April 26, 2013

# COPT Reports First Quarter 2013 Results

COLUMBIA, Md.--(BUSINESS WIRE)-- Corporate Office Properties Trust (COPT or the Company) (NYSE: OFC) announced financial and operating results for the first quarter ended March 31, 2013.

“We had a solid first quarter and are on-track to achieve our leasing and strategic objectives for the year. The first quarter is normally the lightest in terms of leasing volume, however, we were pleased to see tenants more willing to sign longer-term leases,” stated Roger A. Waesche, Jr., COPT’s President & Chief Executive Officer. “We also continue to improve our balance sheet strength and financial flexibility, as evidenced this month by the investment grade corporate ratings received from each of the three major U.S. ratings agencies,” he added.

**Results:**

Diluted earnings per share (EPS) was $0.11 for the quarter ended March 31, 2013 as compared to $0.09 in the first quarter of 2012. Diluted funds from operations per share (FFOPS), as adjusted for comparability, was $0.48 for the first quarter ended March 31, 2013, which represented a 9.4% decrease from the $0.53 reported for the first quarter of 2012. Adjustments for comparability encompass items such as acquisition costs, impairments and gains on non-operating properties, losses on early extinguishment of debt and derivative losses. Please refer to the reconciliation tables that appear later in this press release. Per NAREIT’s definition, FFOPS for the first quarter of 2013 was $0.45 versus $0.59 reported in the first quarter of 2012.

**Operating Performance:**

**Portfolio Summary –** At March 31, 2013, the Company’s consolidated portfolio of 210 operating office properties totaled 19.1 million square feet. The weighted average remaining lease term for the portfolio was 4.4 years and the average rental rate (including tenant reimbursements) was $27.97 per square foot. The Company’s consolidated portfolio was 87.6% occupied and 89.3% leased as of March 31, 2013.

**Same Office Performance –** The Company’s same office portfolio excludes properties identified for eventual sale, including those in its Strategic Reallocation Plan. For the quarter ended March 31, 2013, COPT’s same office portfolio represents 86% of the rentable square feet of the portfolio and consists of 183 properties.

For the first quarter ended March 31, 2013, the Company’s same office property cash NOI, excluding gross lease termination fees, increased 3.5% as compared to the first quarter ended 2012. Including gross lease termination fees, same office property cash NOI for the first quarter ended March 31, 2013 increased 4.5% over the same period in 2012. The Company’s same office portfolio occupancy was 88.8% at the end of the first quarter of 2013, down 10 basis points from year end 2012.

**Leasing –** COPT completed a total of 756,000 square feet of leasing for the quarter ended March 31, 2013. During this same period, the Company's renewal rate was 57%, which reflected one anticipated tenant move-out in Maryland. Also consistent with expectations, for the quarter ended March 31, 2013, total rent on renewed space increased 3.5% on a GAAP basis and decreased 5.3% on a cash basis.

**Investment Activity:**

**Construction –** At March 31, 2013, the Company had nine properties totaling 1.1 million square feet under construction for a total projected cost of $243.7 million, of which $144.2 million had been incurred. As of the same date, COPT had one 183,400-square foot property under redevelopment for a total projected cost of $32.0 million, of which $21.8 million has been incurred. As of March 31, 2013, the Company's nine properties under construction were, on average, 62% pre-leased, and its redevelopment property was 61% pre-leased.

**Balance Sheet and Capital Transactions:**

As of March 31, 2013, the Company had a total market capitalization of $4.7 billion, with $2.0 billion in debt outstanding, equating to a 41.7% debt-to-total market capitalization ratio. Also, the Company's weighted average interest rate was 4.4% for the quarter ended March 31, 2013 and 79% of the Company's debt was subject to fixed interest rates, including the effect of interest rate swaps.

During the quarter, the Company repurchased $53.7 million of principal amount of Exchangeable Senior Notes for $56.4 million and recognized a loss of $5.3 million, including unamortized loan issuance costs.

In March, the Company completed a public offering of 4,485,000 newly issued common shares, which reflects the full exercise by the underwriter of its option to purchase 585,000 shares. The offering generated net proceeds of approximately $117.9 million.

