July 26, 2012

COPT Reports Second Quarter 2012 Results

COLUMBIA, Md.--(BUSINESS WIRE)-- Corporate Office Properties Trust (COPT) (NYSE: OFC), an office real estate investment trust (REIT) that focuses primarily on serving the specialized requirements of U.S. Government and Defense Information Technology tenants, announced financial and operating results for the second quarter ended June 30, 2012.

"We have made significant progress toward achieving our portfolio-level, operational, and balance sheet objectives," stated Roger A. Waesche, Jr., President and Chief Executive Officer. "Year to date, we are ahead of plan on selling non-strategic properties, are on-plan with regard to leasing, and were pleased with the execution of our Series L Preferred stock offering in late June," he added.

Results:

Diluted earnings per share (EPS) was $0.09 for the quarter ended June 30, 2012 as compared to an EPS loss of ($0.42) in the second quarter of 2011. Diluted funds from operations per share (FFOPS), as adjusted for comparability, was $0.54 for the second quarter ended June 30, 2012, which represented a 5% decrease from the $0.57 reported for the second quarter of 2011. Adjustments for comparability encompass items such as acquisition costs, impairments and gains on non-operating properties, gains (losses) on early extinguishment of debt and derivative losses. Please refer to the reconciliation tables that appear later in this press release. Per NAREIT's definition, FFOPS for the second quarter of 2012 was $0.54 versus $0.44 reported in the second quarter of 2011.

Operating Performance:

Portfolio Summary – At June 30, 2012, the Company's consolidated portfolio of 228 operating office properties totaled 19.8 million square feet. The weighted average remaining lease term for the portfolio was 4.6 years and the average rental rate (including tenant reimbursements) was $27.13 per square foot. The Company's consolidated portfolio was 87% occupied and 89% leased as of June 30, 2012, up 40 basis points, respectively, from March 31, 2012 levels.

Same Office Performance – The Company's same office portfolio excludes properties identified for eventual disposal as part of the Company's Strategic Reallocation Plan. For the quarter ended June 30, 2012, COPT's same office portfolio represents 78% of the rentable square feet of the portfolio and consists of 164 properties. The Company's same office portfolio occupancy was 89.7% at the end of the second quarter of 2012, up 30 basis points from the end of the first quarter 2012.

Including and excluding gross lease termination fees, the Company's same office property cash NOI for the second quarter ended June 30, 2012 increased 5%, as compared to the second quarter ended 2011.

Leasing – COPT leased a total of 726,000 square feet during the quarter ended June 30, 2012, which included 94,000 square feet of development leasing. During this same period, the Company's renewal rate was 63.4%. For the quarter ended June 30, 2012, total rent on renewed space decreased 3.7% as measured from the straight-line rent in effect preceding the renewal date; on a cash basis, renewal rents decreased 8.1%.

Investment Activity:

Construction – At June 30, 2012, the Company had eight office properties totaling 988,000 square feet under construction for a total projected cost of $238.3 million, of which $156.2 million had been incurred. As of the same date, COPT had one property under redevelopment for an anticipated total cost of $21.4 million, of which $19.8 million had been spent.

Dispositions – In the second quarter of 2012, COPT sold three stabilized properties and adjacent land for $75.5 million. The stabilized buildings contained a total of 471,000 square feet and were 90% leased at the time of sale.

Capital Transactions:

In June, the Company issued $172.5 million dollars of Series L preferred shares with a 7.375% annual dividend. The Company used the proceeds to pay down its line of credit and, subsequent to the end of the quarter, announced its intent to redeem all $55 million of its outstanding Series G preferred shares, which pay an 8% annual dividend.

Balance Sheet and Financial Flexibility:

As of June 30, 2012, the Company had a total market capitalization of $4.4 billion, with $2.2 billion in debt outstanding, equating to a 50% debt-to-total market capitalization ratio. Also, the Company's weighted average interest rate was 4.3% for the quarter ended June 30, 2012 and 77% of the Company's debt was subject to fixed interest rates, including the effect of interest rate swaps.

