Depositary Shares) or by any other equitable method determined by the Company that preserves the REIT status of the Company.

From and after the date fixed for redemption, all dividends in respect of the shares of Preferred Stock so called for redemption will cease to accrue, the Depositary Shares so called for redemption will no longer be deemed to be outstanding and all rights of the holders of the Depositary Receipts evidencing the Depositary Shares so called for redemption will cease, except the right to receive any moneys payable upon such redemption and any money or other property to which the holders of such Depositary Receipts were entitled upon such redemption upon surrender thereof to the applicable Preferred Stock Depositary.

### **Voting of the Preferred Stock**

Upon receipt of notice of any meeting at which the holders of the applicable Preferred Stock are entitled to vote, a Preferred Stock Depositary will be required to mail the information contained in such notice of meeting to the record holders of the Depositary Receipts evidencing the Depositary Shares which represent such Preferred Stock. Each record holder of Depositary Receipts evidencing Depositary Shares on the record date (which will be the same date as the record date for the Preferred Stock) will be entitled to instruct such Preferred Stock Depositary as to the exercise of the voting rights pertaining to the amount of Preferred Stock represented by such holder's Depositary Shares. Such Preferred Stock Depositary will be required to vote the amount of Preferred Stock represented by such Depositary Shares in accordance with such instructions, and the Company will agree to take all reasonable action which may be deemed necessary by such Preferred Stock Depositary in order to enable such Preferred Stock Depositary to do so. Such Preferred Stock Depositary will be required to abstain from voting the amount of Preferred Stock represented by such Depositary Shares to the extent it does not receive specific instructions from the holders of Depositary Receipts evidencing such Depositary Shares. A Preferred Stock Depositary will not be responsible for any failure to carry out any instruction to vote, or for the manner or effect of any such vote made, as long as any such action or non-action is in good faith and does not result from negligence or willful misconduct of such Preferred Stock Depositary.

### **Liquidation Preference**

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In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of each Depositary Receipt will be entitled to the fraction of the liquidation preference accorded each

share of Preferred Stock represented by the Depositary Share evidenced by such Depositary Receipt, as set forth in the applicable Prospectus Supplement.

### **Conversion of Preferred Stock**

The Depositary Shares, as such, will not be convertible into Common Stock or any other securities or property of the Company. Nevertheless, if so specified in the applicable Prospectus Supplement relating to an offering of Depositary Shares, the Depositary Receipts may be surrendered by holders thereof to the applicable Preferred Stock Depositary with written instructions to such Preferred Stock Depositary to instruct the Company to cause conversion of the Preferred Stock represented by the Depositary Shares evidenced by such Depositary Receipts into whole shares of Common Stock, other shares of Preferred Stock of the Company or other shares of stock, and the Company will agree that upon receipt of such instructions and any amounts payable in respect thereof, it will cause the conversion thereof utilizing the same procedures as those provided for delivery of Preferred Stock to effect such conversion. If the Depositary Shares evidenced by a Depositary Receipt are to be converted in part only, a new Depositary Receipt or Receipts will be issued for any Depositary Shares not to be converted. No fractional shares of Common Stock will be issued upon conversion, and if such conversion will result in a fractional share being issued, an amount will be paid in cash by the Company equal to the value of the fractional interest based upon the closing price of the Common Stock on the last business day prior to the conversion.

### **Amendment and Termination of a Deposit Agreement**

Any form of Depositary Receipt evidencing Depositary Shares which will represent Preferred Stock and any provision of a Deposit Agreement will be permitted at any time to be amended by agreement between the Company and the applicable Preferred Stock Depositary. However, any amendment that materially and adversely alters the rights of the holders of Depositary Receipts or that would be materially and adversely inconsistent with the rights granted to the holders of the related Preferred Stock will not be effective unless such amendment has been approved by the existing holders of at least two-thirds of the applicable Depositary Shares evidenced by the applicable Depositary Receipts then outstanding. No amendment shall impair the right, subject to certain anticipated exceptions in the Deposit Agreements, of any holders of Depositary Receipts to surrender any Depositary Receipt with instructions to deliver to the holder the related Preferred Stock and all money and other property, if any, represented thereby, except in order to comply with law. Every holder of an outstanding Depositary Receipt at the time any such amendment becomes effective shall be deemed, by continuing to hold such Depositary Receipt, to consent and agree to such amendment and to be bound by the applicable Deposit Agreement as amended thereby.

