

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2024

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from

to

Commission file number 1-14023



COPT DEFENSE PROPERTIES

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

23-2947217

(IRS Employer
Identification No.)

6711 Columbia Gateway Drive, Suite 300, Columbia, MD

(Address of principal executive offices)

21046

(Zip Code)

Registrant's telephone number, including area code: **(443) 285-5400**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares of beneficial interest, \$0.01 par value	CDP	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 22, 2024, 112,634,870 of COPT Defense Properties' Common Shares of Beneficial Interest, \$0.01 par value, were issued and outstanding.

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PART I: FINANCIAL INFORMATION
Item 1. Financial Statements

COPT Defense Properties and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share data)
(unaudited)

	March 31, 2024	December 31, 2023
Assets		
Properties, net:		
Operating properties, net	\$ 3,272,452	\$ 3,246,806
Projects in development or held for future development	245,426	256,872
Total properties, net	3,517,878	3,503,678
Property - operating right-of-use assets	40,368	41,296
Cash and cash equivalents	123,144	167,820
Investment in unconsolidated real estate joint ventures	40,597	41,052
Accounts receivable, net	50,088	48,946
Deferred rent receivable	153,788	149,237
Lease incentives, net	61,150	61,331
Deferred leasing costs (net of accumulated amortization of \$41,846 and \$41,448, respectively)	70,902	70,057
Investing receivables (net of allowance for credit losses of \$2,361 and \$2,377, respectively)	82,523	81,512
Prepaid expenses and other assets, net	92,457	82,037
Total assets	\$ 4,232,895	\$ 4,246,966
Liabilities and equity		
Liabilities:		
Debt, net	\$ 2,416,873	\$ 2,416,287
Accounts payable and accrued expenses	111,981	133,315
Rents received in advance and security deposits	37,557	35,409
Dividends and distributions payable	33,906	32,644
Deferred revenue associated with operating leases	34,019	29,049
Property - operating lease liabilities	33,141	33,931
Other liabilities	16,406	18,996
Total liabilities	2,683,883	2,699,631
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interests	22,966	23,580
Equity:		
Shareholders' equity:		
Common Shares of beneficial interest (\$0.01 par value; 150,000,000 shares authorized; shares issued and outstanding of 112,640,861 at March 31, 2024 and 112,555,352 at December 31, 2023)	1,126	1,126
Additional paid-in capital	2,487,468	2,489,989
Cumulative distributions in excess of net income	(1,009,964)	(1,009,318)
Accumulated other comprehensive income	3,849	2,115
Total shareholders' equity	1,482,479	1,483,912
Noncontrolling interests in subsidiaries:		
Common units in COPT Defense Properties, L.P. ("CDPLP")	29,214	25,502
Other consolidated entities	14,353	14,341
Noncontrolling interests in subsidiaries	43,567	39,843
Total equity	1,526,046	1,523,755
Total liabilities, redeemable noncontrolling interests and equity	\$ 4,232,895	\$ 4,246,966

See accompanying notes to consolidated financial statements.

COPT Defense Properties and Subsidiaries
Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	For the Three Months Ended March 31,	
	2024	2023
Revenues		
Lease revenue	\$ 165,433	\$ 150,560
Other property revenue	1,230	1,121
Construction contract and other service revenues	26,603	15,820
Total revenues	193,266	167,501
Operating expenses		
Property operating expenses	66,746	59,420
Depreciation and amortization associated with real estate operations	38,351	36,995
Construction contract and other service expenses	26,007	15,201
General, administrative, leasing and other expenses	11,747	10,490
Total operating expenses	142,851	122,106
Interest expense	(20,767)	(16,442)
Interest and other income, net	4,122	2,256
Gain on sales of real estate	—	49,378
Income before equity in income (loss) of unconsolidated entities and income taxes	33,770	80,587
Equity in income (loss) of unconsolidated entities	69	(64)
Income tax expense	(168)	(125)
Net income	33,671	80,398
Net income attributable to noncontrolling interests:		
Common units in CDPLP	(608)	(1,293)
Other consolidated entities	(454)	(326)
Net income attributable to common shareholders	\$ 32,609	\$ 78,779
Earnings per common share:		
Net income attributable to common shareholders - basic	\$ 0.29	\$ 0.70
Net income attributable to common shareholders - diluted	\$ 0.29	\$ 0.70

See accompanying notes to consolidated financial statements.

COPT Defense Properties and Subsidiaries
Consolidated Statements of Comprehensive Income
(in thousands)
(unaudited)

	For the Three Months Ended March 31,	
	2024	2023
Net income	\$ 33,671	\$ 80,398
Other comprehensive income (loss):		
Unrealized income (loss) on interest rate derivatives	2,981	(215)
Reclassification adjustments on interest rate derivatives recognized in interest expense	(1,180)	(591)
Total other comprehensive income (loss)	1,801	(806)
Comprehensive income	35,472	79,592
Comprehensive income attributable to noncontrolling interests	(1,129)	(1,531)
Comprehensive income attributable to common shareholders	\$ 34,343	\$ 78,061

See accompanying notes to consolidated financial statements.