For the second quarter 2012, the Company's adjusted EBITDA to interest expense coverage ratio was 3.15x, and the adjusted EBITDA fixed charge coverage ratio was 2.65x. Adjusting for construction in progress, the Company's adjusted debt-to-adjusted EBITDA ratio was 6.33x for the three months ended June 30, 2012.

2012 FFO Guidance:

Management is revising its previously issued guidance for 2012 FFOPS from $2.02 to $2.18 to $2.02 to $2.08, and is issuing third quarter 2012 FFOPS guidance of $0.47 to $0.50. A reconciliation of projected diluted EPS to projected FFOPS for the quarter ending September 30, 2012 and the year ending December 31, 2012 is provided, as follows:

	Quarter Ending September 30, 2012		Year Ending December 31, 2012	
	Low	High	Low	High
FFOPS, as adjusted for comparability	$ 0.47	$ 0.50	$ 2.02	$ 2.08
Net gains on early extinguishment of debt	0.01	0.01	0.01	0.01
Issuance costs on redeemed Preferred shares	(0.03)	(0.03)	(0.03)	(0.03)
FFOPS, NAREIT definition	0.45	0.48	2.00	2.06
Real estate depreciation and amortization	(0.42)	(0.42)	(1.67)	(1.67)
Impairments and exit costs on previously depreciated properties	(0.03)	(0.03)	(0.22)	(0.22)
Gains on sales of previously depreciated properties	0.21	0.21	0.26	0.26
EPS	$ 0.21	$ 0.24	$ 0.37	$ 0.43

Conference Call Information:

Management will discuss second quarter 2012 earnings results, as well as its 2012 guidance, on its conference call today at 11:00 a.m. Eastern Time, details of which are listed below:

Conference Call Date:	Thursday, July 26, 2012
Time:	11:00 a.m. Eastern Time
Telephone Number: (within the U.S.)	888-679-8033
Telephone Number: (outside the U.S.)	617-213-4846
Passcode:	56197159

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=PAVMDVEGC

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 Thursday, July 26 at 3:00 p.m. Eastern Time through Thursday, August 9 at midnight Eastern Time. To access the replay within the United States, please call 888-286-8010 and use passcode 58125347. To access the replay outside the United States, please call 617-801-6888 and use passcode 58125347.

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.

Company Information:

COPT is an office REIT that focuses primarily on strategic customer relationships and specialized tenant requirements in the U.S. Government and Defense Information Technology sectors and Data Centers serving such sectors. The Company acquires, develops, manages and leases office and data center properties that are typically concentrated in large office parks primarily located adjacent to government demand drivers and/or in strong markets that we believe possess growth opportunities. As of June 30, 2012, the Company's consolidated portfolio consisted of 228 office properties totaling 19.8 million rentable square feet. The Company's portfolio primarily consists of technically sophisticated buildings in visually appealing settings that are environmentally sensitive, sustainable and meet unique customer requirements. COPT is an S&P MidCap 400 company and more information can be found at www.copt.com.

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 strategic tenants;*
- *the Company's ability to sell properties included in its Strategic Reallocation Plan;*
- *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 or views of market economic conditions or failure to obtain development rights, any of which could result in recognition of 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 dilutive effect 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, 2011.

Reconciliations:

Reconciliations of non-GAAP measures to the most directly comparable GAAP measures are included in the tables, below. Please refer to the information furnished with our Form 8-K on our website (www.copt.com) for definitions of these non-GAAP measures and other terms used in this press release.