A Deposit Agreement will be permitted to be terminated by the Company upon not less than 30 days' prior written notice to the applicable Preferred Stock Depositary if (i) such termination is necessary to preserve the Company's status as a REIT or (ii) a majority of each series of Preferred Stock affected by such termination consents to such termination, whereupon such Preferred Stock Depositary will be required to deliver or make available to each holder of Depositary Receipts, upon surrender of the Depositary Receipts held by such holder, such number of whole or fractional shares of Preferred Stock as are represented by the Depositary Shares evidenced by such Depositary Receipts together with any other property held by such Preferred Stock Depositary with respect to such Depositary Receipts. The Company will agree that if a Deposit Agreement is terminated to preserve the Company's status as a REIT, then the Company will use its best efforts to list the Preferred Stock issued upon surrender of the related Depositary Shares on a national securities exchange. In addition, a Deposit Agreement will automatically terminate if (i) all outstanding Depositary Shares thereunder shall have been redeemed, (ii) there shall have been a final distribution in respect of the related Preferred Stock in connection with any liquidation, dissolution or winding up of the Company and such distribution shall have been distributed to the holders of Depositary Receipts evidencing the Depositary Shares representing such Preferred Stock or (iii) each share of the related Preferred Stock shall have been converted into stock of the Company not so represented by Depositary Shares.

### **Charges of the Preferred Stock Depositary**

The Company will pay all transfer and other taxes and governmental charges arising solely from the existence of the Deposit Agreement under which the Depositary Shares are issued. In addition, the Company will pay the fees and expenses of the Preferred Stock Depositary in connection with the performance of its duties under the Deposit Agreement. However, holders of Depositary Receipts will pay the fees and expenses of the Preferred Stock Depositary for any duties requested by such holders to be performed which are outside of those expressly provided for in the applicable Deposit Agreement.

### **Resignation and Removal of Depositary**

The Preferred Stock Depositary will be permitted to resign at any time by delivering to the Company notice of its election to do so, and the Company will be permitted at any time to remove the Preferred Stock Depositary, any such resignation or removal to take effect upon the appointment of a successor Preferred Stock Depositary. A successor Preferred Stock Depositary will be required to be appointed within 60 days after delivery of the notice of resignation or removal and will be required to be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least \$50,000,000.

### **Miscellaneous**

The Preferred Stock Depositary will be required to forward to holders of Depositary Receipts any reports and communications from the Company which are received by such Preferred Stock Depositary with respect to the related Preferred Stock.

Neither the Preferred Stock Depositary nor the Company will be liable if it is prevented from or delayed in, by law or any circumstances beyond its control, performing its obligations under a Deposit Agreement. The obligations of the Company and the Preferred Stock Depositary under a Deposit Agreement will be limited to performing their duties thereunder in good faith and without negligence (in the case of any action or inaction in the voting of Preferred Stock represented by the applicable Depositary Shares), gross negligence or willful misconduct, and neither the Company nor the Preferred Stock Depositary will be obligated to prosecute or defend any legal proceeding in respect of any Depositary Receipts, Depositary Shares or shares of Preferred Stock represented thereby unless satisfactory indemnity is furnished. The Company and the Preferred Stock Depositary will be permitted to rely on written advice of counsel or accountants, or information provided by persons presenting shares of Preferred Stock represented thereby for deposit, holders of Depositary Receipts or other persons believed in good faith to be competent to give such information, and on documents believed in good faith to be genuine and signed by a proper party.