**Subsequent Events:**

In April, the Company announced that it received investment grade corporate ratings with stable outlooks from each of the three major U.S. ratings agencies. COPT received a BBB- rating from Fitch Ratings, a Baa3 rating from Moody's Investors Service and a BBB- rating from Standard & Poor's Ratings Services.

Also in April, the Company redeemed all of its 3,390,000 outstanding 7.625% Series J Cumulative Redeemable Preferred Shares, at a price of $25.0424 per Series J Preferred Share, which includes accrued and unpaid dividends through April 22, 2013 which is the date of redemption.

**2013 FFO Guidance:**

Management is affirming its previously issued guidance for 2013 FFOPS, as adjusted for comparability, of between $1.83 and $1.93. The Company is establishing second quarter 2013 guidance of FFOPS, as adjusted for comparability, guidance of between $0.46 and $0.48. A reconciliation of projected diluted EPS to projected FFOPS for the quarter ending June 30, 2013 and the year ending December 31, 2013 is provided, as follows:

| | Quarter Ending June 30, 2013 | | Year Ending December 31, 2013 | |
|---|---|---|---|---|
| | Low | High | Low | High |
| FFOPS, as adjusted for comparability | $ 0.46 | $ 0.48 | $ 1.83 | $ 1.93 |
| Gains on sales of non-operating properties, net of income taxes | - | - | 0.03 | 0.03 |
| Net losses on early extinguishment of debt | - | - | (0.06) | (0.06) |
| Issuance costs on redeemed preferred shares | (0.03) | (0.03) | (0.03) | (0.03) |
| FFOPS, NAREIT definition | 0.43 | 0.45 | 1.77 | 1.87 |
| Real estate depreciation and amortization | (0.35) | (0.36) | (1.35) | (1.38) |
| Impairments and exit costs on previously depreciated properties | - | - | (0.02) | (0.02) |
| EPS | $ 0.08 | $ 0.09 | $ 0.40 | $ 0.47 |

## Conference Call Information:

Management will discuss first quarter 2013 earnings results, as well as its 2013 guidance, on its conference call today at 12:00 p.m. Eastern Time, details of which are listed below:

| | |
|---|---|
| Conference Call Date: | Friday, April 26, 2013 |
| Time: | 12:00 p.m. Eastern Time |
| Telephone Number: (within the U.S.) | 888-680-0865 |
| Telephone Number: (outside the U.S.) | 617-213-4853 |
| Passcode: | 38964583 |

Please use the following link to pre-register and view important information about this conference call. Pre-registering is not mandatory but is recommended as it will provide you immediate entry into the call and will facilitate the timely start of the conference. Pre-registration only takes a few moments and you may pre-register at anytime, including up to and after the call start time. To pre-register, please click on the below link: https://www.theconferencingservice.com/prereg/key.process?key=PTE9HR9LF

You may also pre-register in the Investor Relations section of the Company's website at www.copt.com. Alternatively, you may be placed into the call by an operator by calling the number provided above at least 5 to 10 minutes before the start of the call.

A replay of this call will be available beginning Friday, April 26 at 1:00 p.m. Eastern Time through Friday, May 17 at midnight Eastern Time. To access the replay within the United States, please call 888-286-8010 and use passcode 74553156. To access the replay outside the United States, please call 617-801-6888 and use passcode 74553156.

The conference calls will also be available via live webcast in the Investor Relations section of the Company's website at www.copt.com. A replay of the conference calls will be immediately available via webcast in the Investor Relations section of the Company's website.

**Definitions:**

Please refer to the information furnished with our Form 8-K or our website (www.copt.com) for definitions of certain terms used in this press release. Reconciliations of non-GAAP measures to the most directly comparable GAAP measures are included in the attached tables.

**Company Information**

COPT is an office REIT that focuses primarily on serving the specialized requirements of U.S. Government agencies and defense contractors, most of whom are engaged in defense information technology and national security-related activities. The Company generally acquires, develops, manages and leases office and data center properties concentrated in large office parks primarily located near knowledge-based government demand drivers and/or in targeted markets or submarkets in the Greater Washington, DC/Baltimore region. As of March 31, 2013, the Company's consolidated portfolio consisted of 210 office properties totaling 19.1 million rentable square feet. COPT is an S&P MidCap 400 company.

