February 10, 2015

COPT Reports 2014 Results

COLUMBIA, Md.--(BUSINESS WIRE)-- Corporate Office Properties Trust ("COPT" or the "Company") (NYSE: OFC) announced financial and operating results for the fourth quarter and full year ended December 31, 2014.

"Fourth quarter and full year results topped off a strong year for our Company and were in line with our expectations," stated Roger A. Waesche, Jr., COPT's President & Chief Executive Officer. "During the year, we further honed our portfolio by investing in new development projects at multiple locations and by continuing to sell non-strategic assets. We also improved our capital position by accessing the public debt and equity markets."

Results:

For the fourth quarter ended December 31, 2014 – Diluted earnings per share ("EPS") was $0.01 for the quarter ended December 31, 2014 as compared to $0.94 for the fourth quarter of 2013. Diluted funds from operations per share ("FFOPS"), as calculated in accordance with NAREIT's definition, was $0.34 for the fourth quarter of 2014 as compared to $1.21 for the fourth quarter of 2013. FFOPS, as adjusted for comparability, was $0.49 for the quarter ended December 31, 2014 as compared to $0.48 for the fourth quarter of 2013.

For the year ended December 31, 2014 – EPS was $0.25 for the year ended December 31, 2014 as compared to $0.83 for 2013. Per NAREIT's definition, FFOPS for 2014 was $1.69 as compared to $2.40 for 2013. FFOPS for the full year 2014, as adjusted for comparability, was $1.88 as compared to $1.97 reported for 2013.

Adjustments for comparability encompass items such as acquisition costs, impairment losses and gains on non-operating properties (net of related tax adjustments), gains (losses) on early extinguishment of debt, derivative losses, executive transition costs and write-offs of original issuance costs for redeemed preferred shares.

Operating Performance:

Portfolio Summary – At December 31, 2014, the Company's operating portfolio of 173 operating office properties totaled 16.8 million square feet that were 90.9% occupied and 92.4% leased.

Same Office Performance – At December 31, 2014, COPT's same office portfolio represented 89.4% of the rentable square feet of the portfolio, consisted of 160 properties and was 91.3% occupied and 92.5% leased.

For the quarter ended December 31, 2014, the Company's same office property cash NOI, excluding gross lease termination fees, increased 3.6% as compared to the quarter ended December 31, 2013. For the full year, same office property cash NOI, excluding gross lease termination fees, increased 1.3% as compared to 2013.

Leasing – COPT completed a total of 1.0 million and 3.0 million square feet of leasing,

respectively, for the quarter and year ended December 31, 2014. During these same periods, the Company's respective renewal rates were 63% and 70%.

In the fourth quarter, lease terms on renewals averaged 5.8 years and for development and other new leases averaged 11.5 years. During the full year, average lease terms on renewals were 5.0 years and on development and other new leases were 9.3 years.

For the quarter and year ended December 31, 2014, total rent on renewed space increased 9.7% and 7.3%, respectively, as measured on a GAAP basis; on a cash basis, renewal rates were flat in the fourth quarter of 2014 and declined 2.2% for the year as compared to the expiring rents.

During the fourth quarter, leasing highlights include:

- long-term lease with a subsidiary of an investment-grade Fortune 500 company to deliver a 120,000 square foot shell building on land the Company owns in Ashburn, VA (Ashburn Crossing). This will be the third building of a three-building campus. The Company has commenced construction of the building in anticipation of a lease start date in the first quarter of 2015.
- full-building lease on a 240,000 square foot, Class A office development in Northern Virginia. The project has been leased to a customer in the Company's strategic tenant niche for a multi-year lease term. The lease start date is anticipated to be the second quarter of 2017.
- lease for 0.3 mega watts at COPT DC-6 in Manassas, VA.

Investment Activity:

Developments – The Company has ten properties totaling 1.5 million square feet under construction for a total projected cost of $331.9 million, of which $172.4 million had been incurred which were 75% leased. COPT has 344,000 square feet in five properties under redevelopment which were 41% leased.