In the event the Preferred Stock Depositary shall receive conflicting claims, requests or instructions from any holders of Depositary Receipts, on the one hand, and the Company on the other hand, such Preferred Stock Depositary shall be entitled to act on such claims, requests or instructions received from the Company.

## **BOOK-ENTRY SECURITIES**

The Securities may be issued in whole or in part in book-entry form, meaning that beneficial owners of the Securities will not receive certificates representing their ownership interests in the Securities, except in the event the book-entry system for the Securities is discontinued. If the Securities are issued in book-entry form, they will be issued in the form of one or more global securities (the "Global Securities"), which will be

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deposited with, or on behalf of, a depository identified in the applicable Prospectus Supplement relating to such series. Global Securities may be issued in either registered or bearer form and in either temporary or permanent form. The specific terms of the depository arrangement with respect to a class or series of Securities issued in book-entry form will be described in the applicable Prospectus Supplement relating to such class or series.

## FEDERAL INCOME TAX CONSIDERATIONS

The following discussion describes the material U.S. federal income tax consequences relating to the taxation of the Company as a REIT and the ownership and disposition of our common stock.

Because this is a summary that is intended to address only federal income tax consequences relating to the ownership and disposition of our common stock that will apply to all holders, it may not contain all the information that may be important to you. As you review this discussion, you should keep in mind that:

the tax consequences to you may vary depending on your particular tax situation;

special rules that are not discussed below may apply to you if, for example, you are a tax-exempt organization, a broker-dealer, a non-U.S. person, a trust, an estate, a regulated investment company, a financial institution, an insurance company, or otherwise subject to special tax treatment under the Internal Revenue Code;

this summary does not address state, local or non-U.S. tax considerations;

this summary deals only with CarrAmerica common stockholders that hold common stock as a capital asset, within the meaning of Section 1221 of the Internal Revenue Code; and

this discussion is not intended to be, and should not be construed as, tax advice.

You are urged both to review the following discussion and to consult with your own tax advisor to determine the effect of ownership and disposition of our common stock on your individual tax situation, including any state, local or non-U.S. tax consequences.

The information in this section is based on the current Internal Revenue Code, current, temporary and proposed Treasury regulations, the legislative history of the Internal Revenue Code, current administrative interpretations and practices of the Internal Revenue Service, including its practices and policies as endorsed in private letter rulings, which are not binding on the Internal Revenue Service, and existing court decisions. Future legislation, regulations, administrative interpretations and court decisions could change current law or adversely affect existing interpretations of current law. Any change could apply retroactively. CarrAmerica has not obtained a ruling from the Internal Revenue Service regarding its qualification as a REIT generally. Thus, it is possible that the Internal Revenue Service could challenge the statements in this discussion, which do not bind the Internal Revenue Service or the courts, and that a court could agree with the Internal Revenue Service.

As used in this disclosure, CarrAmerica refers solely to CarrAmerica Realty Corporation.

### Taxation of CarrAmerica as a REIT

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*General.* CarrAmerica has elected to be taxed as a REIT under the Internal Revenue Code. A REIT generally is not subject to federal income tax on the income that it distributes to stockholders if it meets the applicable REIT distribution requirements and other requirements for qualification.

CarrAmerica believes that it is organized and has operated, and CarrAmerica intends to continue to operate, in a manner to qualify as a REIT, but there can be no assurance that CarrAmerica will qualify or remain qualified as a REIT. Qualification and taxation as a REIT depend upon CarrAmerica's ability to meet, through actual annual (or in some cases quarterly) operating results, requirements relating to income, asset ownership, distribution levels and diversity of share ownership, and the various other REIT qualification requirements imposed under the Internal Revenue Code. Given the complex nature of the REIT qualification requirements, the ongoing importance of factual determinations and the possibility of future changes in the circumstances of CarrAmerica, CarrAmerica cannot provide any assurance that its actual operating results will satisfy the requirements for taxation as a REIT under the Internal Revenue Code for any particular taxable year.