COPT Defense Properties and Subsidiaries
Consolidated Statements of Equity
(Dollars in thousands)
(unaudited)

	Common Shares	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
<u>For the Three Months Ended March 31, 2023</u>						
Balance at December 31, 2022 (112,423,893 common shares outstanding)	\$ 1,124	\$ 2,486,116	\$ (807,508)	\$ 2,071	\$ 39,652	\$ 1,721,455
Redemption of common units	—	—	—	—	(373)	(373)
Share-based compensation (89,964 shares issued, net of redemptions)	1	1,059	—	—	754	1,814
Redemption of vested equity awards	—	(1,113)	—	—	—	(1,113)
Adjustments to noncontrolling interests resulting from changes in ownership of CDPLP	—	(2,342)	—	—	2,342	—
Comprehensive income	—	—	78,779	(718)	832	78,893
Dividends	—	—	(32,091)	—	—	(32,091)
Distributions to owners of common units in CDPLP	—	—	—	—	(544)	(544)
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	(8)	(8)
Adjustments for changes in fair value of redeemable noncontrolling interests	—	781	—	—	—	781
Balance at March 31, 2023 (112,513,857 common shares outstanding)	<u>\$ 1,125</u>	<u>\$ 2,484,501</u>	<u>\$ (760,820)</u>	<u>\$ 1,353</u>	<u>\$ 42,655</u>	<u>\$ 1,768,814</u>
<u>For the Three Months Ended March 31, 2024</u>						
Balance at December 31, 2023 (112,555,352 common shares outstanding)	\$ 1,126	\$ 2,489,989	\$ (1,009,318)	\$ 2,115	\$ 39,843	\$ 1,523,755
Redemption of common units	—	—	—	—	(1,180)	(1,180)
Share-based compensation (85,509 shares issued, net of redemptions)	—	1,158	—	—	1,652	2,810
Redemption of vested equity awards	—	(1,039)	—	—	—	(1,039)
Adjustments to noncontrolling interests resulting from changes in ownership of CDPLP	—	(3,255)	—	—	3,255	—
Comprehensive income	—	—	32,609	1,734	660	35,003
Dividends	—	—	(33,255)	—	—	(33,255)
Distributions to owners of common units in CDPLP	—	—	—	—	(655)	(655)
Distributions to noncontrolling interests in other consolidated entities	—	—	—	—	(8)	(8)
Adjustments for changes in fair value of redeemable noncontrolling interests	—	615	—	—	—	615
Balance at March 31, 2024 (112,640,861 common shares outstanding)	<u>\$ 1,126</u>	<u>\$ 2,487,468</u>	<u>\$ (1,009,964)</u>	<u>\$ 3,849</u>	<u>\$ 43,567</u>	<u>\$ 1,526,046</u>

See accompanying notes to consolidated financial statements.

COPT Defense Properties and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	For the Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities		
Revenues from real estate operations received	\$ 173,830	\$ 152,273
Construction contract and other service revenues received	11,445	18,765
Property operating expenses paid	(58,314)	(55,753)
Construction contract and other service expenses paid	(18,894)	(21,999)
General, administrative, leasing and other expenses paid	(11,828)	(11,681)
Interest expense paid	(20,996)	(12,031)
Lease incentives paid	(6,578)	(10,350)
Interest and other income received	3,551	1,316
Other	(1,226)	(1,795)
Net cash provided by operating activities	70,990	58,745
Cash flows from investing activities		
Acquisitions of operating properties and related intangible assets	(15,210)	—
Development of properties	(39,932)	(71,282)
Tenant improvements on operating properties	(7,946)	(22,568)
Other capital improvements on operating properties	(13,084)	(5,512)
Proceeds from sale of properties	—	189,325
Leasing costs paid	(2,666)	(4,655)
Other	(73)	(125)
Net cash (used in) provided by investing activities	(78,911)	85,183
Cash flows from financing activities		
Proceeds from debt		
Revolving Credit Facility	—	95,000
Repayments of debt		
Revolving Credit Facility	—	(188,000)
Scheduled principal amortization	(769)	(790)
Other debt repayments	—	(15,902)
Common share dividends paid	(32,104)	(30,941)
Other	(3,546)	(2,900)
Net cash used in financing activities	(36,419)	(143,533)
Net (decrease) increase in cash and cash equivalents and restricted cash	(44,340)	395
Cash and cash equivalents and restricted cash		
Beginning of period	169,424	16,509
End of period	\$ 125,084	\$ 16,904

See accompanying notes to consolidated financial statements.

COPT Defense Properties and Subsidiaries
Consolidated Statements of Cash Flows (continued)
(in thousands)
(unaudited)

	For the Three Months Ended March 31,	
	2024	2023
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 33,671	\$ 80,398
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	38,959	37,597
Amortization of deferred financing costs and net debt discounts	1,699	1,250
Change in net deferred rent receivable and liability	496	(6,869)
Gain on sales of real estate	—	(49,378)
Share-based compensation	2,645	1,733
Other	(178)	(376)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(1,303)	(2,802)
(Increase) decrease in lease incentives and prepaid expenses and other assets, net	(2,498)	9,361
Decrease in accounts payable, accrued expenses and other liabilities	(4,649)	(16,806)
Increase in rents received in advance and security deposits	2,148	4,637
Net cash provided by operating activities	<u>\$ 70,990</u>	<u>\$ 58,745</u>
Reconciliation of cash and cash equivalents and restricted cash:		
Cash and cash equivalents at beginning of period	\$ 167,820	\$ 12,337
Restricted cash at beginning of period	1,604	4,172
Cash and cash equivalents and restricted cash at beginning of period	<u>\$ 169,424</u>	<u>\$ 16,509</u>
Cash and cash equivalents at end of period	\$ 123,144	\$ 15,199
Restricted cash at end of period	1,940	1,705
Cash and cash equivalents and restricted cash at end of period	<u>\$ 125,084</u>	<u>\$ 16,904</u>
Supplemental schedule of non-cash investing and financing activities:		
Decrease in accrued capital improvements, leasing and other investing activity costs	\$ (19,113)	\$ (11,043)
Recognition of operating right-of-use assets and related lease liabilities	\$ 277	\$ 6,697
Recognition of finance right-of-use assets and related lease liabilities	\$ —	\$ 434
Investment in unconsolidated real estate joint venture retained in property disposition	\$ —	\$ 21,121
Increase (decrease) in fair value of derivatives applied to accumulated other comprehensive income and noncontrolling interests	\$ 1,801	\$ (806)
Dividends/distributions payable	\$ 33,906	\$ 32,630
Adjustments to noncontrolling interests resulting from changes in CDPLP ownership	\$ 3,255	\$ 2,342
Decrease in redeemable noncontrolling interests and increase in equity to adjust for changes in fair value of redeemable noncontrolling interests	\$ (615)	\$ (781)

See accompanying notes to consolidated financial statements.

