July 26, 2013

COPT Reports Second Quarter 2013 Results

COLUMBIA, Md.--(BUSINESS WIRE)-- Corporate Office Properties Trust (COPT or the Company) (NYSE: OFC) announced financial and operating results for the second quarter ended June 30, 2013.

“We had a strong second quarter and are on-track to exceed our leasing objectives for the year,” stated Roger A. Waesche, Jr., COPT’s President & Chief Executive Officer. “In light of the sequestration cuts kicking in on March 1 of this calendar year, we are particularly pleased with the strong level of development leasing we have achieved,” he added.

Results:

Diluted earnings per share (EPS) was ($0.16) for the quarter ended June 30, 2013 as compared to $0.10 in the second quarter of 2012. Diluted funds from operations per share (FFOPS), as adjusted for comparability, was $0.52 for the second quarter ended June 30, 2013, which represented a 3.7% decrease from the $0.54 reported for the second quarter of 2012. Adjustments for comparability encompass items such as acquisition costs, impairment losses and gains on non-operating properties, gains (losses) on early extinguishment of debt, derivative losses and write-offs of original issuance costs for redeemed preferred stock. Please refer to the reconciliation tables that appear later in this press release. Per NAREIT’s definition, FFOPS for the second quarter of 2013 was $0.25 versus $0.54 reported in the second quarter of 2012.

Operating Performance:

Portfolio Summary – At June 30, 2013, the Company’s consolidated portfolio of 210 operating office properties totaled 19.0 million square feet. The weighted average remaining lease term for the portfolio was 4.3 years and the average rental rate (including tenant reimbursements) was $28.21 per square foot. The Company’s consolidated portfolio was 88.2% occupied and 90.0% leased as of June 30, 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 June 30, 2013, COPT’s same office portfolio represents 86% of the rentable square feet of the portfolio and consists of 182 properties.

For the second quarter ended June 30, 2013, the Company’s same office property cash NOI, excluding gross lease termination fees, increased 1.6% as compared to the second quarter ended 2012. Including gross lease termination fees, same office property cash NOI for the second quarter ended June 30, 2013 increased 3.5% over the same period in 2012. The Company’s same office portfolio occupancy was 89.4% at the end of the second quarter of 2013, up 20 basis points from March 31, 2013.

Leasing – COPT completed a total of 1.1 million square feet of leasing for the quarter ended June 30, 2013. During this same period, the Company's renewal rate was 80%, which is above the Company's historical average of 65%—70%. Consistent with expectations, for the quarter ended June 30, 2013, total rent on renewed space increased 6.2% on a GAAP basis and decreased 2.2% on a cash basis.

Investment Activity:

Construction – At June 30, 2013, the Company had 11 properties totaling 1.5 million square feet under construction for a total projected cost of $313.5 million, of which $187.1 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 $32.4 million, of which $25.7 million has been incurred. As of June 30, 2013, the Company's 11 properties under construction, on average, were 74% pre-leased, and its redevelopment property was 61% pre-leased.

Dispositions – In the second quarter of 2013, COPT sold one vacant property and land for $10.4 million. The property contained a total of 103,000 square feet.

Balance Sheet and Capital Transactions:

As of June 30, 2013, the Company had a total market capitalization of $4.6 billion, with $2.1 billion in debt outstanding, equating to a 45.1% debt-to-total market capitalization ratio. Also, the Company's weighted average interest rate was 4.4% for the quarter ended June 30, 2013 and 80% of the Company's debt was subject to fixed interest rates, including the effect of interest rate swaps.

During the quarter, 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 during the quarter, the Company redeemed all of its 3,390,000 outstanding 7.625% Series J Cumulative Redeemable Preferred Shares, at a price of $25 per share.

In May, the Company issued $350 million of 3.60% senior unsecured notes due May 15, 2023 at a price equal to 99.816% of the principal amount.

Also in May, the Company commenced a cash tender offer for any and all of the $186,273,000 outstanding principal amount of the 4.25% Exchangeable Senior Notes due on April 15, 2030. In June, the Company completed its tender offer for 99.7% of the Operating Partnership's 4.25% Exchangeable Senior Notes due on April 15, 2030.

