October 25, 2013

COPT Reports Third Quarter 2013 Results

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

"Driven by strong NOI margins, third quarter results were at the high end of our expectations. We are increasing our prior guidance range for the fourth quarter and full year," stated Roger A. Waesche, Jr., COPT's President & Chief Executive Officer. "Looking ahead, we expect stable performance from our current same office portfolio in 2014 and anticipate that our development pipeline and property dispositions will add tremendous value for investors," he added.

Results:

For the quarter ended September 30, 2013, the Company reported a diluted earnings per share ("EPS") loss of $0.09 as compared to an EPS loss of $0.39 in the third quarter of 2012. Diluted funds from operations per share ("FFOPS"), as adjusted for comparability, was $0.49 for the third quarter ended September 30, 2013 as compared to $0.53 reported for the third quarter of 2012. The 7.5% year-over-year decrease reflects the Company's successful portfolio repositioning and de-leveraging. 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 third quarter of 2013 was $0.48 versus $0.52 reported in the third quarter of 2012.

Operating Performance:

Portfolio Summary – At September 30, 2013, the Company's consolidated portfolio of 210 operating office properties totaled 19.2 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 $28.26 per square foot. The Company's consolidated portfolio was 88.5% occupied and 89.7% leased as of September 30, 2013.

Same Office Performance – The Company's same office portfolio excludes properties identified for eventual disposition, including those in its Strategic Reallocation Plan. For the quarter ended September 30, 2013, COPT's same office portfolio represents 76% of the rentable square feet of the portfolio and consists of 165 properties.

For the third quarter ended September 30, 2013, the Company's same office property cash NOI, excluding gross lease termination fees, increased 2.4% as compared to the third quarter of 2012. The Company's same office portfolio was 90.3% occupied and 91.5% leased as of September 30, 2013.

Leasing – COPT completed a total of 898,000 square feet of leasing for the quarter ended

September 30, 2013. During this same period, the Company's renewal rate was 72%. Consistent with expectations, for the quarter ended September 30, 2013, total rent on renewed space increased 4.4% on a GAAP basis and decreased 2.6% on a cash basis.

Investment Activity:

At September 30, 2013, the Company had nine properties totaling 1.3 million square feet under construction for a total projected cost of $234.0 million, of which $134.4 million had been incurred. As of the same date, COPT had 235,000 square feet in two properties under redevelopment for a total projected cost of $44.2 million, of which $30.5 million has been incurred. As of September 30, 2013, the Company's nine properties under construction, on average, were 88% pre-leased, and its redevelopment properties were 51% pre-leased.

Balance Sheet and Capital Transactions:

As of September 30, 2013, the Company's debt to adjusted book ratio was 46.6% and its fixed charge coverage ratio was 2.9x for the three months then ended. Also, the Company's weighted average interest rate was 4.2% for the quarter ended September 30, 2013 and 90% of the Company's debt was subject to fixed interest rates, including the effect of interest rate swaps.

In early July, the Company issued 1.5 million shares of common stock through its at-the-market ("ATM") stock offering program. The average price per share was $26.05 and the net proceeds were $38.5 million.

During the quarter, the Company amended the terms of its $800 million line of credit to extend the maturity date from September 1, 2014, to July 14, 2017 plus a one-year extension option; and lowered the interest rate spread over 30-day LIBOR to 130 basis points. The Company also amended the terms of its $300 million and $250 million term loan agreements to grant additional extension options and lower the interest spread over LIBOR.

The Company also completed a registered exchange offer to exchange any and all of its outstanding 3.6% Senior Notes due 2023, which were issued in a private placement for an equal principal amount of new 3.6% Senior Notes due 2023 that have been registered under the Securities Act of 1933.

In September, the Company priced an offering of $250 million aggregate principal amount of 5.25% senior unsecured notes due February 15, 2024 at a price equal to 98.783% of the principal amount.