COPT Defense Properties and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

1. Organization

COPT Defense Properties (“COPT Defense”) and subsidiaries (collectively, the “Company”, “we” or “us”) is a fully-integrated and self-managed real estate investment trust (“REIT”) focused on owning, operating and developing properties in locations proximate to, or sometimes containing, key U.S. Government (“USG”) defense installations and missions (which we refer to herein as our Defense/IT Portfolio). Our tenants include the USG and their defense contractors, who are primarily engaged in priority national security activities, and who generally require mission-critical and high security property enhancements. As of March 31, 2024, our Defense/IT Portfolio included:

- 193 operating properties totaling 22.0 million square feet comprised of 16.3 million square feet in 163 office properties and 5.7 million square feet in 30 single-tenant data center shells. We owned 24 of these data center shells through unconsolidated real estate joint ventures;
- six properties under development (three office properties and three data center shells), including one partially-operational property, that will total approximately 959,000 square feet upon completion; and
- approximately 650 acres of land controlled that we believe could be developed into approximately 7.7 million square feet.

We also owned eight other operating properties totaling 2.1 million square feet and approximately 50 acres of other developable land in the Greater Washington, DC/Baltimore region as of March 31, 2024.

We conduct almost all of our operations and own almost all of our assets through our operating partnership, COPT Defense Properties, L.P. (“CDPLP”) and subsidiaries (collectively, the “Operating Partnership”), of which COPT Defense is the sole general partner. CDPLP owns real estate directly and through subsidiary partnerships and limited liability companies (“LLCs”). In addition to owning real estate, CDPLP also owns subsidiaries that provide real estate services such as property management, development and construction services primarily for our properties but also for third parties. Some of these services are performed by a taxable REIT subsidiary (“TRS”).

Equity interests in CDPLP are in the form of common and preferred units. As of March 31, 2024, COPT Defense owned 97.5% of the outstanding CDPLP common units (“common units”) and there were no preferred units outstanding. Common units not owned by COPT Defense carry certain redemption rights. The number of common units owned by COPT Defense is equivalent to the number of outstanding common shares of beneficial interest (“common shares”) of COPT Defense, and the entitlement of common units to quarterly distributions and payments in liquidation is substantially the same as that of COPT Defense common shareholders.

COPT Defense’s common shares are publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “CDP”.

2. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements include the accounts of COPT Defense, the Operating Partnership, their subsidiaries and other entities in which COPT Defense has a majority voting interest and control. We also consolidate certain entities when control of such entities can be achieved through means other than voting rights (“variable interest entities” or “VIEs”) if we are deemed to be the primary beneficiary of such entities. We eliminate all intercompany balances and transactions in consolidation.

We use the equity method of accounting when we own an interest in an entity and can exert significant influence over but cannot control the entity’s operations. We discontinue equity method accounting if our investment in an entity (and net advances) is reduced to zero unless we have guaranteed obligations of the entity or are otherwise committed to provide further financial support for the entity.

When we own an equity investment in an entity and cannot exert significant influence over its operations, we measure the investment at fair value, with changes recognized through net income. For an investment without a readily determinable fair value, we measure the investment at cost, less any impairments, plus or minus changes resulting from observable price changes for an identical or similar investment of the same issuer.

These interim financial statements should be read together with the consolidated financial statements and notes thereto as of and for the year ended December 31, 2023 included in our 2023 Annual Report on Form 10-K. The unaudited consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly state our financial position and results of operations. All adjustments are of a normal recurring nature. The consolidated financial statements have been prepared using the accounting policies described in our 2023 Annual Report on Form 10-K.

Reclassifications

We reclassified certain amounts from prior periods to conform to the current period presentation of our consolidated financial statements with no effect on previously reported net income or equity.

Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standard Board ("FASB") issued guidance to improve reportable segment disclosure requirements. This guidance requires disclosure of incremental segment information on an annual and interim basis and is effective for us beginning after December 15, 2024. Early adoption is permitted. The guidance will be applied retrospectively to all periods presented unless it is impracticable to do so. We are currently assessing the impact of this guidance on our future related disclosures.

In December 2023, the FASB issued guidance to improve income tax disclosures. This guidance requires enhanced annual disclosures primarily related to existing rate reconciliation and income taxes paid disclosure requirements and is effective for us for annual periods beginning after December 15, 2024. Early adoption is permitted. We expect to apply this guidance prospectively. We are currently assessing the application of this guidance but do not expect it to materially affect our future related disclosures.

In March 2024, the FASB issued guidance to reduce complexity and diversity in practice in determining whether a profits interest award is accounted for as a share-based payment. This guidance is effective for us for annual and interim periods beginning after December 15, 2024. Early adoption is permitted. This guidance can be applied either retrospectively to all prior periods presented in the financial statements or prospectively to profits interest or similar awards granted or modified on or after the effective date for our application of this guidance. We are currently assessing the application of this guidance on our future related disclosures.