**Forward-Looking Information**

*This press release may contain "forward-looking" statements, as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that are based on the Company's current expectations, estimates and projections about future events and financial trends affecting the Company. Forward-looking statements can be identified by the use of words such as "may," "will," "should," "could," "believe," "anticipate," "expect," "estimate," "plan" or other comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which the Company cannot predict with accuracy and some of which the Company might not even anticipate. Accordingly, the Company can give no assurance that these expectations, estimates and projections will be achieved. Future events and actual results may differ materially from those discussed in the forward-looking statements.*

*Important factors that may affect these expectations, estimates, and projections include, but are not limited to:*

- *general economic and business conditions, which will, among other things, affect office property and data center demand and rents, tenant creditworthiness, interest rates, financing availability and property values;*
- *adverse changes in the real estate markets including, among other things, increased competition with other companies;*
- *governmental actions and initiatives, including risks associated with the impact of a government shutdown or budgetary reductions or impasses, such as a reduction in rental revenues, non-renewal of leases, and/or a curtailment of demand for additional space by the Company's strategic customers;*
- *the Company's ability to borrow on favorable terms;*
- *risks of real estate acquisition and development activities, including, among other things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development or operating costs may be*

*greater than anticipated;*

- *the Company's ability to sell properties included in its Strategic Reallocation Plan;*
- *risks of investing through joint venture structures, including risks that the Company's joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with the Company's objectives;*
- *changes in the Company's plans for properties or views of market economic conditions or failure to obtain development rights, either of which could result in recognition of significant impairment losses;*
- *the Company's ability to satisfy and operate effectively under Federal income tax rules relating to real estate investment trusts and partnerships;*
- *the Company's ability to achieve projected results;*
- *the dilutive effects of issuing additional common shares; and*
- *environmental requirements.*

*The Company undertakes no obligation to update or supplement any forward-looking statements. For further information, please refer to the Company's filings with the Securities and Exchange Commission, particularly the section entitled "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.*

Corporate Office Properties Trust
Summary Financial Data
(unaudited)
(in thousands, except per share data)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| Revenues | | |
| Real estate revenues | $ 116,735 | $ 110,661 |
| Construction contract and other service revenues | 14,262 | 21,534 |
| Total revenues | 130,997 | 132,195 |
| Expenses | | |
| Property operating expenses | 42,575 | 41,253 |
| Depreciation and amortization associated with real estate operations | 28,252 | 27,834 |
| Construction contract and other service expenses | 13,477 | 20,607 |
| Impairment losses (recoveries) | 1,857 | (4,836) |
| General and administrative expenses | 5,984 | 7,728 |
| Leasing expenses | 1,836 | 1,841 |
| Business development expenses and land carry costs | 1,359 | 1,576 |
| Total operating expenses | 95,340 | 96,003 |
| Operating income | 35,657 | 36,192 |
| Interest expense | (22,307) | (24,431) |
| Interest and other income | 946 | 1,217 |
| Loss on early extinguishment of debt | (5,184) | — |
| Income from continuing operations before equity in loss of unconsolidated entities and income taxes | 9,112 | 12,978 |
| Equity in loss of unconsolidated entities | 41 | (89) |
| Income tax expense | (16) | (204) |
| Income from continuing operations | 9,137 | 12,685 |
| Discontinued operations | 3,786 | (2,450) |
| Income before gain on sales of real estate | 12,923 | 10,235 |
| Gain on sales of real estate, net of income taxes | 2,354 | — |
| Net income | 15,277 | 10,235 |
| Net (income) loss attributable to noncontrolling interests | | |
| Common units in the Operating Partnership | (429) | (373) |
| Preferred units in the Operating Partnership | (165) | (165) |
| Other consolidated entities | 337 | 598 |
| Net income attributable to COPT | 15,020 | 10,295 |
| Preferred share dividends | (6,106) | (4,025) |
| Net income attributable to COPT common shareholders | $ 8,914 | $ 6,270 |
| | | |
| Earnings per share ("EPS") computation: | | |
| Numerator for diluted EPS: | | |
| Net income attributable to common shareholders | $ 8,914 | $ 6,270 |
| Amount allocable to restricted shares | (118) | (141) |
| Numerator for diluted EPS | $ 8,796 | $ 6,129 |
| | | |
| Denominator: | | |
| Weighted average common shares - basic | 81,397 | 71,458 |
| Dilutive effect of share-based compensation awards | 52 | 44 |
| Weighted average common shares - diluted | 81,449 | 71,502 |
| Diluted EPS | $ 0.11 | $ 0.09 |