Dispositions – During 2014, the Company disposed of eight buildings aggregating 303,000 square feet and non-strategic land for $57.1 million.

Balance Sheet and Capital Transactions:

As of December 31, 2014, the Company's debt to adjusted book ratio was 39.7%, adjusted debt to in-place adjusted EBITDA ratio was 6.3x, and, for the three months ended December 31, 2014, its adjusted EBITDA fixed charge coverage ratio was 2.8x. Also, the Company's weighted average interest rate was 4.2% for the quarter ended December 31, 2014 and, including the effect of interest rate swaps, 89% of the Company's debt was subject to fixed interest rates.

In May, 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 in May, 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.

In November, the Company completed its public offering of 5,520,000 newly issued common shares, which reflects the full exercise by the underwriter of its option to purchase 720,000 shares. The offering generated net proceeds of approximately $148.7 million, after the underwriting discount and offering-related expenses payable by the Company.

In early December, the Company, using primarily proceeds from the November common stock offering defeased $211.5 million of secured non-recourse debt.

Conference Call Information:

Management will discuss fourth quarter and full year 2014 earnings results, as well as its 2015 guidance, on its conference call today at 12:00 p.m. Eastern Time, details of which are listed below:

Earnings Release Date:	Tuesday, February 10, 2015 at 6:00 a.m. Eastern Time
Conference Call Date:	Tuesday, February 10, 2015
Time:	12:00 p.m. Eastern Time
Telephone Number: (within the U.S.)	888-713-4199
Telephone Number: (outside the U.S.)	617-213-4861
Passcode:	44019327

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=PL46J93RD

You may also pre-register in the Investors 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 Tuesday, February 10 at 4:00 p.m. Eastern Time through Tuesday, February 24 at midnight Eastern Time. To access the replay within the United States, please call 888-286-8010 and use passcode 70008103. To access the replay outside the United States, please call 617-801-6888 and use passcode 70008103.

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 December 31, 2014, COPT derived 77% 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 December 31, 2014, the Company's consolidated portfolio consisted of 173 office properties totaling 16.8 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 December 31,		For the Year Ended December 31,	
	2014	2013	2014	2013
Revenues				
Real estate revenues	$120,613	$118,487	$479,725	$460,997
Construction contract and other service revenues	26,358	10,315	106,748	62,363
Total revenues	146,971	128,802	586,473	523,360
Expenses				
Property operating expenses	43,334	44,117	179,934	167,199
Depreciation and amortization associated with real estate operations	31,358	30,326	136,086	113,214
Construction contract and other service expenses	24,705	9,710	100,058	58,875
Impairment losses	48	—	1,416	5,857
General and administrative expenses	7,206	6,523	24,841	23,736
Leasing expenses	1,706	1,916	6,953	7,133
Business development expenses and land carry costs	1,466	1,367	5,573	5,436
Total operating expenses	109,823	93,959	454,861	381,450
Operating income	37,148	34,843	131,612	141,910
Interest expense	(23,286)	(21,276)	(92,393)	(82,010)
Interest and other income	1,148	885	4,923	3,834
Loss on early extinguishment of debt	(9,106)	(2)	(9,552)	(27,030)
Income from continuing operations before equity in income of unconsolidated entities and income taxes	5,904	14,450	34,590	36,704
Equity in income of unconsolidated entities	23	1,899	229	2,110
Income tax expense	(53)	(1,917)	(310)	(1,978)
Income from continuing operations	5,874	14,432	34,509	36,836
Discontinued operations	22	71,907	26	55,692
Income before gain on sales of real estate	5,896	86,339	34,535	92,528
Gain on sales of real estate, net of income taxes	41	6,333	10,671	9,016
Net income	5,937	92,672	45,206	101,544
Net income attributable to noncontrolling interests				
Common units in the Operating Partnership	(64)	(3,757)	(1,006)	(3,283)
Preferred units in the Operating Partnership	(165)	(165)	(660)	(660)
Other consolidated entities	(804)	(1,734)	(3,285)	(3,894)
Net income attributable to COPT	4,904	87,016	40,255	93,707
Preferred share dividends	(3,552)	(4,490)	(15,939)	(19,971)
Issuance costs associated with redeemed preferred shares	—	—	(1,769)	(2,904)
Net income attributable to COPT common shareholders	$ 1,352	$ 82,526	$ 22,547	$ 70,832
Earnings per share ("EPS") computation:				
Numerator for diluted EPS:				
Net income attributable to common shareholders	$ 1,352	$ 82,526	$ 22,547	$ 70,832
Amount allocable to restricted shares	(100)	(348)	(432)	(414)
Numerator for diluted EPS	$ 1,252	$ 82,178	$ 22,115	$ 70,418
Denominator:				
Weighted average common shares - basic	90,752	87,010	88,092	85,167
Dilutive effect of share-based compensation awards	196	42	171	57
Weighted average common shares - diluted	90,948	87,052	88,263	85,224
Diluted EPS	$ 0.01	$ 0.94	$ 0.25	$ 0.83