3. Fair Value Measurements

Recurring Fair Value Measurements

We have a non-qualified elective deferred compensation plan for Trustees and certain members of our management team that, prior to December 31, 2019, permitted participants to defer up to 100% of their compensation on a pre-tax basis and receive a tax-deferred return on such deferrals. Effective December 31, 2019, no new investments of deferred compensation were eligible for the plan. The assets held in the plan (comprised of mutual funds) and the corresponding liability to the participants are measured at fair value on a recurring basis on our consolidated balance sheets using quoted market prices. The balance of the plan, which was fully funded and totaled \$2.0 million as of March 31, 2024, is included in the line entitled "prepaid expenses and other assets, net" on our consolidated balance sheets. The offsetting liability associated with the plan is adjusted to fair value at the end of each accounting period based on the fair value of the plan assets and reported in "other liabilities" on our consolidated balance sheets. The assets of the plan are classified in Level 1 of the fair value hierarchy, while the offsetting liability is classified in Level 2 of the fair value hierarchy.

The fair values of our interest rate derivatives, as disclosed in Note 9, are determined using widely accepted valuation techniques, including a discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate market data and implied volatilities in such interest rates. While we determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our interest rate derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default. However, as of March 31, 2024, we assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivatives and determined that these adjustments were not significant. As a result, we determined that our interest rate derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, other assets (excluding investing receivables) and accounts payable and accrued expenses are reasonable estimates of their fair values because of the short maturities of these instruments. The fair values of our investing receivables, as disclosed in Note 7, were based on the discounted estimated future cash flows of the loans (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans with similar maturities and credit quality, and the estimated cash payments include scheduled principal and interest payments. For our disclosure of debt fair values in Note 8, we estimated the fair value of our unsecured senior notes based on quoted market rates for our senior notes (categorized within Level 1 of the fair value hierarchy) and estimated the fair value of our other debt based on the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans, or groups of loans, with similar maturities and credit quality, and the estimated future payments include scheduled principal and interest payments. Fair value estimates are made as of a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment.

The table below sets forth our financial assets and liabilities accounted for at fair value on a recurring basis as of March 31, 2024 and the hierarchy level of inputs used in measuring their respective fair values under applicable accounting standards (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets: (1)				
Marketable securities in deferred compensation plan	\$ 1,959	\$ —	\$ —	\$ 1,959
Interest rate derivatives	—	4,359	—	4,359
Total assets	\$ 1,959	\$ 4,359	\$ —	\$ 6,318
Liabilities: (2)				
Deferred compensation plan liability	\$ —	\$ 1,959	\$ —	\$ 1,959

(1) Included in the line entitled "prepaid expenses and other assets, net" on our consolidated balance sheet.

(2) Included in the line entitled "other liabilities" on our consolidated balance sheet.

4. Properties, Net

Operating properties, net consisted of the following (in thousands):

	March 31, 2024	December 31, 2023
Land	\$ 488,371	\$ 482,964
Buildings and improvements	4,218,702	4,164,004
Less: Accumulated depreciation	(1,434,621)	(1,400,162)
Operating properties, net	\$ 3,272,452	\$ 3,246,806

On March 15, 2024, we acquired 6841 Benjamin Franklin Drive, a 202,000 square foot operating office property in Columbia, Maryland (included in the Fort Meade/BW Corridor sub-segment of our Defense/IT Portfolio reportable segment) that was 56% leased, for a purchase price of \$15.0 million. The table below sets forth the allocation of the purchase price and transaction costs associated with this acquisition (in thousands):

Land, operating properties	\$ 5,428
Building and improvements	2,534
Intangible assets on real estate acquisitions	7,248
Total acquisition cost	\$ 15,210

Intangible assets recorded in connection with this acquisition included the following (dollars in thousands):

		Weighted Average Amortization Period (in Years)
Tenant relationship value	\$ 3,752	12.4
In-place lease value	2,229	2.4
Above-market leases	1,267	2.4
	\$ 7,248	7.6

5. Leases

Lessor Arrangements

We lease real estate properties, comprised primarily of office properties and data center shells, to third parties. These leases encompass all, or a portion, of properties, with various expiration dates. Our lease revenue is comprised of: fixed-lease revenue, including contractual rent billings under leases recognized on a straight-line basis over lease terms and amortization of lease incentives and above- and below-market lease intangibles; and variable-lease revenue, including tenant expense recoveries, lease termination revenue and other revenue from tenants that is not fixed under leases. The table below sets forth our composition of lease revenue recognized between fixed- and variable-lease revenue (in thousands):

Lease revenue	For the Three Months Ended March 31,	
	2024	2023
Fixed	\$ 126,198	\$ 116,039
Variable	39,235	34,521
	<u>\$ 165,433</u>	<u>\$ 150,560</u>

Lessee Arrangements

As of March 31, 2024, our balance sheet included \$42.9 million in right-of-use assets associated primarily with land leased from third parties underlying certain properties that we are operating with various expiration dates. Our property right-of-use assets and property lease liabilities on our consolidated balance sheets consisted of the following (in thousands):

Leases	Balance Sheet Location	March 31, 2024	December 31, 2023
Right-of-use assets			
Operating leases - Property	Property - operating right-of-use assets	\$ 40,368	\$ 41,296
Finance leases - Property	Prepaid expenses and other assets, net	2,547	2,565
Total right-of-use assets		<u>\$ 42,915</u>	<u>\$ 43,861</u>
Lease liabilities			
Operating leases - Property	Property - operating lease liabilities	\$ 33,141	\$ 33,931
Finance leases - Property	Other liabilities	409	415
Total lease liabilities		<u>\$ 33,550</u>	<u>\$ 34,346</u>