Corporate Office Properties Trust
Summary Financial Data
(unaudited)
(in thousands, except per share data)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| Net income | $ 15,277 | $ 10,235 |
| Real estate-related depreciation and amortization | 28,252 | 31,087 |
| Impairment losses on previously depreciated operating properties | 1,857 | 11,833 |
| Gain on sales of previously depreciated operating properties | — | (4,138) |
| Depreciation and amortization on unconsolidated real estate entities | — | 114 |
| Funds from operations ("FFO") | 45,386 | 49,131 |
| Noncontrolling interests - preferred units in the Operating Partnership | (165) | (165) |
| FFO allocable to other noncontrolling interests | (727) | (260) |
| Preferred share dividends | (6,106) | (4,025) |
| Basic and diluted FFO allocable to restricted shares | (183) | (294) |
| Basic and diluted FFO available to common share and common unit holders ("Basic and diluted FFO") | 38,205 | 44,387 |
| Gain on sales of non-operating properties | (2,354) | — |
| Impairment recoveries on non-operating properties | — | (5,246) |
| Income tax expense on impairment recoveries on non-operating properties | — | 673 |
| Loss on early extinguishment of debt | 5,184 | — |
| Diluted FFO available to common share and common unit holders, as adjusted for comparability | 41,035 | 39,814 |
| Straight line rent adjustments | (3,833) | (2,179) |
| Amortization of intangibles included in net operating income | 177 | 190 |
| Share-based compensation, net of amounts capitalized | 1,649 | 3,402 |
| Amortization of deferred financing costs | 1,528 | 1,572 |
| Amortization of net debt discounts, net of amounts capitalized | 628 | 663 |
| Amortization of settled debt hedges | 15 | 16 |
| Recurring capital expenditures | (5,308) | (1,875) |
| Diluted adjusted funds from operations available to common share and common unit holders ("Diluted AFFO") | $ 35,891 | $ 41,603 |
| Diluted FFO per share | $ 0.45 | $ 0.59 |
| Diluted FFO per share, as adjusted for comparability | $ 0.48 | $ 0.53 |
| Dividends/distributions per common share/unit | $ 0.2750 | $ 0.2750 |

Corporate Office Properties Trust
Summary Financial Data
(unaudited)
(Dollars and shares in thousands, except per share data)

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **Balance Sheet Data** | | |
| Properties, net of accumulated depreciation | $ 3,189,973 | $3,163,044 |
| Total assets | 3,685,099 | 3,653,759 |
| Debt, net | 1,957,360 | 2,019,168 |
| Total liabilities | 2,134,200 | 2,206,962 |
| Redeemable noncontrolling interest | 10,356 | 10,298 |
| Equity | 1,540,543 | 1,436,499 |
| Debt to adjusted book | 45.8% | 47.8% |
| Debt to total market capitalization | 41.7% | 45.0% |
| | | |
| **Consolidated Property Data (as of period end)** | | |
| Number of operating properties | 210 | 208 |
| Total net rentable square feet owned (in thousands) | 19,128 | 18,831 |
| Occupancy % | 87.6% | 87.8% |
| Leased % | 89.3% | 89.2% |
| | | |
| **Reconciliation of total assets to denominator for debt to adjusted book** | | |
| Total assets | $ 3,685,099 | $3,653,759 |
| Accumulated depreciation | 576,299 | 555,975 |
| Accumulated depreciation included in assets held for sale | 12,201 | 12,201 |
| Denominator for debt to adjusted book | $ 4,273,599 | $4,221,935 |