Corporate Office Properties Trust
Summary Financial Data

(unaudited)
(in thousands, except per share data)

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2014	**2013**	**2014**	**2013**
Net income	$ 5,937	$ 92,672	$ 45,206	$101,544
Real estate-related depreciation and amortization	31,358	31,322	136,086	117,719
Impairment losses on previously depreciated operating properties	48	921	1,370	32,047
Loss (gain) on sales of previously depreciated operating properties	2	(9,004)	(5,117)	(9,004)
Funds from operations ("FFO")	37,345	115,911	177,545	242,306
Noncontrolling interests - preferred units in the Operating Partnership	(165)	(165)	(660)	(660)
FFO allocable to other noncontrolling interests	(867)	(880)	(3,216)	(3,710)
Preferred share dividends	(3,552)	(4,490)	(15,939)	(19,971)
Issuance costs associated with redeemed preferred shares	—	—	(1,769)	(2,904)
Basic and diluted FFO allocable to restricted shares	(123)	(462)	(665)	(912)
Basic and diluted FFO available to common share and common unit holders ("Basic and diluted FFO")	32,638	109,914	155,296	214,149
Gain on sales of non-operating properties	(43)	—	(5,578)	(2,683)
Impairment losses on other properties	—	—	49	—
Valuation allowance on tax asset associated with FFO comparability adjustments	—	1,855	—	1,855
Loss (gain) on early extinguishment of debt	9,106	(67,808)	9,668	(40,780)
Issuance costs associated with redeemed preferred shares	—	—	1,769	2,904
Add: Negative FFO of properties to be conveyed to extinguish debt in default (1)	3,493	—	10,928	—
Executive transition costs	1,056	—	1,056	—
Diluted FFO comparability adjustments allocable to restricted shares	(59)	168	(78)	168
Diluted FFO available to common share and common unit holders, as adjusted for comparability	46,191	44,129	173,110	175,613
Straight line rent adjustments	(379)	3,157	(1,820)	(3,667)
Straight line rent adjustments - properties in default to be conveyed	(47)	—	(142)	—
Amortization of intangibles included in net operating income	208	224	855	803
Share-based compensation, net of amounts capitalized	1,504	1,661	6,067	6,530
Amortization of deferred financing costs	1,020	1,159	4,666	5,451
Amortization of deferred financing costs - properties in default to be conveyed	—	—	(333)	—
Amortization of net debt discounts, net of amounts capitalized	261	(48)	920	1,015
Amortization of settled debt hedges	11	15	57	61
Recurring capital expenditures	(8,633)	(21,935)	(50,199)	(43,633)
Diluted adjusted funds from operations available to common share and common unit holders ("Diluted AFFO")	$40,136	$ 28,362	$133,181	$142,173
Diluted FFO per share	$ 0.34	$ 1.21	$ 1.69	$ 2.40
Diluted FFO per share, as adjusted for comparability	$ 0.49	$ 0.48	$ 1.88	$ 1.97
Dividends/distributions per common share/unit	$ 0.275	$ 0.275	$ 1.100	$ 1.100

(1) Interest expense exceeded net operating income from these properties by the amounts in the statement.