As of March 31, 2024, our operating leases had a weighted average remaining lease term of 51 years and a weighted average discount rate of 7.32%, while our finance leases had a weighted average remaining lease term of nine years and a weighted average discount rate of 9.14%. The table below presents our total property lease cost (in thousands):

Lease cost	Statement of Operations Location	For the Three Months Ended March 31,	
		2024	2023
Operating lease cost			
Property leases - fixed	Property operating expenses	\$ 1,859	\$ 1,535
Property leases - variable	Property operating expenses	34	17
Finance lease cost			
Amortization of property right-of-use assets	Property operating expenses	19	20
Interest on lease liabilities	Interest expense	9	13
		<u>\$ 1,921</u>	<u>\$ 1,585</u>

The table below presents the effect of property lease payments on our consolidated statements of cash flows (in thousands):

Supplemental cash flow information	For the Three Months Ended March 31,	
	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 1,724	\$ 1,185
Operating cash flows for financing leases	\$ 9	\$ 13
Financing cash flows for financing leases	\$ 6	\$ 4

Payments on property leases were due as follows (in thousands):

Year Ending December 31,	March 31, 2024	
	Operating Leases	Finance Leases
2024 (1)	\$ 5,099	\$ 46
2025	2,403	63
2026	1,815	65
2027	1,830	66
2028	1,847	69
Thereafter	139,906	297
Total lease payments	152,900	606
Less: Amount representing interest	(119,759)	(197)
Lease liability	\$ 33,141	\$ 409

(1) Represents the nine months ending December 31, 2024.

6. Real Estate Joint Ventures

Consolidated Real Estate Joint Ventures

The table below sets forth information as of March 31, 2024 pertaining to our investments in consolidated real estate joint ventures, which are each variable interest entities (dollars in thousands):

Entity	Date Formed	Nominal Ownership %	Location	March 31, 2024			
				Total Assets	Encumbered Assets	Total Liabilities	Mortgage Debt
LW Redstone Company, LLC (1)	3/23/2010	85%	Huntsville, Alabama	\$ 723,509	\$ 98,418	\$ 98,619	\$ 50,205
Stevens Investors, LLC	8/11/2015	95%	Washington, D.C.	130,123	—	3,579	—
M Square Associates, LLC	6/26/2007	50%	College Park, Maryland	98,456	56,944	50,317	48,337
				\$ 952,088	\$ 155,362	\$ 152,515	\$ 98,542

(1) We fund all capital requirements. Our partner receives distributions of \$1.2 million of annual operating cash flows and we receive the remainder.

Unconsolidated Real Estate Joint Ventures

The table below sets forth information pertaining to our investments in unconsolidated real estate joint ventures accounted for using the equity method of accounting (dollars in thousands):

Entity	Date Formed	Nominal Ownership %	Number of Properties	Carrying Value of Investment (1)	
				March 31, 2024	December 31, 2023
Redshift JV LLC	1/10/2023	10%	3	\$ 21,021	\$ 21,053
BREIT COPT DC JV LLC	6/20/2019	10%	9	10,321	10,629
Quark JV LLC	12/14/2022	10%	2	6,722	6,727
B RE COPT DC JV III LLC	6/2/2021	10%	2	2,533	2,643
B RE COPT DC JV II LLC (2)	10/30/2020	10%	8	(2,982)	(2,777)
			24	\$ 37,615	\$ 38,275

(1) Included \$40.6 million and \$41.1 million reported in "investment in unconsolidated real estate joint ventures" and \$3.0 million and \$2.8 million for investments with deficit balances reported in "other liabilities" on our consolidated balance sheets as of March 31, 2024 and December 31, 2023, respectively.

(2) Our investment in B RE COPT DC JV II LLC was lower than our share of the joint venture's equity by \$6.8 million as of March 31, 2024 and December 31, 2023 due to a difference between our cost basis and our share of the joint venture's underlying equity in its net assets. We recognize adjustments to our share of the joint venture's earnings and losses resulting from this basis difference in the underlying assets of the joint venture.

7. Investing Receivables

Investing receivables consisted of the following (in thousands):

	March 31, 2024	December 31, 2023
Notes receivable from the City of Huntsville	\$ 78,017	\$ 77,022
Other investing loan receivable	6,867	6,867
Amortized cost basis	84,884	83,889
Allowance for credit losses	(2,361)	(2,377)
Investing receivables, net	\$ 82,523	\$ 81,512

The balances above include accrued interest receivable, net of allowance for credit losses, of \$822,000 as of March 31, 2024 and \$6.0 million as of December 31, 2023.

Our notes receivable from the City of Huntsville funded infrastructure costs in connection with our LW Redstone Company, LLC joint venture (see Note 6) and carry an interest rate of 9.95%. Our other investing loan receivable as of March 31, 2024 carries a stated interest rate of 12.0% and matures in 2024.

The fair value of these receivables was approximately \$85 million as of March 31, 2024 and \$84 million as of December 31, 2023.