2013 FFO Guidance:

Management is increasing its previously issued guidance for 2013 FFOPS, as adjusted for comparability, from the prior range of between $1.83 and $1.93 to a new range of between $1.92 and $1.97. The Company is establishing third quarter 2013 guidance of FFOPS, as adjusted for comparability, of between $0.47 and $0.49. A reconciliation of projected diluted EPS to projected FFOPS for the quarter ending September 30, 2013 and the year ending December 31, 2013 is provided, as follows:

	Quarter Ending September 30, 2013		Year Ending December 31,2013	
	Low	High	Low	High
EPS	$ 0.15	$ 0.17	$ 0.21	$ 0.26
Real estate depreciation and amortization	0.32	0.32	1.31	1.31
Impairments and exit costs on previously depreciated properties	-	-	0.10	0.10
FFOPS, NAREIT definition	0.47	0.49	1.62	1.67
Net losses on early extinguishment of debt	-	-	0.30	0.30
Gains on sales of non-operating properties	-	-	(0.03)	(0.03)
Issuance costs of redeemed preferred shares	-	-	0.03	0.03
FFOPS, as adjusted for comparability	$ 0.47	$ 0.49	$ 1.92	$ 1.97

Conference Call Information:

Management will discuss second quarter 2013 earnings results, as well as its 2013 guidance, on its conference call on July 26, 2013 at 12:00 p.m. Eastern Time, details of which are listed below:

Earnings Release Date:	Friday, July 26, 2013 at 6:00 a.m. Eastern Time
Conference Call Date:	Friday, July 26, 2013
Time:	12:00 p.m. Eastern Time
Telephone Number: (within the U.S.)	888-679-8018
Telephone Number: (outside the U.S.)	617-213-4845
Passcode:	20403800

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=PTJMMLFPY

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, July 26 at 1:00 p.m. Eastern Time through Friday, August 9 at midnight Eastern Time. To access the replay within the United States, please call 888-286-8010; to access the replay outside the United States, please call 617-801-6888. The replay passcode for both numbers is 36959168.

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 June 30, 2013, the Company's consolidated portfolio consisted of 210 office properties totaling 19.0 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 June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Real estate revenues	$ 119,729	$ 110,669	$236,087	$220,869
Construction contract and other service revenues	20,795	16,995	35,057	38,529
Total revenues	140,524	127,664	271,144	259,398
Expenses				
Property operating expenses	43,408	39,441	85,927	80,628
Depreciation and amortization associated with real estate operations	28,866	28,295	57,029	56,029
Construction contract and other service expenses	19,382	16,285	32,859	36,892
Impairment recoveries	—	—	—	(4,836)
General and administrative expenses	4,992	7,741	10,976	15,469
Leasing expenses	1,591	1,110	3,427	2,951
Business development expenses and land carry costs	1,327	1,298	2,686	2,874
Total operating expenses	99,566	94,170	192,904	190,007
Operating income	40,958	33,494	78,240	69,391
Interest expense	(23,302)	(24,239)	(45,609)	(48,670)
Interest and other income	2,006	840	2,952	2,057
Loss on early extinguishment of debt	(21,470)	(169)	(26,654)	(169)
(Loss) income from continuing operations before equity in income (loss) of unconsolidated entities and income taxes	(1,808)	9,926	8,929	22,609
Equity in income (loss) of unconsolidated entities	126	(187)	167	(276)
Income tax expense	(21)	(17)	(37)	(221)
(Loss) income from continuing operations	(1,703)	9,722	9,059	22,112
Discontinued operations	(3,031)	2,118	(870)	(37)
(Loss) income before gain on sales of real estate	(4,734)	11,840	8,189	22,075
Gain on sales of real estate, net of income taxes	329	21	2,683	21
Net (loss) income	(4,405)	11,861	10,872	22,096
Net loss (income) attributable to noncontrolling interests				
Common units in the Operating Partnership	671	(422)	242	(795)
Preferred units in the Operating Partnership	(165)	(165)	(330)	(330)
Other consolidated entities	(1,466)	31	(1,129)	629
Net (loss) income attributable to COPT	(5,365)	11,305	9,655	21,600
Preferred share dividends	(4,885)	(4,167)	(10,991)	(8,192)
Issuance costs associated with redeemed preferred shares	(2,904)	—	(2,904)	—
Net (loss) income attributable to COPT common shareholders	$ (13,154)	$ 7,138	$ (4,240)	$ 13,408
Earnings per share ("EPS") computation:				
Numerator for diluted EPS:				
Net (loss) income attributable to common shareholders	$ (13,154)	$ 7,138	$ (4,240)	$ 13,408
Dilutive effect of common units in the Operating Partnership	(671)	—	(242)	—
Amount allocable to restricted shares	(102)	(105)	(220)	(246)
Numerator for diluted EPS	$ (13,927)	$ 7,033	$ (4,702)	$ 13,162
Denominator:				
Weighted average common shares - basic	85,425	71,624	83,422	71,541
Dilutive effect of common units in the Operating Partnership	3,801	—	3,847	—
Dilutive effect of share-based compensation awards	—	25	—	35
Weighted average common shares - diluted	89,226	71,649	87,269	71,576
Diluted EPS	$ (0.16)	$ 0.10	$ (0.05)	$ 0.18

