April 25, 2014

COPT Reports First Quarter 2014 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, 2014.

"During the quarter, occupancy increased modestly in nearly all of our submarkets, reflecting strong demand by customers in our strategic tenant niche and the gradual yet broad-based, improvement in local economic conditions," stated Roger A. Waesche, Jr., COPT's President & Chief Executive Officer. "We are at a positive inflection point, and expect 2014 will be a rewarding year for shareholders," he added.

Results:

Diluted earnings per share ("EPS") was $0.00 for the quarter ended March 31, 2014 as compared to $0.11 in the first quarter of 2013. Per NAREIT's definition, diluted funds from operations per share ("FFOPS") for the first quarter of 2014 was $0.48 versus $0.45 reported in the first quarter of 2013. FFOPS, as adjusted for comparability, was $0.48 for the quarter ended March 31, 2014 as compared to $0.48 reported for the first quarter of 2013. Adjustments for comparability could encompass items such as acquisition costs, impairment losses and gains on non-operating properties (net of related tax adjustments), losses (gains) on early extinguishment of debt and write-offs of original issuance costs for redeemed preferred stock. Please refer to the reconciliation tables that appear later in this press release.

Operating Performance:

Portfolio Summary – At March 31, 2014, the Company's portfolio of 183 operating office properties totaled 17.5 million square feet. The Company's portfolio was 89.8% occupied and 91.1% leased as of March 31, 2014.

Same Office Performance – The Company's same office portfolio for the quarter ended March 31, 2014 represents 88% of the rentable square feet of the portfolio and consists of 170 properties. The Company's same office portfolio was 89.9% occupied at March 31, 2014, up 50 basis points from year end 2013 occupancy. As of the same date, our same office portfolio was 91.4% leased. For the first quarter ended March 31, 2014, the Company's same office property cash NOI, excluding gross lease termination fees, was essentially flat as compared to the first quarter of 2013.

Leasing – COPT completed approximately 446,000 square feet of total leasing in core office properties during the quarter ended March 31, 2014, and achieved a 56% renewal rate. For the quarter ended March 31, 2014, total rent on renewed space increased 1.6% on a GAAP basis and decreased 6.9% on a cash basis.

Investment Activity:

At March 31, 2014, the Company had eight properties totaling 1.2 million square feet under construction for a total projected cost of $300.3 million, of which $126.1 million had been incurred. These eight projects were 50% pre-leased at March 31, 2014. As of the same date, COPT had four properties under redevelopment representing a total projected cost of $75.6 million, of which $39.7 million has been incurred. The four redevelopment properties totaled approximately 400,000 square feet that, at March 31, 2014, were 68% pre-leased.

Balance Sheet and Capital Transactions:

As of March 31, 2014, the Company's debt to adjusted book ratio was 43.5% and its adjusted EBITDA fixed charge coverage ratio was 2.9x. Also, the Company's weighted average interest rate was 4.3% for the quarter ended March 31, 2014 and 89% of the Company's debt was subject to fixed interest rates, including the effect of interest rate swaps.

2014 FFO Guidance:

Management is raising the low-end of previously issued guidance for 2014 FFOPS, as adjusted for comparability, by $0.01, to a new range of $1.85–$1.92. Management is establishing guidance for second quarter 2014 FFOPS, as adjusted for comparability, of $0.43–$0.45. A reconciliation of projected diluted EPS to projected FFOPS for the quarter ending June 30, 2014 and the year ending December 31, 2014 is provided, as follows:

	Quarter Ending June 30, 2014		Year Ending December 31, 2014	
	Low	High	Low	High
EPS	$ 0.07	$ 0.09	$ 0.97	$ 1.04
Real estate depreciation and amortization	0.32	0.32	1.44	1.44
FFOPS, NAREIT definition	0.39	0.41	2.41	2.48
Net operating income from properties to be conveyed (a)	(0.01)	(0.01)	(0.02)	(0.02)
Interest expense on loan secured by properties to be conveyed (a)	0.05	0.05	0.14	0.14
Net gains on early extinguishment of debt (b)	-	-	(0.68)	(0.68)
FFOPS, as adjusted for comparability	$ 0.43	$ 0.45	$ 1.85	$ 1.92

a. The Company expects to transfer two operating properties in satisfaction of non-recourse secured indebtedness. These amounts represent the Company's forecast of net operating income generated by these assets and interest expense (accrued at the default rate) from April 1st through year-end, and assuming a transfer date of December 31, 2014.

b. Represents debt and accrued interest in excess of the book value of the assets to be conveyed.