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

	December 31, 2014	December 31, 2013
Balance Sheet Data		
Properties, net of accumulated depreciation	$ 3,296,914	$ 3,214,301
Total assets	3,670,257	3,629,952
Debt, net	1,920,057	1,927,703
Total liabilities	2,130,956	2,114,945
Redeemable noncontrolling interest	18,417	17,758
Equity	1,520,884	1,497,249
Debt to adjusted book	39.7%	43.6%
Debt to total market capitalization	39.3%	44.3%
Core Portfolio Data (as of period end) (1)		
Number of operating properties	173	177
Total net rentable square feet owned (in thousands)	16,790	16,045
Occupancy %	90.9%	88.7%
Leased %	92.4%	90.0%

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2014	2013	2014	2013
Payout ratios				
Diluted FFO	81.8%	22.9%	65.8%	46.5%
Diluted FFO, as adjusted for comparability	57.8%	56.9%	59.0%	56.7%
Diluted AFFO	66.5%	88.6%	76.7%	70.0%
Adjusted EBITDA interest coverage ratio	4.0x	3.3x	3.7x	3.5x
Adjusted EBITDA fixed charge coverage ratio	2.8x	2.4x	2.7x	2.4x
Adjusted debt to in-place adjusted EBITDA ratio (2)	6.3x	6.8x	N/A	N/A
Reconciliation of denominators for diluted EPS and diluted FFO per share				
Denominator for diluted EPS	90,948	87,052	88,263	85,224
Weighted average common units	3,846	3,978	3,897	3,869
Denominator for diluted FFO per share	94,794	91,030	92,160	89,093
Reconciliation of FFO to FFO, as adjusted for comparability				
FFO, per NAREIT	$37,345	$115,911	$177,545	$242,306
Gain on sales of non-operating properties	(43)	—	(5,578)	(2,683)
Impairment losses on non-operating properties, net of associated tax	—	—	49	—
Valuation allowance on tax asset associated with FFO comparability adjustments	—	1,855	—	1,855
Loss (gain) on early extinguishment of debt, continuing and discontinued operations	9,106	(67,808)	9,668	(40,780)
Issuance costs associated with redeemed preferred shares	—	—	1,769	2,904
Add: Negative FFO of properties to be conveyed to extinguish debt in default	3,493	—	10,928	—
Executive transition costs	1,056	—	1,056	—
FFO, as adjusted for comparability	$50,957	$ 49,958	$195,437	$203,602