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

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
Revenues				
Real estate revenues	$ 116,391	$ 109,019	$232,467	$ 219,537
Construction contract and other service revenues	16,995	28,097	38,529	49,125
Total revenues	133,386	137,116	270,996	268,662
Expenses				
Property operating expenses	42,384	40,450	87,301	84,985
Depreciation and amortization associated with real estate operations	29,853	28,171	59,172	56,244
Construction contract and other service expenses	16,285	26,909	36,892	47,527
Impairment losses (recoveries)	—	20,183	(2,303)	47,925
General and administrative expenses	7,742	6,320	14,759	13,097
Business development expenses and land carry costs	1,298	1,349	2,874	2,571
Total operating expenses	97,562	123,382	198,695	252,349
Operating income	35,824	13,734	72,301	16,313
Interest expense	(24,747)	(25,595)	(49,667)	(51,263)
Interest and other income	840	2,756	2,057	3,924
Loss on early extinguishment of debt	(169)	(25)	(169)	(25)
Income (loss) from continuing operations before equity in loss of unconsolidated entities and income taxes	11,748	(9,130)	24,522	(31,051)
Equity in loss of unconsolidated entities	(187)	(94)	(276)	(64)
Income tax (expense) benefit	(17)	5,042	(4,190)	5,586
Income (loss) from continuing operations	11,544	(4,182)	20,056	(25,529)
Discontinued operations	296	(21,852)	(1,239)	(21,772)
Income (loss) before gain on sales of real estate	11,840	(26,034)	18,817	(47,301)
Gain on sales of real estate, net of income taxes	21	27	21	2,728
Net income (loss)	11,861	(26,007)	18,838	(44,573)
Net (income) loss attributable to noncontrolling interests				
Common units in the Operating Partnership	(390)	1,887	(549)	3,366
Preferred units in the Operating Partnership	(165)	(165)	(330)	(330)
Other consolidated entities	(552)	61	(528)	(477)
Net income (loss) attributable to COPT	10,754	(24,224)	17,431	(42,014)
Preferred share dividends	(4,167)	(4,026)	(8,192)	(8,051)
Net income (loss) attributable to COPT common shareholders	$ 6,587	$ (28,250)	$ 9,239	$ (50,065)
Earnings per share (“EPS”) computation:				
Numerator for diluted EPS:				
Net income (loss) attributable to common shareholders	$ 6,587	$ (28,250)	$ 9,239	$ (50,065)
Dilutive effect of common units in the Operating Partnership	—	(1,887)	—	(3,366)
Amount allocable to restricted shares	(105)	(237)	(246)	(519)
Numerator for diluted EPS	$ 6,482	$ (30,374)	$ 8,993	$ (53,950)
Denominator:				
Weighted average common shares - basic	71,624	68,446	71,541	67,399
Dilutive effect of common units in the Operating Partnership	—	4,382	—	4,389
Dilutive effect of share-based compensation awards	25	—	35	—
Weighted average common shares - diluted	71,649	72,828	71,576	71,788
Diluted EPS	$ 0.09	$ (0.42)	$ 0.13	$ (0.75)