2013 FFO Guidance:

Management is increasing its previous guidance for the fourth quarter and full year 2013 FFOPS, as adjusted for comparability, from prior ranges of between $0.45–$0.48 and $1.92–$1.97, respectively, to new ranges of between $0.47–$0.49 and $1.96–$1.98. A reconciliation of projected diluted EPS to projected FFOPS for the quarter ending and the year ending December 31, 2013 is provided, as follows:

	Quarter Ending December 31, 2013		Year Ending December 31, 2013	
	Low	High	Low	High
EPS	$ 0.14	$ 0.16	$ (0.01)	$ 0.01
Real estate depreciation and amortization	0.33	0.33	1.31	1.31
Impairments and exit costs on previously depreciated properties	-	-	0.35	0.35
FFOPS, NAREIT definition	0.47	0.49	1.65	1.67
Net losses on early extinguishment of debt	-	-	0.31	0.31
Gains on sales of non-operating properties	-	-	(0.03)	(0.03)
Issuance costs on redeemed preferred shares	-	-	0.03	0.03
FFOPS, as adjusted for comparability	$ 0.47	$ 0.49	$ 1.96	$ 1.98

Conference Call Information:

Management will discuss third quarter 2013 earnings results, as well as its 2013 guidance, on its conference call on October 25, 2013 at 12:00 p.m. Eastern Time, details of which are listed below:

Earnings Release Date:	Friday, October 25, 2013 at 6:00 a.m. Eastern Time
Conference Call Date:	Friday, October 25, 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:	31730330

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=PXHEGMLBC

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, October 25 at 1:00 p.m. Eastern Time through Friday, November 8 at midnight Eastern Time. To access the replay within the United States, please call 888-286-8010 and use passcode 16654891. To access the replay outside the United States, please call 617-801-6888 and use passcode 16654891.

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:

For definitions of certain terms used in this press release, please refer to the information furnished in our Supplemental Information Package filed as a Form 8-K which can be found on our website (www.copt.com). 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 September 30, 2013, the Company's consolidated portfolio consisted of 210 office properties totaling 19.2 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 September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Real estate revenues	$ 119,040	$ 114,362	$355,127	$335,231
Construction contract and other service revenues	16,991	15,283	52,048	53,812
Total revenues	136,031	129,645	407,175	389,043
Expenses				
Property operating expenses	43,482	41,474	129,409	122,102
Depreciation and amortization associated with real estate operations	29,210	28,604	86,239	84,633
Construction contract and other service expenses	16,306	14,410	49,165	51,302
Impairment losses	16,300	46,096	16,300	41,260
General and administrative expenses	6,237	5,062	17,213	20,531
Leasing expenses	1,790	1,315	5,217	4,266
Business development expenses and land carry costs	1,383	1,632	4,069	4,506
Total operating expenses	114,708	138,593	307,612	328,600
Operating income (loss)	21,323	(8,948)	99,563	60,443
Interest expense	(21,242)	(23,239)	(66,851)	(71,909)
Interest and other (loss) income	(3)	1,095	2,949	3,152
Loss on early extinguishment of debt	(374)	(768)	(27,028)	(937)
(Loss) income from continuing operations before equity in income (loss) of unconsolidated entities and income taxes	(296)	(31,860)	8,633	(9,251)
Equity in income (loss) of unconsolidated entities	44	(246)	211	(522)
Income tax expense	(24)	(106)	(61)	(327)
(Loss) income from continuing operations	(276)	(32,212)	8,783	(10,100)
Discontinued operations	(1,724)	11,447	(2,594)	11,410
(Loss) income before gain on sales of real estate	(2,000)	(20,765)	6,189	1,310
Gain on sales of real estate, net of income taxes	—	—	2,683	21
Net (loss) income	(2,000)	(20,765)	8,872	1,331
Net loss (income) attributable to noncontrolling interests				
Common units in the Operating Partnership	232	1,533	474	738
Preferred units in the Operating Partnership	(165)	(165)	(495)	(495)
Other consolidated entities	(1,031)	235	(2,160)	864
Net (loss) income attributable to COPT	(2,964)	(19,162)	6,691	2,438
Preferred share dividends	(4,490)	(6,546)	(15,481)	(14,738)
Issuance costs associated with redeemed preferred shares	—	(1,827)	(2,904)	(1,827)
Net loss attributable to COPT common shareholders	$ (7,454)	$ (27,535)	$ (11,694)	$ (14,127)
Earnings per share (“EPS”) computation:				
Numerator for diluted EPS:				
Net (loss) income attributable to common shareholders	$ (7,454)	$ (27,535)	$ (11,694)	$ (14,127)
Amount allocable to restricted shares	(97)	(111)	(317)	(357)
Numerator for diluted EPS	$ (7,551)	$ (27,646)	$ (12,011)	$ (14,484)
Denominator:				
Weighted average common shares - basic and diluted	86,760	71,688	84,547	71,590
Diluted EPS	$ (0.09)	$ (0.39)	$ (0.14)	$ (0.20)