(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 December 31,		For the Year Ended December 31,	
	2014	2013	2014	2013
Reconciliation of common share dividends to dividends and distributions for payout ratios				
Common share dividends	$25,638	$ 24,026	$ 97,944	$ 95,246
Common unit distributions	1,055	1,094	4,270	4,280
Dividends and distributions for payout ratios	$26,693	$ 25,120	$102,214	$ 99,526
Reconciliation of GAAP net income to adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") and in-place adjusted EBITDA				
Net income	$ 5,937	$ 92,672	$ 45,206	$101,544
Interest expense on continuing operations	23,286	21,276	92,393	82,010
Interest expense on discontinued operations	—	1,905	—	8,221
Income tax expense	53	1,917	310	1,978
Real estate-related depreciation and amortization	31,358	31,322	136,086	117,719
Depreciation of furniture, fixtures and equipment	513	495	2,404	2,054
Impairment losses	48	921	1,419	32,047
Loss (gain) on early extinguishment of debt on continuing and discontinued operations	9,106	(67,808)	9,668	(40,780)
Loss (gain) on sales of operating properties	2	(9,004)	(5,117)	(9,004)
Gain on sales of non-operational properties	(43)	—	(5,578)	(2,683)
Net (gain) loss on investments in unconsolidated entities included in interest and other income	(74)	221	291	206
EBITDA of properties to be conveyed to extinguish debt in default	(828)	—	(2,091)	—
Executive transition costs	1,056	—	1,056	—
Adjusted EBITDA	$70,414	$ 73,917	$276,047	$293,312
Less: Net operating income from properties in quarter of disposition	—	(5,107)		
Adjusted and in-place adjusted EBITDA	$70,414	$ 68,810		
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	$23,286	$ 21,276	$ 92,393	$ 82,010
Interest expense from discontinued operations	—	1,905	—	8,221
Less: Amortization of deferred financing costs	(1,020)	(1,159)	(4,666)	(5,451)
Less: Amortization of net debt discount, net of amounts capitalized	(261)	48	(920)	(1,015)
Less: Interest exp. on debt in default to be extin. via conveyance of properties	(4,320)	—	(12,684)	—
Denominator for interest coverage-Adjusted EBITDA	17,685	22,070	74,123	83,765
Scheduled principal amortization	1,603	2,252	6,517	9,481
Capitalized interest	1,740	2,042	6,065	8,785
Preferred share dividends	3,552	4,490	15,939	19,971
Preferred unit distributions	165	165	660	660
Denominator for fixed charge coverage-Adjusted EBITDA	$24,745	$ 31,019	$103,304	$122,662

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

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	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	$ 7,239	$ 6,430	$ 29,651	$ 17,413
Building improvements on operating properties	4,974	12,898	23,432	21,893
Leasing costs for operating properties	1,341	4,286	8,536	9,400
Less: Nonrecurring tenant improvements and incentives on operating properties	(1,747)	—	(2,734)	(238)
Less: Nonrecurring building improvements on operating properties	(3,012)	(1,381)	(8,281)	(4,494)
Less: Nonrecurring leasing costs for operating properties	(162)	(275)	(405)	(311)
Add: Recurring capital expenditures on operating properties held through joint ventures	—	(23)	—	(30)
Recurring capital expenditures	$ 8,633	$21,935	$ 50,199	$ 43,633
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	$68,861	$66,162	$269,593	$267,742
Less: Straight-line rent adjustments	(1,857)	(999)	(3,798)	(4,831)
Less: Amortization of deferred market rental revenue	(2)	1	17	(38)
Add: Amortization of below-market cost arrangements	272	319	1,089	1,277
Same office property cash net operating income	67,274	65,483	266,901	264,150
Less: Lease termination fees, gross	(741)	(1,249)	(1,618)	(2,270)
Same office property cash net operating income, excluding gross lease termination fees	$66,533	$64,234	$265,283	$261,880

	December 31, 2014	December 31, 2013
Reconciliation of total assets to adjusted book		
Total assets	$ 3,670,257	$ 3,629,952
Accumulated depreciation	703,083	597,649
Accumulated amortization of real estate intangibles and deferred leasing costs	214,611	193,142
Less: Adjusted book assoc. with properties to be conveyed to extinguish debt in default	(131,118)	—
Adjusted book	$ 4,456,833	$ 4,420,743
Reconciliation of debt to adjusted debt		
Debt, net	$ 1,920,057	$ 1,927,703
Less: Debt in default to be extinguished via conveyance of properties	(150,000)	—
Numerator for debt to adjusted book ratio	1,770,057	1,927,703
Less: Cash and cash equivalents	(6,077)	(54,373)
Adjusted debt	$ 1,763,980	$ 1,873,330

Corporate Office Properties Trust
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Source: Corporate Office Properties Trust