Summary Financial Data

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$11,861	$(26,007)	$18,838	$(44,573)
Real estate-related depreciation and amortization	31,666	32,049	62,753	65,069
Impairment losses on previously depreciated operating properties	2,354	31,031	14,187	31,031
Depreciation and amortization on unconsolidated real estate entities	119	115	233	234
Gain on sales of previously depreciated operating properties, net of income taxes	115	(150)	(4,023)	(150)
Funds from operations (“FFO”)	46,115	37,038	91,988	51,611
Noncontrolling interests - preferred units in the Operating Partnership	(165)	(165)	(330)	(330)
Noncontrolling interests - other consolidated entities	(552)	61	(528)	(477)
Preferred share dividends	(4,167)	(4,026)	(8,192)	(8,051)
Depreciation and amortization allocable to noncontrolling interests in other consolidated entities	132	(225)	(152)	(290)
Basic and diluted FFO allocable to restricted shares	(220)	(237)	(514)	(519)
Basic and diluted FFO available to common share and common unit holders (“Basic and diluted FFO”)	41,143	32,446	82,272	41,944
Operating property acquisition costs	7	52	7	75
Gain on sales of non-operating properties, net of income taxes	(33)	(16)	(33)	(2,717)
Impairment losses (recoveries) on other properties	—	13,574	(5,246)	41,316
Income tax expense on impairment recoveries on other properties	—	(4,598)	4,642	(4,598)
Loss on early extinguishment of debt	171	25	171	25
Diluted FFO available to common share and common unit holders, as adjusted for comparability	41,288	41,483	81,813	76,045
Straight line rent adjustments	(1,857)	(2,611)	(4,036)	(6,523)
Amortization of acquisition intangibles included in net operating income	218	227	408	388
Share-based compensation, net of amounts capitalized	3,157	2,638	6,559	5,397
Amortization of deferred financing costs	1,597	1,702	3,169	3,461
Amortization of net debt discounts, net of amounts capitalized	682	1,464	1,345	2,862
Amortization of settled debt hedges	15	15	31	31
Recurring capital expenditures on properties not in disposition plans	(6,074)	(10,274)	(7,949)	(18,250)
Diluted adjusted funds from operations available to common share and common unit holders, excluding recurring capital expenditures on properties sold or in disposition plans	39,026	34,644	81,340	63,411
Recurring capital expenditures on properties sold or in disposition plans	(2,433)	(4,639)	(3,981)	(11,007)
Diluted adjusted funds from operations available to common share and common unit holders (“Diluted AFFO”)	$36,593	$ 30,005	$77,359	$ 52,404
Diluted FFO per share	$ 0.54	$ 0.44	$ 1.08	$ 0.58
Diluted FFO per share, as adjusted for comparability	$ 0.54	$ 0.57	$ 1.08	$ 1.06
Dividends/distributions per common share/unit	$0.2750	$ 0.4125	$0.5500	$ 0.8250
Payout ratios				
Diluted FFO	51.0%	96.9%	51.0%	145.3%
Diluted FFO, as adjusted for comparability	50.8%	75.8%	51.3%	80.2%
Diluted AFFO, excluding recurring capital expenditures on properties sold or in disposition plans	53.8%	90.8%	51.6%	96.1%
Adjusted EBITDA interest coverage ratio	3.15x	3.09x	3.18x	3.00x
Adjusted EBITDA fixed charge coverage ratio	2.65x	2.62x	2.68x	2.55x
Debt to Adjusted EBITDA ratio (1)	7.66x	7.87x	7.47x	8.08x
Adjusted debt to Adjusted EBITDA ratio (2)	6.33x	6.39x	6.17x	6.57x
Reconciliation of denominators for diluted EPS and diluted FFO per share				
Denominator for diluted EPS	71,649	72,828	71,576	71,788
Weighted average common units	4,255	—	4,267	—
Anti-dilutive EPS effect of share-based compensation awards	—	151	—	205
Denominator for diluted FFO per share	75,904	72,979	75,843	71,993

(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).
(2) Represents debt adjusted to subtract construction in progress 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 and shares in thousands, except per share data)

	June 30, 2012	**December 31, 2011**
Balance Sheet Data		
Properties, net of accumulated depreciation	$3,232,592	$3,352,975
Total assets	3,715,075	3,867,524
Debt, net	2,191,851	2,426,303
Total liabilities	2,361,726	2,649,459
Equity	1,353,349	1,218,065
Debt to adjusted book	50.8%	54.6%
Debt to total market capitalization	50.0%	56.8%
Consolidated Property Data (as of period end)		
Number of operating properties	228	238
Total net rentable square feet owned (in thousands)	19,787	20,514
Occupancy	87.4%	86.2%
Reconciliation of total assets to denominator for debt to adjusted book		
Denominator for debt to total assets	$3,715,075	$3,867,524
Accumulated depreciation on real estate assets	562,345	559,679
Accumulated depreciation included in assets held for sale	34,234	17,922
Denominator for debt to adjusted book	$4,311,654	$4,445,125

Reconciliations of tenant improvements and incentives, capital improvements and leasing costs for operating properties to recurring capital expenditures	**For the Three Months Ended June 30,**		**For the Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
Properties not sold or in disposition plans				
Tenant improvements and incentives on operating properties	$2,663	$ 7,752	$ 3,329	$15,187
Building improvements on operating properties	1,296	2,138	2,167	3,082
Leasing costs for operating properties	2,863	2,492	4,162	5,093
Less: Nonrecurring tenant improvements and incentives on operating properties	(97)	(866)	(658)	(3,077)
Less: Nonrecurring building improvements on operating properties	(572)	(920)	(979)	(1,119)
Less: Nonrecurring leasing costs for operating properties	(79)	(347)	(79)	(963)
Add: Recurring capital expenditures on operating properties held through joint ventures	—	25	7	47
Recurring capital expenditures on properties not sold or in disposition plans	$6,074	$10,274	$ 7,949	$18,250
Properties sold or in disposition plans				
Tenant improvements and incentives on operating properties	$1,827	$ 3,364	$ 2,757	$9,199
Building improvements on operating properties	459	288	1,282	1,334
Leasing costs for operating properties	392	896	534	1,031
Less: Nonrecurring tenant improvements and incentives on operating properties	(7)	(9)	(165)	(246)
Less: Nonrecurring building improvements on operating properties	(229)	100	(418)	(311)
Less: Nonrecurring leasing costs for operating properties	(9)	—	(9)	—
Recurring capital expenditures on properties sold or in disposition plans	$2,433	$ 4,639	$ 3,981	$11,007