8. Debt, Net

Our debt consisted of the following (dollars in thousands):

	Carrying Value (1) as of		March 31, 2024	
	March 31, 2024	December 31, 2023	Stated Interest Rates	Scheduled Maturity
Mortgage and Other Secured Debt:				
Fixed-rate mortgage debt	\$ 65,753	\$ 66,314	3.82% to 4.62% (2)	2024-2026
Variable-rate secured debt	32,789	32,894	SOFR + 0.10% + 1.45% to 1.55% (3)	2025-2026 (4)
Total mortgage and other secured debt	98,542	99,208		
Revolving Credit Facility	75,000	75,000	SOFR + 0.10% + 0.725% to 1.400% (5)	October 2026 (6)
Term Loan Facility	124,376	124,291	SOFR + 0.10% + 0.850% to 1.700% (7)	January 2026 (8)
Unsecured Senior Notes				
2.25%, \$400,000 aggregate principal	397,879	397,608	2.25% (9)	March 2026
5.25%, \$345,000 aggregate principal (10)	336,237	335,802	5.25% (11)	September 2028
2.00%, \$400,000 aggregate principal	397,593	397,471	2.00% (12)	January 2029
2.75%, \$600,000 aggregate principal	591,489	591,212	2.75% (13)	April 2031
2.90%, \$400,000 aggregate principal	395,371	395,265	2.90% (14)	December 2033
Unsecured note payable	386	430	0% (15)	May 2026
Total debt, net	<u>\$ 2,416,873</u>	<u>\$ 2,416,287</u>		

- (1) The carrying values of our debt other than the Revolving Credit Facility reflect net deferred financing costs of \$5.0 million as of March 31, 2024 and \$5.3 million as of December 31, 2023.
- (2) The weighted average interest rate on our fixed-rate mortgage debt was 4.10% as of March 31, 2024.
- (3) Including the effect of interest rate swaps that hedge the risk of interest rate changes, the weighted average interest rate on our variable-rate secured debt as of March 31, 2024 was 2.45%; excluding the effect of these swaps, the weighted average interest rate on this debt as of March 31, 2024 was 6.93%.
- (4) Most of this debt matures in 2025, with the ability for us to extend such maturity by two 12-month periods at our option, provided that there is no default on the debt and we pay an extension fee of 0.10% of the debt balance for each extension period.
- (5) The weighted average interest rate on the Revolving Credit Facility was 6.48% as of March 31, 2024, excluding the effect of interest rate swaps that hedge the risk of interest rate changes (see Note 9).
- (6) The facility matures in October 2026, with the ability for us to extend such maturity by two six-month periods at our option, provided that there is no default under the facility and we pay an extension fee of 0.0625% of the total availability under the facility for each extension period.
- (7) The interest rate on this loan was 6.73% as of March 31, 2024, excluding the effect of interest rate swaps that hedge the risk of interest rate changes (see Note 9).
- (8) This facility matures in January 2026, with the ability for us to extend such maturity by two 12-month periods at our option, provided that there is no default under the facility and we pay an extension fee of 0.125% of the outstanding loan balance for each extension period.
- (9) The carrying value of these notes reflects unamortized discounts and commissions totaling \$1.7 million as of March 31, 2024 and \$1.9 million as of December 31, 2023. The effective interest rate under the notes, including amortization of such costs, was 2.48%.
- (10) As described further in our 2023 Annual Report on Form 10-K, these notes have an exchange settlement feature under which the notes may, under certain circumstances, be exchangeable at the option of the holders. Upon exchange, the principal amount of notes is payable in cash, with the remainder of the exchange obligation, if any, as determined based on the exchange price per common share at the time of settlement, payable in cash, common shares or a combination thereof at our election. As of March 31, 2024, the exchange rate of the notes equaled 33.3882 of our common shares per \$1,000 principal amount of notes (equivalent to an exchange price of approximately \$29.95 per common share).
- (11) The carrying value of these notes reflects unamortized commissions totaling \$7.7 million as of March 31, 2024 and \$8.1 million as of December 31, 2023. The effective interest rate under the notes, including amortization of such costs, was 5.83%.
- (12) The carrying value of these notes reflects unamortized discounts and commissions totaling \$1.7 million as of March 31, 2024 and \$1.8 million as of December 31, 2023. The effective interest rate under the notes, including amortization of such costs, was 2.09%.
- (13) The carrying value of these notes reflects unamortized discounts and commissions totaling \$7.4 million as of March 31, 2024 and \$7.6 million as of December 31, 2023. The effective interest rate under the notes, including amortization of such costs, was 2.94%.
- (14) The carrying value of these notes reflects unamortized discounts and commissions totaling \$3.8 million as of March 31, 2024 and \$3.9 million as of December 31, 2023. The effective interest rate under the notes, including amortization of such costs, was 3.01%.
- (15) This note carries an interest rate that, upon assumption, was below market rates and it therefore was recorded at its fair value based on applicable effective interest rates. The carrying value of this note reflects an unamortized discount totaling \$25,000 as of March 31, 2024 and \$32,000 as of December 31, 2023.

All debt is owed by the Operating Partnership. While COPT Defense is not directly obligated by any debt, it has guaranteed CDPLP's Revolving Credit Facility, Term Loan Facility and Unsecured Senior Notes. All of our mortgage and other secured debt as of March 31, 2024 was for consolidated real estate joint ventures (see Note 6).

The table below sets forth interest expense recognized on the 5.25% Exchangeable Senior Notes due 2028 (the "5.25% Notes") for the three months ended March 31, 2024 (in thousands):

Interest expense at stated interest rate	\$	4,528
Interest expense associated with amortization of debt discount and issuance costs		382
Total	\$	4,910

Certain of our debt instruments require that we comply with a number of restrictive financial covenants. As of March 31, 2024, we were compliant with these financial covenants.

Our debt matures on the following schedule (in thousands):

<u>Year Ending December 31,</u>	<u>March 31, 2024</u>
2024 (1)	\$ 29,214
2025	23,717
2026	646,300
2027	—
2028	345,000
Thereafter	1,400,000
Total	\$ 2,444,231 (2)

(1) Represents the nine months ending December 31, 2024.

(2) Represents scheduled principal amortization and maturities only and therefore excludes net discounts and deferred financing costs of \$27.4 million.

