July 25, 2014

COPT Reports Second Quarter 2014 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, 2014.

"Second quarter results were at the high end of our guidance range, reflecting better expense management at the property level," stated Roger A. Waesche, Jr., COPT's President & Chief Executive Officer. "Based on leasing already executed, and the leasing momentum we are experiencing across the majority of our portfolio, we are highly confident that FFO per share will now trend higher, beginning with this third quarter," he added.

Results:

Diluted earnings per share ("EPS") was $0.02 for the quarter ended June 30, 2014 as compared to $(0.16) in the second quarter of 2013. Per NAREIT's definition, diluted funds from operations per share ("FFOPS") for the second quarter of 2014 was $0.37 versus $0.25 reported in the second quarter of 2013. FFOPS, as adjusted for comparability, was $0.44 for the quarter ended June 30, 2014 as compared to $0.52 reported for the second 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 June 30, 2014, the Company's total portfolio of 180 operating office properties totaled 16.9 million square feet. The Company's total portfolio was 89.3% occupied and 91.4% leased as of June 30, 2014. Excluding eight buildings held for sale at June 30, 2014, the Company's core portfolio of 172 buildings contained 16.6 million square feet that were 90.0% occupied and 92.2% leased.

Same Office Performance – The Company's same office portfolio for the quarter ended June 30, 2014 represents 91% of the Company's core rentable square feet and consists of 161 properties. The Company's same office portfolio was 90.8% occupied at June 30, 2014, up 20 basis points from the second quarter of 2013. For the second quarter ended June 30, 2014, the Company's same office property cash NOI, excluding gross lease termination fees, decreased 0.4% as compared to the second quarter of 2013.

Leasing – COPT leased approximately 680,000 square feet of office space during the quarter ended June 30, 2014, achieving a 74% renewal rate. For the quarter ended June 30, 2014, rents on renewed space increased 5.9% on a GAAP basis and decreased 4.8% on a cash basis. For the six months ended June 30, 2014, the Company has leased 1.1 million

square feet and achieved a 69% renewal rate.

Investment Activity:

Developments – At June 30, 2014, the Company had eight properties totaling 1.1 million square feet under construction for a total projected cost of $271.9 million, of which $131.6 million had been incurred. These eight projects were 50% pre-leased at July 24, 2014.

Redevelopments – As of the same date, COPT had four properties under redevelopment totaling approximately 276,000 square feet that, at June 30, 2014, were 40% pre-leased.

Dispositions – The Company had eight operating properties held for sale, totaling approximately 303,000 square feet that, at June 30, 2014, were 49.9% leased and 48.3% occupied.

Balance Sheet and Capital Transactions:

As of June 30, 2014, the Company's debt to adjusted book ratio was 43.9% and its adjusted EBITDA fixed charge coverage ratio was 2.5x. Also, the Company's weighted average interest rate was 4.2% for the quarter ended June 30, 2014 and 92% of the Company's debt was subject to fixed interest rates, including the effect of interest rate swaps.

During the quarter, the Company issued $300 million of 3.70% senior unsecured notes due June 15, 2021 at a price equal to 99.739% of the principal amount. Also during the quarter, the Company redeemed all of its 2,000,000 outstanding 7.5% Series H Cumulative Redeemable Preferred Shares, at a price of $25.3230 per share including accrued and unpaid dividends through the date of redemption.

2014 FFO Guidance:

Management is narrowing its previously issued guidance for 2014 FFOPS, as adjusted for comparability, from the prior range of $1.85–$1.92, to a new range of $1.86–$1.90. Management is establishing guidance for third quarter 2014 FFOPS, as adjusted for comparability, of $0.46–$0.48, and for the fourth quarter 2014 of $0.48-$0.50. A reconciliation of projected diluted EPS to projected FFOPS for the quarter ending September 30, 2014 and the quarter and year ending December 31, 2014 is provided, as follows:

	Quarter ending September 30, 2014		Quarter ending December 31, 2014		Year ending December 31, 2014	
	Low	High	Low	High	Low	High
EPS	$ 0.03	$ 0.05	$ 0.78	$ 0.80	$ 0.86	$ 0.90
Real estate depreciation and amortization	0.34	0.34	0.34	0.34	1.50	1.50
Gains on sales of previously depreciated properties	0.05	0.05	-	-	0.05	0.05
Impairment losses on previously depreciated properties	-	-	-	-	(0.01)	(0.01)
FFOPS, NAREIT definition	0.42	0.44	1.12	1.14	2.40	2.44
NOI from properties to be conveyed (a)	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)	(0.03)
Interest expense on loan secured by properties to be conveyed (a)	0.05	0.05	0.05	0.05	0.15	0.15
Net gains on extinguishment of debt (b)	-	-	(0.68)	(0.68)	(0.68)	(0.68)
Issuance cost of redeemed preferred shares	-	-	-	-	0.02	0.02
FFOPS, as adjusted for comparability	$ 0.46	$ 0.48	$ 0.48	$ 0.50	$ 1.86	$ 1.90

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.