Summary Financial Data
(unaudited)
(Dollars in thousands)

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
Reconciliation of common share dividends to dividends and distributions for payout ratios				
Common share dividends	$ 19,809	$ 29,632	$ 39,628	$ 57,336
Common unit distributions	1,168	1,808	2,341	3,617
Dividends and distributions for payout ratios	$ 20,977	$ 31,440	$ 41,969	$ 60,953
Reconciliation of FFO to FFO, as adjusted for comparability				
FFO	$ 46,115	$ 37,038	$ 91,988	$ 51,611
Gain on sales of non-operating properties, net of income taxes	(33)	(16)	(33)	(2,717)
Impairment losses (recoveries) on non-operating properties, net of associated tax	—	8,976	(604)	36,718
Operating property acquisition costs	7	52	7	75
Loss on early extinguishment of debt	171	25	171	25
FFO, as adjusted for comparability	$ 46,260	$ 46,075	$ 91,529	$ 85,712
Reconciliation of GAAP net (loss) income to adjusted earnings before interest, income taxes, depreciation and amortization (“Adjusted EBITDA”)				
Net income (loss)	$ 11,861	$ (26,007)	$ 18,838	$ (44,573)
Interest expense on continuing operations	24,747	25,595	49,667	51,263
Interest expense on discontinued operations	228	1,235	983	2,495
Income tax expense (benefit)	17	(5,042)	4,190	(5,586)
Real estate-related depreciation and amortization	31,666	32,049	62,753	65,069
Depreciation of furniture, fixtures and equipment	629	623	1,247	1,248
Impairment losses	2,354	44,605	8,941	72,347
Adjusted EBITDA	$ 71,502	$ 73,058	$146,619	$142,263
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	$ 24,747	$ 25,595	$ 49,667	$ 51,263
Interest expense from discontinued operations	228	1,235	983	2,495
Less: Amortization of deferred financing costs	(1,597)	(1,702)	(3,169)	(3,461)
Less: Amortization of net debt discount, net of amounts capitalized	(682)	(1,464)	(1,345)	(2,862)
Denominator for interest coverage-Adjusted EBITDA	22,696	23,664	46,136	47,435
Preferred share dividends	4,167	4,026	8,192	8,051
Preferred unit distributions	165	165	330	330
Denominator for fixed charge coverage-Adjusted EBITDA	$ 27,028	$ 27,855	$ 54,658	$ 55,816
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	$ 64,424	$ 62,303	$127,352	$122,309
Less: Straight-line rent adjustments	(942)	(2,060)	(2,821)	(5,589)
Less: Amortization of deferred market rental revenue	(97)	(32)	(196)	(132)
Add: Amortization of above-market cost arrangements	371	434	724	868
Same office property cash net operating income	63,756	60,645	125,059	117,456
Less: Lease termination fees, gross	(164)	(175)	(698)	(313)
Same office property cash net operating income, excluding gross lease termination fees	$ 63,592	$ 60,470	$124,361	$117,143
Reconciliation of debt, net to denominator for adjusted debt to Adjusted EBITDA ratio				
Debt, net	$2,191,851	$2,299,416		
Less: Construction in progress	(380,879)	(407,674)		

Less: Construction in progress on assets held for sale	(1,220)	(22,934)
Denominator for adjusted debt to adjusted EBITDA ratio	$1,809,752	$1,868,808

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Source: Corporate Office Properties Trust (COPT)