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Net (loss) income	$ (4,405)	$ 11,861	$ 10,872	$ 22,096
Real estate-related depreciation and amortization	28,935	31,666	57,187	62,753
Impairment losses on previously depreciated operating properties	7,195	2,354	9,052	14,187
Gain on sales of previously depreciated operating properties	—	115	—	(4,023)
Depreciation and amortization on unconsolidated real estate entities	—	119	—	233
Funds from operations ("FFO")	31,725	46,115	77,111	95,246
Noncontrolling interests - preferred units in the Operating Partnership	(165)	(165)	(330)	(330)
FFO allocable to other noncontrolling interests	(1,270)	(420)	(1,997)	(680)
Preferred share dividends	(4,885)	(4,167)	(10,991)	(8,192)
Issuance costs associated with redeemed preferred shares	(2,904)	—	(2,904)	—
Basic and diluted FFO allocable to restricted shares	(89)	(220)	(272)	(514)
Basic and diluted FFO available to common share and common unit holders ("Basic and diluted FFO")	22,412	41,143	60,617	85,530
Operating property acquisition costs	—	7	—	7
Gain on sales of non-operating properties	(329)	(33)	(2,683)	(33)
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	21,470	171	26,654	171
Issuance costs associated with redeemed preferred shares	2,904	—	2,904	—
Diluted FFO available to common share and common unit holders, as adjusted for comparability	46,457	41,288	87,492	81,102
Straight line rent adjustments	(2,011)	(1,857)	(5,844)	(4,036)
Amortization of intangibles included in net operating income	172	218	349	408
Share-based compensation, net of amounts capitalized	1,647	3,157	3,296	6,559
Amortization of deferred financing costs	1,443	1,597	2,971	3,169
Amortization of net debt discounts, net of amounts capitalized	556	682	1,184	1,345
Amortization of settled debt hedges	15	15	30	31
Recurring capital expenditures	(5,862)	(6,074)	(11,170)	(7,949)
Diluted adjusted funds from operations available to common share and common unit holders ("Diluted AFFO")	$ 42,417	$ 39,026	$ 78,308	$ 80,629
Diluted FFO per share	$ 0.25	$ 0.54	$ 0.69	$ 1.13
Diluted FFO per share, as adjusted for comparability	$ 0.52	$ 0.54	$ 1.00	$ 1.07
Dividends/distributions per common share/unit	$ 0.2750	$ 0.2750	$ 0.5500	$ 0.5500

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

	June 30, 2013	December 31, 2012
Balance Sheet Data		
Properties, net of accumulated depreciation	$3,211,304	$3,163,044
Total assets	3,699,635	3,653,759
Debt, net	2,093,106	2,019,168
Total liabilities	2,257,777	2,206,962
Redeemable noncontrolling interest	15,571	10,298
Equity	1,426,287	1,436,499
Debt to adjusted book	46.4%	45.8%
Debt to total market capitalization	45.1%	45.0%
Consolidated Property Data (as of period end)		
Number of operating properties	210	208
Total net rentable square feet owned (in thousands)	19,037	18,831
Occupancy %	88.2%	87.8%
Leased %	90.0%	89.2%
Reconciliation of total assets to denominator for debt to adjusted book		
Total assets	$3,699,635	$3,653,759
Accumulated depreciation	597,783	555,975
Accumulated depreciation included in assets held for sale	12,201	12,201
Accumulated amortization of real estate intangibles and deferred leasing costs	189,330	181,834
Accumulated amortization of real estate intangibles and deferred leasing costs included in assets held for sale	9,216	9,199
Denominator for debt to adjusted book	$4,508,165	$4,412,968