1Q 2014 Conference Call Information:

Management will discuss first quarter 2014 earnings results, as well as its 2014 guidance, on its conference call on April 25, 2014 at 12:00 p.m. Eastern Time, details of which are listed below:

Earnings Release Date:	Friday, April 25, 2014 at 6:00 a.m. Eastern Time
Conference Call Date:	Friday, April 25, 2014
Time:	12:00 p.m. Eastern Time
Telephone Number: (within the U.S.)	888-713-4213
Telephone Number: (outside the U.S.)	617-213-4865
Passcode:	65527969

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=PC84V8CXU

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 25 at 4:00 p.m. Eastern Time through Friday, May 9 at midnight Eastern Time. To access the replay within the United States, please call 888-286-8010 and use passcode 50491518. To access the replay outside the United States, please call 617-801-6888 and use passcode 50491518.

The conference call 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 which are engaged in defense information technology and national security-related activities. As of March 31, 2014, COPT derived 73% of its annualized revenue from its strategic tenant niche properties and 23% from its regional office properties. 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, 2014, the Company's consolidated portfolio consisted of 183 office properties totaling 17.5 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 prolonged 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;*
- *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, 2013.

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

	For the Three Months Ended March 31,	
	2014	**2013**
Revenues		
Real estate revenues	$ 124,877	$ 111,957
Construction contract and other service revenues	21,790	14,262
Total revenues	146,667	126,219
Expenses		
Property operating expenses	49,772	40,388
Depreciation and amortization associated with real estate operations	43,596	27,010
Construction contract and other service expenses	18,624	13,477
General and administrative expenses	6,158	5,984
Leasing expenses	1,985	1,836
Business development expenses and land carry costs	1,326	1,359
Total operating expenses	121,461	90,054
Operating income	25,206	36,165
Interest expense	(20,827)	(20,290)
Interest and other income	1,285	946
Loss on early extinguishment of debt	—	(5,184)
Income from continuing operations before equity in income of unconsolidated entities and income taxes	5,664	11,637
Equity in income of unconsolidated entities	60	41
Income tax expense	(64)	(16)
Income from continuing operations	5,660	11,662
Discontinued operations	11	1,261
Income before gain on sales of real estate	5,671	12,923
Gain on sales of real estate, net of income taxes	—	2,354
Net income	5,671	15,277
Net (income) loss attributable to noncontrolling interests		
Common units in the Operating Partnership	(16)	(429)
Preferred units in the Operating Partnership	(165)	(165)
Other consolidated entities	(749)	337
Net income attributable to COPT	4,741	15,020
Preferred share dividends	(4,490)	(6,106)
Net income attributable to COPT common shareholders	$ 251	$ 8,914
Earnings per share ("EPS") computation:		
Numerator for diluted EPS:		
Net income attributable to common shareholders	$ 251	$ 8,914
Amount allocable to restricted shares	(121)	(118)
Numerator for diluted EPS	$ 130	$ 8,796
Denominator:		
Weighted average common shares - basic	87,080	81,397
Dilutive effect of share-based compensation awards	112	52
Weighted average common shares - diluted	87,192	81,449
Diluted EPS	$ 0.00	$ 0.11

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

	For the Three Months Ended March 31,	
	2014	**2013**
Net income	$ 5,671	$ 15,277
Real estate-related depreciation and amortization	43,596	28,252
Impairment losses on previously depreciated operating properties	1	1,857
Loss on sales of previously depreciated operating properties	4	—
Funds from operations ("FFO")	49,272	45,386
Noncontrolling interests - preferred units in the Operating Partnership	(165)	(165)
FFO allocable to other noncontrolling interests	(761)	(727)
Preferred share dividends	(4,490)	(6,106)
Basic and diluted FFO allocable to restricted shares	(205)	(183)
Basic and diluted FFO available to common share and common unit holders ("Basic and diluted FFO")	43,651	38,205
Gain on sales of non-operating properties, net of income taxes	—	(2,354)
Loss on early extinguishment of debt	23	5,184
Diluted FFO available to common share and common unit holders, as adjusted for comparability	43,674	41,035
Straight line rent adjustments	760	(3,833)
Amortization of intangibles included in net operating income	217	177
Share-based compensation, net of amounts capitalized	1,555	1,649
Amortization of deferred financing costs	1,167	1,528
Amortization of net debt discounts, net of amounts capitalized	171	628
Amortization of settled debt hedges	15	15
Recurring capital expenditures	(11,052)	(5,308)
Diluted adjusted funds from operations available to common share and common unit holders ("Diluted AFFO")	$ 36,507	$ 35,891
Diluted FFO per share	$ 0.48	$ 0.45
Diluted FFO per share, as adjusted for comparability	$ 0.48	$ 0.48
Dividends/distributions per common share/unit	$ 0.275	$ 0.275