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Net (loss) income	$ (2,000)	$ (20,765)	$ 8,872	$ 1,331
Real estate-related depreciation and amortization	29,210	30,624	86,397	93,377
Impairment losses on previously depreciated operating properties	22,074	55,829	31,126	70,016
Gain on sales of previously depreciated operating properties	—	(16,913)	—	(20,936)
Depreciation and amortization on unconsolidated real estate entities	—	113	—	346
Funds from operations ("FFO")	49,284	48,888	126,395	144,134
Noncontrolling interests - preferred units in the Operating Partnership	(165)	(165)	(495)	(495)
FFO allocable to other noncontrolling interests	(833)	(571)	(2,830)	(1,251)
Preferred share dividends	(4,490)	(6,546)	(15,481)	(14,738)
Issuance costs associated with redeemed preferred shares	—	(1,827)	(2,904)	(1,827)
Basic and diluted FFO allocable to restricted shares	(178)	(214)	(450)	(728)
Basic and diluted FFO available to common share and common unit holders ("Basic and diluted FFO")	43,618	39,565	104,235	125,095
Operating property acquisition costs	—	222	—	229
Gain on sales of non-operating properties	—	—	(2,683)	(33)
Impairment recoveries on non-operating properties	—	—	—	(5,246)
Income tax expense on impairment recoveries on non-operating properties	—	—	—	673
Loss (gain) on early extinguishment of debt	374	(970)	27,028	(799)
Issuance costs associated with redeemed preferred shares	—	1,827	2,904	1,827
Diluted FFO available to common share and common unit holders, as adjusted for comparability	43,992	40,644	131,484	121,746
Straight line rent adjustments	(980)	(2,595)	(6,824)	(6,631)
Amortization of intangibles included in net operating income	230	251	579	659
Share-based compensation, net of amounts capitalized	1,573	1,703	4,869	8,262
Amortization of deferred financing costs	1,321	1,527	4,292	4,696
Amortization of net debt discounts, net of amounts capitalized	(121)	683	1,063	2,028
Amortization of settled debt hedges	16	15	46	46
Recurring capital expenditures	(10,528)	(8,518)	(21,698)	(16,467)
Diluted adjusted funds from operations available to common share and common unit holders ("Diluted AFFO")	$ 35,503	$ 33,710	$ 113,811	$ 114,339
Diluted FFO per share	$ 0.48	$ 0.52	$ 1.18	$ 1.65
Diluted FFO per share, as adjusted for comparability	$ 0.49	$ 0.53	$ 1.49	$ 1.60
Dividends/distributions per common share/unit	$ 0.2750	$ 0.2750	$ 0.8250	$ 0.8250

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

	September 30, 2013	December 31, 2012
Balance Sheet Data		
Properties, net of accumulated depreciation	$ 3,239,746	$ 3,163,044
Total assets	3,755,588	3,653,759
Debt, net	2,135,031	2,019,168
Total liabilities	2,304,732	2,206,962
Redeemable noncontrolling interest	16,789	10,298
Equity	1,434,067	1,436,499
Debt to adjusted book	46.6%	45.8%
Debt to total market capitalization	47.4%	45.0%
Consolidated Property Data (as of period end)		
Number of operating properties	210	208
Total net rentable square feet owned (in thousands)	19,204	18,831
Occupancy %	88.5%	87.8%
Leased %	89.7%	89.2%
Reconciliation of total assets to denominator for debt to adjusted book		
Total assets	$ 3,755,588	$ 3,653,759
Accumulated depreciation	612,369	555,975
Accumulated depreciation included in assets held for sale	8,845	12,201
Accumulated amortization of real estate intangibles and deferred leasing costs	195,559	181,834
Accumulated amortization of real estate intangibles and deferred leasing costs included in assets held for sale	9,224	9,199
Denominator for debt to adjusted book	$ 4,581,585	$ 4,412,968