So long as CarrAmerica qualifies for taxation as a REIT, it generally will not be subject to federal corporate income tax on its net income that is distributed currently to its stockholders. This treatment substantially eliminates double taxation (that is, taxation at both the corporate and stockholder levels) that generally results from an investment in a regular corporation. However, CarrAmerica will be subject to federal income tax as follows:

CarrAmerica will be taxed at regular corporate rates on any undistributed REIT taxable income. REIT taxable income is the taxable income of the REIT subject to specified adjustments, including a deduction for dividends paid.

Under some circumstances, CarrAmerica may be subject to the alternative minimum tax on its items of tax preference.

If CarrAmerica has net income from the sale or other disposition of foreclosure property that is held primarily for sale to customers in the ordinary course of business, or other nonqualifying income from foreclosure property, it will be subject to tax at the highest corporate rate on this income.

CarrAmerica's net income from prohibited transactions 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 other than foreclosure property.

If CarrAmerica fails to satisfy either the 75% gross income test or the 95% gross income test discussed below, but nonetheless maintains its qualification as a REIT because other requirements are met, it will be subject to a tax equal to the gross income attributable to the greater of either (1) the amount by which 75% of its gross income exceeds the amount of its income qualifying under the 75% test for the taxable year or (2) the amount by which 90% of its gross income exceeds the amount of its income qualifying for the 95% income test for the taxable year, multiplied by a fraction intended to reflect CarrAmerica's profitability.

CarrAmerica will be subject to a 4% excise tax on the excess of the required distribution over the sum of amounts actually distributed and amounts retained for which federal income tax was paid, if CarrAmerica fails to distribute during each calendar year at least the sum of:

85% of its REIT ordinary income for the year;

95% of its REIT capital gain net income for the year; and

any undistributed taxable income from prior taxable years.

CarrAmerica will be subject to a 100% penalty tax on some payments it receives (or on certain expenses deducted by a taxable REIT subsidiary) if arrangements among CarrAmerica, its tenants, and its taxable REIT subsidiaries are not comparable to similar arrangements among unrelated parties.

If CarrAmerica were to acquire any asset from a taxable C corporation in a carry-over basis transaction, it could be liable for specified tax liabilities inherited from that C corporation with respect to that corporation's built-in gain in its assets. Built-in gain is the amount by which an asset's fair market value exceeds its adjusted tax basis. Applicable Treasury regulations, however, allow an acquiring REIT to make an election to avoid the recognition of gain and the imposition of corporate level tax with respect to a built-in gain asset acquired in a carry-over basis transaction from a C corporation unless and until the REIT disposes of that built-in gain asset during the 10-year period following its acquisition, at which time the REIT would recognize, and would be subject to the highest regular corporate rate of tax on, the built-in gain.

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Requirements for qualification as a REIT. The Internal Revenue Code defines a REIT as a corporation, trust or association:

- (1) that is managed by one or more trustees or directors;
- (2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;

- (3) that would be taxable as a domestic corporation, but for Sections 856 through 859 of the Internal Revenue Code;
- (4) that is neither a financial institution nor an insurance company subject to applicable provisions of the Internal Revenue Code;
- (5) the beneficial ownership of which is held by 100 or more persons;
- (6) during the last half of each taxable year not more than 50% in value of the outstanding shares of which is owned directly or indirectly by five or fewer individuals, as defined in the Internal Revenue Code to include specified entities;
- (7) that makes an election to be taxable as a REIT, or has made this election for a previous taxable year which has not been revoked or terminated, and satisfies all relevant filing and other administrative requirements established by the Internal Revenue Service that must be met to elect and maintain REIT status;
- (8) that uses a calendar year for federal income tax purposes and complies with the recordkeeping requirements of the Internal Revenue Code and the Treasury regulations promulgated thereunder; and
- (9) that meets other applicable tests, described below, regarding the nature of its income and assets and the amount of its distributions.