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| **Payout ratios** | | |
| Diluted FFO | 64.5% | 47.3% |
| Diluted FFO, as adjusted for comparability | 60.1% | 52.7% |
| Diluted AFFO | 68.7% | 50.5% |
| Adjusted EBITDA interest coverage ratio | 3.5x | 3.0x |
| Adjusted EBITDA fixed charge coverage ratio | 2.7x | 2.5x |
| Debt to Adjusted EBITDA ratio (1) | 6.9x | 8.7x |
| | | |
| **Reconciliation of denominators for diluted EPS and diluted FFO per share** | | |
| Denominator for diluted EPS | 81,449 | 71,502 |
| Weighted average common units | 3,893 | 4,281 |
| Denominator for diluted FFO per share | 85,342 | 75,783 |
| | | |
| **Reconciliation of FFO to FFO, as adjusted for comparability** | | |
| FFO | $ 45,386 | $ 49,131 |
| Gain on sales of non-operating properties | (2,354) | — |
| Impairment recoveries on non-operating properties, net of associated tax | — | (4,573) |
| Loss on early extinguishment of debt, continuing and discontinued operations | 5,184 | — |
| FFO, as adjusted for comparability | $ 48,216 | $ 44,558 |

(1) Represents debt as of period end divided by Adjusted EBITDA for the period, as annualized (i.e. three month periods are multiplied by four).

Corporate Office Properties Trust
Summary Financial Data
(unaudited)

(Dollars in thousands)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| **Reconciliation of common share dividends to dividends and distributions for payout ratios** | | |
| Common share dividends | $23,594 | $19,819 |
| Common unit distributions | 1,050 | 1,173 |
| Dividends and distributions for payout ratios | $24,644 | $20,992 |
| | | |
| **Reconciliation of GAAP net income to adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA")** | | |
| Net income | $15,277 | $10,235 |
| Interest expense on continuing operations | 22,307 | 24,431 |
| Interest expense on discontinued operations | 64 | 1,244 |
| Income tax expense | 16 | 204 |
| Real estate-related depreciation and amortization | 28,252 | 31,087 |
| Depreciation of furniture, fixtures and equipment | 530 | 618 |
| Impairment losses | 1,857 | 6,587 |
| Loss on early extinguishment of debt on continuing and discontinued operations | 5,184 | — |
| Gain on sales of operating properties | — | (4,138) |
| Gain on sales of non-operational properties | (2,354) | — |
| Net gain on investments in unconsolidated entities included in interest and other income | (60) | (450) |
| Adjusted EBITDA | $71,073 | $69,818 |
| | | |
| **Reconciliation of interest expense from continuing operations to the denominators for interest coverage-Adjusted EBITDA and fixed charge coverage-Adjusted EBITDA** | | |
| Interest expense from continuing operations | $22,307 | $24,431 |
| Interest expense from discontinued operations | 64 | 1,244 |
| Less: Amortization of deferred financing costs | (1,528) | (1,572) |
| Less: Amortization of net debt discount, net of amounts capitalized | (628) | (663) |
| Denominator for interest coverage-Adjusted EBITDA | 20,215 | 23,440 |
| Preferred share dividends | 6,106 | 4,025 |
| Preferred unit distributions | 165 | 165 |
| Denominator for fixed charge coverage-Adjusted EBITDA | $26,486 | $27,630 |
| | | |
| **Reconciliations of tenant improvements and incentives, capital improvements and leasing costs for operating properties to recurring capital expenditures** | | |
| Tenant improvements and incentives on operating properties | $ 2,291 | $ 666 |
| Building improvements on operating properties | 1,600 | 871 |
| Leasing costs for operating properties | 1,669 | 1,299 |
| Less: Nonrecurring tenant improvements and incentives on operating properties | 15 | (561) |
| Less: Nonrecurring building improvements on operating properties | (267) | (407) |
| Add: Recurring capital expenditures on operating properties held through joint ventures | — | 7 |
| Recurring capital expenditures | $ 5,308 | $ 1,875 |

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Source: Corporate Office Properties Trust