We capitalized interest costs of \$589,000 in the three months ended March 31, 2024 and \$770,000 in the three months ended March 31, 2023.

The following table sets forth information pertaining to the fair value of our debt (in thousands):

	<u>March 31, 2024</u>		<u>December 31, 2023</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Fixed-rate debt				
Unsecured Senior Notes	\$ 2,118,569	\$ 1,880,835	\$ 2,117,358	\$ 1,876,611
Other fixed-rate debt	66,139	63,013	66,744	63,692
Variable-rate debt	232,165	232,105	232,185	232,270
	\$ 2,416,873	\$ 2,175,953	\$ 2,416,287	\$ 2,172,573

9. Interest Rate Derivatives

The following table sets forth the key terms and fair values of our interest rate swap derivatives (dollars in thousands):

Notional Amount	Fixed Rate	Floating Rate Index	Effective Date	Expiration Date	Fair Value at	
					March 31, 2024	December 31, 2023
\$ 10,580 (1)	1.678%	SOFR + 0.10%	8/1/2019	8/1/2026	\$ 639	\$ 571
\$ 22,400 (2)	0.573%	SOFR + 0.10%	4/1/2020	3/26/2025	963	1,084
\$ 150,000	3.742%	One-Month SOFR	2/1/2023	2/2/2026	2,071	681
\$ 50,000	3.747%	One-Month SOFR	2/1/2023	2/2/2026	686	222
					<u>\$ 4,359</u>	<u>\$ 2,558</u>

(1) The notional amount of this instrument is scheduled to amortize to \$10.0 million.

(2) The notional amount of this instrument is scheduled to amortize to \$22.1 million.

Each of these swaps was designated as a cash flow hedge of interest rate risk.

The table below sets forth the fair value of our interest rate derivatives as well as their classification on our consolidated balance sheets (in thousands):

Derivatives	Balance Sheet Location	Fair Value at	
		March 31, 2024	December 31, 2023
Interest rate swaps designated as cash flow hedges	Prepaid expenses and other assets, net	\$ 4,359	\$ 2,558

The table below presents the effect of our interest rate derivatives on our consolidated statements of operations and comprehensive income (in thousands):

Derivatives in Hedging Relationships	Amount of Income (Loss) Recognized in AOCI on Derivatives		Amount of Income Reclassified from AOCI into Interest Expense on Statement of Operations	
	For the Three Months Ended March 31,		For the Three Months Ended March 31,	
	2024	2023	2024	2023
Interest rate derivatives	\$ 2,981	\$ (215)	\$ 1,180	\$ 591

Based on the fair value of our derivatives as of March 31, 2024, we estimate that approximately \$3.6 million of gains will be reclassified from accumulated other comprehensive income ("AOCI") as a decrease to interest expense over the next 12 months.

We have agreements with each of our interest rate derivative counterparties that contain provisions under which, if we default or are capable of being declared in default on defined levels of our indebtedness, we could also be declared in default on our derivative obligations. Failure to comply with the loan covenant provisions could result in our being declared in default on any derivative instrument obligations covered by the agreements. As of March 31, 2024, we were not in default with any of these provisions. As of March 31, 2024, we did not have any derivatives in liability positions.

10. Redeemable Noncontrolling Interests

Redeemable noncontrolling interests on our consolidated balance sheets include the ownership interests of our partners in LW Redstone Company, LLC and Stevens Investors, LLC due to the partners' rights to require us to acquire their interests. Effective in June 2023, these rights expired for our Stevens Investors, LLC partners, which resulted in our reclassification of their interests from redeemable noncontrolling interests to the noncontrolling interests in subsidiaries section of equity. The table below sets forth the activity for redeemable noncontrolling interests (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Beginning balance	\$ 23,580	\$ 26,293
Distributions to noncontrolling interests	(468)	(763)
Net income attributable to noncontrolling interests	469	699
Adjustments for changes in fair value of interests	(615)	(781)
Ending balance	\$ 22,966	\$ 25,448

We determine the fair value of the interests based on unobservable inputs after considering the assumptions that market participants would make in pricing the interest. We apply a discount rate to the estimated future cash flows allocable to our partners from the properties underlying the respective joint ventures. Estimated cash flows used in such analyses are based on our plans for the properties and our views of market and economic conditions, and consider items such as current and future rental rates, occupancy projections and estimated operating and development expenditures.

11. Equity

As of March 31, 2024, we had remaining capacity under our at-the-market stock offering program equal to an aggregate gross sales price of \$300 million in common shares.

We declared dividends per common share of \$0.295 in the three months ended March 31, 2024 and \$0.285 in the three months ended March 31, 2023.

See Note 15 for disclosure of common share activity pertaining to our share-based compensation plans.

12. Information by Business Segment

We have the following reportable segments: Defense/IT Portfolio; and Other. We also report on Defense/IT Portfolio sub-segments, which include the following: Fort George G. Meade and the Baltimore/Washington Corridor ("Fort Meade/BW Corridor"); Northern Virginia Defense/IT Locations ("NoVA Defense/IT"); Lackland Air Force Base (in San Antonio, Texas); locations serving the U.S. Navy ("Navy Support"), which included properties proximate to the Washington Navy Yard, the Naval Air Station Patuxent River in Maryland and the Naval Surface Warfare Center Dahlgren Division in Virginia; Redstone Arsenal (in Huntsville, Alabama); and data center shells (properties leased to tenants to be operated as data centers in which the tenants fund the costs for the power, fiber connectivity and data center infrastructure).