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

	March 31, 2014	December 31, 2013
Balance Sheet Data		
Properties, net of accumulated depreciation	$3,224,628	$ 3,214,301
Total assets	3,605,897	3,629,952
Debt, net	1,931,831	1,927,703
Total liabilities	2,115,208	2,114,945
Redeemable noncontrolling interest	17,654	17,758
Equity	1,473,035	1,497,249
Debt to adjusted book	43.5%	43.6%
Debt to total market capitalization	41.7%	44.3%
Consolidated Property Data (as of period end)		
Number of operating properties	183	183
Total net rentable square feet owned (in thousands)	17,473	17,370
Occupancy %	89.8%	89.1%
Leased %	91.1%	90.3%

	For the Three Months Ended March 31,	
	2014	2013
Payout ratios		
Diluted FFO	57.7%	64.5%
Diluted FFO, as adjusted for comparability	57.6%	60.1%
Diluted AFFO	69.0%	68.7%
Adjusted EBITDA interest coverage ratio	3.6x	3.5x
Adjusted EBITDA fixed charge coverage ratio	2.9x	2.7x
Adjusted debt to in-place adjusted EBITDA ratio (1)	6.8x	6.8x
Reconciliation of denominators for diluted EPS and diluted FFO per share		
Denominator for diluted EPS	87,192	81,449
Weighted average common units	3,958	3,893
Denominator for diluted FFO per share	91,150	85,342
Reconciliation of FFO to FFO, as adjusted for comparability		
FFO, per NAREIT	$ 49,272	$ 45,386
Gain on sales of non-operating properties	—	(2,354)
Loss on early extinguishment of debt, continuing and discontinued operations	23	5,184
FFO, as adjusted for comparability	$ 49,295	$ 48,216

(1) Represents debt as of period end divided by in-place 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,	
	2014	**2013**
Reconciliation of common share dividends to dividends and distributions for payout ratios		
Common share dividends	$ 24,091	$ 23,594
Common unit distributions	1,081	1,050
Dividends and distributions for payout ratios	$ 25,172	$ 24,644
Reconciliation of GAAP net income to adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") and in-place adjusted EBITDA		
Net income	$ 5,671	$ 15,277
Interest expense on continuing operations	20,827	20,290
Interest expense on discontinued operations	—	2,081
Income tax expense	64	16
Real estate-related depreciation and amortization	43,596	28,252
Depreciation of furniture, fixtures and equipment	505	530
Impairment losses	1	1,857
Loss on early extinguishment of debt on continuing and discontinued operations	23	5,184
Loss on sales of operating properties	4	—
Gain on sales of non-operational properties	—	(2,354)
Net loss (gain) on investments in unconsolidated entities included in interest and other income	20	(60)
Adjusted and in-place adjusted EBITDA	$ 70,711	$ 71,073
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	$ 20,827	$ 20,290
Interest expense from discontinued operations	—	2,081
Less: Amortization of deferred financing costs	(1,167)	(1,528)
Less: Amortization of net debt discount, net of amounts capitalized	171	(628)
Denominator for interest coverage-Adjusted EBITDA	19,831	20,215
Preferred share dividends	4,490	6,106
Preferred unit distributions	165	165
Denominator for fixed charge coverage-Adjusted EBITDA	$ 24,486	$ 26,486

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

	For the Three Months Ended March 31,	
	2014	**2013**
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	$ 6,319	$ 2,291
Building improvements on operating properties	3,982	1,600
Leasing costs for operating properties	1,528	1,669
Less: Nonrecurring tenant improvements and incentives on operating properties	(16)	15
Less: Nonrecurring building improvements on operating properties	(568)	(267)
Less: Nonrecurring leasing costs for operating properties	(193)	—
Recurring capital expenditures	$ 11,052	$ 5,308
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	$ 65,789	$ 66,628
Less: Straight-line rent adjustments	(537)	(1,588)
Less: Amortization of deferred market rental revenue	8	(29)
Add: Amortization of above-market cost arrangements	272	319
Same office property cash net operating income	65,532	65,330
Less: Lease termination fees, gross	(512)	(224)
Same office property cash net operating income, excluding gross lease termination fees	$ 65,020	$ 65,106

	March 31, 2014	**December 31, 2013**
Reconciliation of total assets to denominator for debt to adjusted book		
Total assets	$ 3,605,897	$ 3,629,952
Accumulated depreciation	635,178	597,649
Accumulated amortization of real estate intangibles and deferred leasing costs	199,500	193,142
Denominator for debt to adjusted book	$ 4,440,575	$ 4,420,743
Reconciliation of debt to numerator for adjusted debt to in-place adjusted EBITDA ratio		
Debt, net	$ 1,931,831	$ 1,927,703
Less: Cash and cash equivalents	(18,374)	(54,373)
Numerator for adjusted debt to in-place adjusted EBITDA ratio	$ 1,913,457	$ 1,873,330

Corporate Office Properties Trust
IR Contacts:
Stephanie Krewson, 443-285-5453
stephanie.krewson@copt.com
or
Michelle Layne, 443-285-5452
michelle.layne@copt.com

Source: Corporate Office Properties Trust