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Payout ratios				
Diluted FFO	57.6%	53.1%	71.4%	50.3%
Diluted FFO, as adjusted for comparability	57.1%	51.7%	56.6%	51.7%
Diluted AFFO	70.7%	62.3%	65.4%	55.1%
Adjusted EBITDA interest coverage ratio	3.6x	3.4x	3.6x	3.2x
Adjusted EBITDA fixed charge coverage ratio	2.9x	2.6x	2.8x	2.6x
Debt to Adjusted EBITDA ratio (1)	7.4x	7.5x	7.3x	7.6x
Reconciliation of denominators for diluted EPS and diluted FFO per share				
Denominator for diluted EPS	86,760	71,688	84,547	71,590
Weighted average common units	3,804	4,233	3,832	4,256
Anti-dilutive EPS effect of share-based compensation awards	45	73	63	48
Denominator for diluted FFO per share	90,609	75,994	88,442	75,894
Reconciliation of FFO to FFO, as adjusted for comparability				
FFO, per NAREIT	$ 49,284	$ 48,888	$ 126,395	$ 144,134
Gain on sales of non-operating properties	—	—	(2,683)	(33)
Impairment recoveries on non-operating properties, net of associated tax	—	—	—	(4,573)
Operating property acquisition costs	—	222	—	229
Loss (gain) on early extinguishment of debt, continuing and discontinued operations	374	(970)	27,028	(799)
Issuance costs associated with redeemed preferred shares	—	1,827	2,904	1,827
FFO, as adjusted for comparability	$ 49,658	$ 49,967	$ 153,644	$ 140,785

(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 September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Reconciliation of common share dividends to dividends and distributions for payout ratios				
Common share dividends	$24,022	$ 19,837	$ 71,220	$ 59,465
Common unit distributions	1,094	1,157	3,186	3,498
Dividends and distributions for payout ratios	$25,116	$ 20,994	$ 74,406	$ 62,963
Reconciliation of GAAP net (loss) income to adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA")				
Net (loss) income	$ (2,000)	$(20,765)	$ 8,872	$ 1,331
Interest expense on continuing operations	21,242	23,239	66,851	71,909
Interest expense on discontinued operations	68	127	199	2,107
Income tax expense	24	106	61	327
Real estate-related depreciation and amortization	29,210	30,624	86,397	93,377
Depreciation of furniture, fixtures and equipment	502	624	1,559	1,871
Impairment losses	22,074	55,829	31,126	64,770
Loss (gain) on early extinguishment of debt on continuing and discontinued operations	374	(970)	27,028	(799)
Gain on sales of operating properties	—	(16,913)	—	(20,936)
Gain on sales of non-operational properties	—	—	(2,683)	(33)
Net loss (gain) on investments in unconsolidated entities included in interest and other income	1,006	(81)	(15)	(597)
Operating property acquisition costs	—	222	—	229
Adjusted EBITDA	$72,500	$ 72,042	$219,395	$213,556
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	$21,242	$ 23,239	$ 66,851	$ 71,909
Interest expense from discontinued operations	68	127	199	2,107
Less: Amortization of deferred financing costs	(1,321)	(1,527)	(4,292)	(4,696)
Less: Amortization of net debt discount, net of amounts capitalized	121	(683)	(1,063)	(2,028)
Denominator for interest coverage-Adjusted EBITDA	20,110	21,156	61,695	67,292
Preferred share dividends	4,490	6,546	15,481	14,738
Preferred unit distributions	165	165	495	495
Denominator for fixed charge coverage-Adjusted EBITDA	$24,765	$ 27,867	$ 77,671	$ 82,525

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

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	$ 4,894	$ 7,774	$ 10,983	$ 11,103
Building improvements on operating properties	4,857	4,646	8,995	6,813
Leasing costs for operating properties	2,260	947	5,114	5,109
Less: Nonrecurring tenant improvements and incentives on operating properties	(230)	(3,852)	(238)	(4,510)
Less: Nonrecurring building improvements on operating properties	(1,266)	(940)	(3,113)	(1,919)
Less: Nonrecurring leasing costs for operating properties	14	(130)	(36)	(209)
Add: Recurring capital expenditures on operating properties held through joint ventures	(1)	73	(7)	80
Recurring capital expenditures	$10,528	$ 8,518	$ 21,698	$ 16,467
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	$64,601	$63,968	$193,324	$189,762
Less: Straight-line rent adjustments	(1,029)	(1,584)	(3,149)	(4,992)
Less: Amortization of deferred market rental revenue	22	(17)	(43)	(95)
Add: Amortization of above-market cost arrangements	320	371	958	1,095
Same office property cash net operating income	63,914	62,738	191,090	185,770
Less: Lease termination fees, gross	(306)	(636)	(1,280)	(1,507)
Same office property cash net operating income, excluding gross lease termination fees	$63,608	$62,102	$189,810	$184,263

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