2Q 2014 Conference Call Information:

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

Second Quarter 2014:

Earnings Release Date:	Friday, July 25, 2014 at 6:00 a.m. Eastern Time
Conference Call Date:	Friday, July 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:	91072056

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=PGHCVH47L

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 25 at 4:00 p.m. Eastern Time through Friday, August 8 at midnight Eastern Time. To access the replay within the United States, please call 888-286-8010 and use passcode 83203581. To access the replay outside the United States, please call 617-801-6888 and use passcode 83203581.

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 June 30, 2014, COPT derived 76% of its annualized revenue from its strategic tenant niche properties and 24% 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 June 30, 2014, the Company's consolidated portfolio consisted of 180 office properties totaling 16.9 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 June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Real estate revenues	$115,959	$ 115,732	$240,836	$227,689
Construction contract and other service revenues	23,861	20,795	45,651	35,057
Total revenues	139,820	136,527	286,487	262,746
Expenses				
Property operating expenses	43,772	41,333	93,544	81,721
Depreciation and amortization associated with real estate operations	30,895	27,673	74,491	54,683
Construction contract and other service expenses	23,136	19,382	41,760	32,859
Impairment losses	1,302	—	1,302	—
General and administrative expenses	5,815	4,992	11,973	10,976
Leasing expenses	1,713	1,591	3,698	3,427
Business development expenses and land carry costs	1,351	1,327	2,677	2,686
Total operating expenses	107,984	96,298	229,445	186,352
Operating income	31,836	40,229	57,042	76,394
Interest expense	(23,478)	(21,102)	(44,305)	(41,392)
Interest and other income	1,299	2,006	2,584	2,952
Loss on early extinguishment of debt	(270)	(21,470)	(270)	(26,654)
Income (loss) from continuing operations before equity in (loss) income of unconsolidated entities and income taxes	9,387	(337)	15,051	11,300
Equity in (loss) income of unconsolidated entities	(47)	126	13	167
Income tax expense	(92)	(21)	(156)	(37)
Income (loss) from continuing operations	9,248	(232)	14,908	11,430
Discontinued operations	(198)	(4,502)	(187)	(3,241)
Income before gain on sales of real estate	9,050	(4,734)	14,721	8,189
Gain on sales of real estate, net of income taxes	—	329	—	2,683
Net income (loss)	9,050	(4,405)	14,721	10,872
Net (income) loss attributable to noncontrolling interests				
Common units in the Operating Partnership	(158)	671	(174)	242
Preferred units in the Operating Partnership	(165)	(165)	(330)	(330)
Other consolidated entities	(837)	(1,466)	(1,586)	(1,129)
Net income (loss) attributable to COPT	7,890	(5,365)	12,631	9,655
Preferred share dividends	(4,344)	(4,885)	(8,834)	(10,991)
Issuance costs associated with redeemed preferred shares	(1,769)	(2,904)	(1,769)	(2,904)
Net income (loss) attributable to COPT common shareholders	$ 1,777	$ (13,154)	$ 2,028	$ (4,240)
Earnings per share ("EPS") computation:				
Numerator for diluted EPS:				
Net income attributable to common shareholders	$ 1,777	$ (13,154)	$ 2,028	$ (4,240)
Dilutive effect of common units in the Operating Partnership	—	(671)	—	(242)
Amount allocable to restricted shares	(108)	(102)	(229)	(220)
Numerator for diluted EPS	$ 1,669	$ (13,927)	$ 1,799	$ (4,702)
Denominator:				
Weighted average common shares - basic	87,214	85,425	87,148	83,422
Dilutive effect of common units in the Operating Partnership	—	3,801	—	3,847
Dilutive effect of share-based compensation awards	201	—	156	—
Weighted average common shares - diluted	87,415	89,226	87,304	87,269
Diluted EPS	$ 0.02	$ (0.16)	$ 0.02	$ (0.05)