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Payout ratios				
Diluted FFO	110.0%	51.0%	81.3%	49.1%
Diluted FFO, as adjusted for comparability	53.1%	50.8%	56.3%	51.7%
Diluted AFFO	58.1%	53.8%	62.9%	52.1%
Adjusted EBITDA interest coverage ratio	3.5x	3.2x	3.5x	3.1x
Adjusted EBITDA fixed charge coverage ratio	2.9x	2.7x	2.8x	2.6x
Debt to Adjusted EBITDA ratio (1)	6.9x	7.6x	7.1x	7.7x
Reconciliation of denominators for diluted EPS and diluted FFO per share				
Denominator for diluted EPS	89,226	71,649	87,269	71,576
Weighted average common units	—	4,255	—	4,267
Anti-dilutive EPS effect of share-based compensation awards	96	—	74	—
Denominator for diluted FFO per share	89,322	75,904	87,343	75,843
Reconciliation of FFO to FFO, as adjusted for comparability				
FFO	$ 31,725	$ 46,115	$ 77,111	$95,246
Gain on sales of non-operating properties	(329)	(33)	(2,683)	(33)
Impairment recoveries on non-operating properties, net of associated tax	—	—	—	(4,573)
Operating property acquisition costs	—	7	—	7
Loss on early extinguishment of debt, continuing and discontinued operations	21,470	171	26,654	171
Issuance costs associated with redemption of preferred shares	2,904	—	2,904	—
FFO, as adjusted for comparability	$ 55,770	$ 46,260	$103,986	$90,818

(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 June 30,		For the Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Reconciliation of common share dividends to dividends and distributions for payout ratios				
Common share dividends	$23,604	$19,809	$ 47,198	$ 39,628
Common unit distributions	1,042	1,168	2,092	2,341
Dividends and distributions for payout ratios	$24,646	$20,977	$ 49,290	$ 41,969
Reconciliation of GAAP net (loss) income to adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA")				
Net (loss) income	$ (4,405)	$11,861	$ 10,872	$ 22,096
Interest expense on continuing operations	23,302	24,239	45,609	48,670
Interest expense on discontinued operations	67	736	131	1,980
Income tax expense	21	17	37	221
Real estate-related depreciation and amortization	28,935	31,666	57,187	62,753
Depreciation of furniture, fixtures and equipment	527	629	1,057	1,247
Impairment losses	7,195	2,354	9,052	8,941
Loss on early extinguishment of debt on continuing and discontinued operations	21,470	171	26,654	171
Gain on sales of operating properties	—	115	—	(4,023)
Gain on sales of non-operational properties	(329)	(33)	(2,683)	(33)
Net gain on investments in unconsolidated entities included in interest and other income	(961)	(66)	(1,021)	(516)
Operating property acquisition costs	—	7	—	7
Adjusted EBITDA	$75,822	$71,696	$146,895	$141,514
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	$23,302	$24,239	$ 45,609	$ 48,670
Interest expense from discontinued operations	67	736	131	1,980
Less: Amortization of deferred financing costs	(1,443)	(1,597)	(2,971)	(3,169)
Less: Amortization of net debt discount, net of amounts capitalized	(556)	(682)	(1,184)	(1,345)
Denominator for interest coverage-Adjusted EBITDA	21,370	22,696	41,585	46,136
Preferred share dividends	4,885	4,167	10,991	8,192
Preferred unit distributions	165	165	330	330
Denominator for fixed charge coverage-Adjusted EBITDA	$26,420	$27,028	$ 52,906	$ 54,658

Corporate Office Properties Trust
Summary Financial Data
(unaudited)
(Dollars in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
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	$ 3,798	$ 2,663	$ 6,089	$ 3,329
Building improvements on operating properties	2,538	1,296	4,138	2,167
Leasing costs for operating properties	1,185	2,863	2,854	4,162
Less: Nonrecurring tenant improvements and incentives on operating properties	(23)	(97)	(8)	(658)
Less: Nonrecurring building improvements on operating properties	(1,580)	(572)	(1,847)	(979)
Less: Nonrecurring leasing costs for operating properties	(50)	(79)	(50)	(79)
Add: Recurring capital expenditures on operating properties held through joint ventures	(6)	—	(6)	7
Recurring capital expenditures	$ 5,862	$ 6,074	$ 11,170	$ 7,949
Reconciliation of same office property net operating income to same office property cash net operating income and same office property cash net operating income, excluding gross lease termination fees				
Same office property net operating income	$ 70,620	$ 68,827	$139,842	$135,924
Less: Straight-line rent adjustments	(520)	(1,128)	(1,828)	(3,362)
Less: Amortization of deferred market rental revenue	(35)	(38)	(65)	(100)
Add: Amortization of above-market cost arrangements	319	371	638	724
Same office property cash net operating income	70,384	68,032	138,587	133,186
Less: Lease termination fees, gross	(1,681)	(400)	(2,877)	(934)
Same office property cash net operating income, excluding gross lease termination fees	$ 68,703	$ 67,632	$135,710	$132,252

Corporate Office Properties Trust
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Source: Corporate Office Properties Trust (COPT)