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Summary Financial Data
(unaudited)
(in thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income (loss)	$ 9,050	$ (4,405)	$14,721	$10,872
Real estate-related depreciation and amortization	30,895	28,935	74,491	57,187
Impairment losses on previously depreciated operating properties	1,328	7,195	1,329	9,052
Loss on sales of previously depreciated operating properties	—	—	4	—
Funds from operations ("FFO")	41,273	31,725	90,545	77,111
Noncontrolling interests - preferred units in the Operating Partnership	(165)	(165)	(330)	(330)
FFO allocable to other noncontrolling interests	(758)	(1,270)	(1,519)	(1,997)
Preferred share dividends	(4,344)	(4,885)	(8,834)	(10,991)
Issuance costs associated with redeemed preferred shares	(1,769)	(2,904)	(1,769)	(2,904)
Basic and diluted FFO allocable to restricted shares	(146)	(89)	(351)	(272)
Basic and diluted FFO available to common share and common unit holders ("Basic and diluted FFO")	34,091	22,412	77,742	60,617
Gain on sales of non-operating properties	—	(329)	—	(2,683)
Loss on early extinguishment of debt	363	21,470	386	26,654
Issuance costs associated with redeemed preferred shares	1,769	2,904	1,769	2,904
FFO on properties in default to be conveyed	3,629	—	3,629	—
Diluted FFO comparability adjustments allocable to restricted shares	(26)	—	(26)	—
Diluted FFO available to common share and common unit holders, as adjusted for comparability	39,826	46,457	83,500	87,492
Straight line rent adjustments	(1,745)	(2,011)	(985)	(5,844)
Straight line rent adjustments - properties in default to be conveyed	1	—	1	—
Amortization of intangibles included in net operating income	224	172	441	349
Share-based compensation, net of amounts capitalized	1,501	1,647	3,056	3,296
Amortization of deferred financing costs	1,122	1,443	2,289	2,971
Amortization of deferred financing costs - properties in default to be conveyed	(27)	—	(27)	—
Amortization of net debt discounts, net of amounts capitalized	229	556	400	1,184
Amortization of settled debt hedges	15	15	30	30
Recurring capital expenditures	(13,585)	(5,862)	(24,637)	(11,170)
Diluted adjusted funds from operations available to common share and common unit holders ("Diluted AFFO")	$ 27,561	$ 42,417	$64,068	$78,308
Diluted FFO per share	$ 0.37	$ 0.25	$ 0.85	$ 0.69
Diluted FFO per share, as adjusted for comparability	$ 0.44	$ 0.52	$ 0.92	$ 1.00
Dividends/distributions per common share/unit	$ 0.275	$ 0.275	$ 0.550	$ 0.550

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

	June 30, 2014	December 31, 2013
Balance Sheet Data		
Properties, net of accumulated depreciation	$3,254,242	$ 3,214,301
Total assets	3,709,500	3,629,952
Debt, net	2,099,343	1,927,703
Total liabilities	2,290,819	2,114,945
Redeemable noncontrolling interest	18,901	17,758
Equity	1,399,780	1,497,249
Debt to adjusted book	43.9%	43.6%
Debt to total market capitalization	43.3%	44.3%
Core Portfolio Data (as of period end) (1)		
Number of operating properties	172	177
Total net rentable square feet owned (in thousands)	16,620	16,045
Occupancy %	90.0%	88.7%
Leased %	92.2%	90.0%

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Payout ratios				
Diluted FFO	73.8%	110.0%	64.8%	81.3%
Diluted FFO, as adjusted for comparability	63.2%	53.1%	60.3%	56.3%
Diluted AFFO	91.3%	58.1%	78.6%	62.9%
Adjusted EBITDA interest coverage ratio	3.6x	3.5x	3.6x	3.5x
Adjusted EBITDA fixed charge coverage ratio	2.5x	2.4x	2.5x	2.4x
Adjusted debt to in-place adjusted EBITDA ratio (2)	7.1x	6.9x	N/A	N/A
Reconciliation of denominators for diluted EPS and diluted FFO per share				
Denominator for diluted EPS	87,415	89,226	87,304	87,269
Weighted average common units	3,912	—	3,934	—
Anti-dilutive EPS effect of share-based compensation awards	—	96	—	74
Denominator for diluted FFO per share	91,327	89,322	91,238	87,343
Reconciliation of FFO to FFO, as adjusted for comparability				
FFO, per NAREIT	$ 41,273	$ 31,725	$ 90,545	$77,111
Gain on sales of non-operating properties	—	(329)	—	(2,683)
Loss on early extinguishment of debt, continuing and discontinued operations	363	21,470	386	26,654
Issuance costs associated with redeemed preferred shares	1,769	2,904	1,769	2,904
FFO from properties to be conveyed to extinguish debt in default	3,629	—	3,629	—
FFO, as adjusted for comparability	$ 47,034	$ 55,770	$ 96,329	$103,986

(1) Represents operating properties held for long-term investment.
(2) 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 June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Reconciliation of common share dividends to dividends and distributions for payout ratios				
Common share dividends	$ 24,103	$ 23,604	$ 48,194	$ 47,198
Common unit distributions	1,072	1,042	2,153	2,092
Dividends and distributions for payout ratios	$ 25,175	$ 24,646	$ 50,347	$ 49,290
Reconciliation of GAAP net income to adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") and in-place adjusted EBITDA				
Net income (loss)	$ 9,050	$ (4,405)	$ 14,721	$ 10,872
Interest expense on continuing operations	23,478	21,102	44,305	41,392
Interest expense on discontinued operations	—	2,267	—	4,348
Income tax expense	92	21	156	37
Real estate-related depreciation and amortization	30,895	28,935	74,491	57,187
Depreciation of furniture, fixtures and equipment	843	527	1,348	1,057
Impairment losses	1,328	7,195	1,329	9,052
Loss on early extinguishment of debt on continuing and discontinued operations	363	21,470	386	26,654
Loss on sales of operating properties	—	—	4	—
Gain on sales of non-operational properties	—	(329)	—	(2,683)
Net loss (gain) on investments in unconsolidated entities included in interest and other income	282	(961)	302	(1,021)
EBITDA on properties in default to be conveyed	(531)	—	(531)	—
Adjusted EBITDA	$ 65,800	$ 75,822	$ 136,511	$ 146,895
Less: Net operating income from properties in quarter of disposition	—	(45)		
Adjusted and in-place adjusted EBITDA	$ 65,800	$ 75,777		
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	$ 23,478	$ 21,102	$ 44,305	$ 41,392
Interest expense from discontinued operations	—	2,267	—	4,348
Less: Amortization of deferred financing costs	(1,122)	(1,443)	(2,289)	(2,971)
Less: Amortization of net debt discount, net of amounts capitalized	229	(556)	400	(1,184)
Less: Interest exp. on debt in default to be extin. via conveyance of properties	(4,133)	—	(4,133)	—
Denominator for interest coverage-Adjusted EBITDA	18,452	21,370	38,283	41,585
Scheduled principal amortization	1,582	2,491	3,437	5,003
Capitalized interest	1,422	2,088	3,011	4,528
Preferred share dividends	4,344	4,885	8,834	10,991
Preferred unit distributions	165	165	330	330
Denominator for fixed charge coverage-Adjusted EBITDA	$ 25,965	$ 30,999	$ 53,895	$ 62,437

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,	
	2014	2013	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	$ 4,512	$ 3,798	$ 10,831	$ 6,089
Building improvements on operating properties	6,357	2,538	10,339	4,138
Leasing costs for operating properties	2,790	1,185	4,318	2,854
Less: Nonrecurring tenant improvements and incentives on operating properties	483	(23)	467	(8)
Less: Nonrecurring building improvements on operating properties	(519)	(1,580)	(1,087)	(1,847)
Less: Nonrecurring leasing costs for operating properties	(38)	(50)	(231)	(50)
Add: Recurring capital expenditures on operating properties held through joint ventures	—	(6)	—	(6)
Recurring capital expenditures	$ 13,585	$ 5,862	$ 24,637	$ 11,170
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	$ 67,056	$ 67,939	$ 132,717	$ 134,269
Less: Straight-line rent adjustments	(938)	(874)	(1,480)	(2,456)
Less: Amortization of deferred market rental revenue	15	(34)	23	(63)
Add: Amortization of below-market cost arrangements	272	319	544	638
Same office property cash net operating income	66,405	67,350	131,804	132,388
Less: Lease termination fees, gross	(93)	(750)	(605)	(974)
Same office property cash net operating income, excluding gross lease termination fees	$ 66,312	$ 66,600	$ 131,199	$ 131,414

	June 30, 2014	December 31, 2013
Reconciliation of total assets to adjusted book		
Total assets	$3,709,500	$ 3,629,952
Accumulated depreciation	655,214	597,649
Accumulated depreciation included in assets held for sale	3,121	—
Accumulated amortization of real estate intangibles and deferred leasing costs	201,627	193,142
Accumulated amortization of real estate intangibles and deferred leasing costs included in assets held for sale	4,277	—
Less: Adjusted book assoc. with properties to be conveyed to extinguish debt in default	(130,921)	—
Adjusted book	$4,442,818	$ 4,420,743
Reconciliation of debt to adjusted debt		
Debt, net	$2,099,343	$ 1,927,703
Less: Debt in default to be extinguished via conveyance of properties	(150,000)	—
Numerator for debt to adjusted book ratio	1,949,343	1,927,703
Less: Cash and cash equivalents	(76,216)	(54,373)
Adjusted debt	$1,873,127	$ 1,873,330

Corporate Office Properties Trust
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Source: Corporate Office Properties Trust