We measure the performance of our segments through the measure we define as net operating income from real estate operations ("NOI from real estate operations"), which includes: real estate revenues and property operating expenses; and the net of revenues and property operating expenses of real estate operations owned through unconsolidated real estate joint ventures ("UJV" or "UJVs") that is allocable to our ownership interest ("UJV NOI allocable to COPT Defense"). Amounts reported for segment assets represent long-lived assets associated with consolidated operating properties (including the carrying value of properties, right-of-use assets, net of related lease liabilities, intangible assets, deferred leasing costs, deferred rents receivable and lease incentives) and the carrying value of investments in UJVs owning operating properties. Amounts reported as additions to long-lived assets represent additions to existing consolidated operating properties, excluding transfers from non-operating properties, which we report separately.

The table below reports segment financial information for our reportable segments (in thousands):

	Defense/IT Portfolio							Other	Total
	Fort Meade/BW Corridor	NoVA Defense/IT	Lackland Air Force Base	Navy Support	Redstone Arsenal	Data Center Shells	Total Defense/IT Portfolio		
Three Months Ended March 31, 2024									
Revenues from real estate operations	\$ 78,068	\$ 21,426	\$ 16,411	\$ 8,226	\$ 16,808	\$ 8,457	\$ 149,396	\$ 17,267	\$ 166,663
Property operating expenses	(27,890)	(9,262)	(8,688)	(3,626)	(5,792)	(943)	(56,201)	(10,545)	(66,746)
UJV NOI allocable to COPT Defense	—	—	—	—	—	1,740	1,740	—	1,740
NOI from real estate operations	\$ 50,178	\$ 12,164	\$ 7,723	\$ 4,600	\$ 11,016	\$ 9,254	\$ 94,935	\$ 6,722	\$ 101,657
Additions to long-lived assets	\$ 26,340	\$ 4,491	\$ —	\$ 598	\$ 672	\$ —	\$ 32,101	\$ 4,790	\$ 36,891
Transfers from non-operating properties	\$ 1,575	\$ 993	\$ 9	\$ —	\$ 32,884	\$ 3,075	\$ 38,536	\$ 9	\$ 38,545
Segment assets at March 31, 2024	\$ 1,458,458	\$ 489,544	\$ 187,232	\$ 161,210	\$ 584,790	\$ 434,194	\$ 3,315,428	\$ 312,784	\$ 3,628,212
Three Months Ended March 31, 2023									
Revenues from real estate operations	\$ 69,777	\$ 19,829	\$ 15,605	\$ 7,925	\$ 13,414	\$ 6,692	\$ 133,242	\$ 18,439	\$ 151,681
Property operating expenses	(24,520)	(7,572)	(7,945)	(3,543)	(4,636)	(594)	(48,810)	(10,610)	(59,420)
UJV NOI allocable to COPT Defense	—	—	—	—	—	1,642	1,642	—	1,642
NOI from real estate operations	\$ 45,257	\$ 12,257	\$ 7,660	\$ 4,382	\$ 8,778	\$ 7,740	\$ 86,074	\$ 7,829	\$ 93,903
Additions to long-lived assets	\$ 12,135	\$ 2,398	\$ 62	\$ 759	\$ 6,594	\$ —	\$ 21,948	\$ 3,289	\$ 25,237
Transfers from non-operating properties	\$ 5,781	\$ 238	\$ 28	\$ 2,650	\$ 14,392	\$ 3,311	\$ 26,400	\$ 13	\$ 26,413
Segment assets at March 31, 2023	\$ 1,390,273	\$ 486,649	\$ 193,160	\$ 169,235	\$ 472,237	\$ 324,422	\$ 3,035,976	\$ 549,138	\$ 3,585,114

The following table reconciles our segment revenues to total revenues as reported on our consolidated statements of operations (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Segment revenues from real estate operations	\$ 166,663	\$ 151,681
Construction contract and other service revenues	26,603	15,820
Total revenues	\$ 193,266	\$ 167,501

The following table reconciles UJV NOI allocable to COPT Defense to equity in income (loss) of unconsolidated entities as reported on our consolidated statements of operations (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
UJV NOI allocable to COPT Defense	\$ 1,740	\$ 1,642
Less: Income from UJV allocable to COPT Defense attributable to depreciation and amortization expense and interest expense	(1,671)	(1,704)
Add: Equity in loss of unconsolidated non-real estate entities	—	(2)
Equity in income (loss) of unconsolidated entities	\$ 69	\$ (64)

As previously discussed, we provide real estate services such as property management, development and construction services primarily for our properties but also for third parties. The primary manner in which we evaluate the operating performance of our service activities is through a measure we define as net operating income from service operations ("NOI from service operations"), which is based on the net of revenues and expenses from these activities. Construction contract and other service revenues and expenses consist primarily of subcontracted costs that are reimbursed to us by the customer along with a management fee. The operating margins from these activities are small relative to the revenue. We believe NOI from service operations is a useful measure in assessing both our level of activity and our profitability in conducting such operations. The table below sets forth the computation of our NOI from service operations (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Construction contract and other service revenues	\$ 26,603	\$ 15,820
Construction contract and other service expenses	(26,007)	(15,201)
NOI from service operations	\$ 596	\$ 619

The following table reconciles our NOI from real estate operations for reportable segments and NOI from service operations to net income as reported on our consolidated statements of operations (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
NOI from real estate operations	\$ 101,657	\$ 93,903
NOI from service operations	596	619
Depreciation and other amortization associated with real estate operations	(38,351)	(36,995)
General, administrative, leasing and other expenses	(11,747)	(10,490)
Interest expense	(20,767)	(16,442)
Interest and other income, net	4,122	2,256
Gain on sales of real estate	—	49,378
Equity in income (loss) of unconsolidated entities	69	(64)
UJV NOI allocable to COPT Defense included in equity in income (loss) of unconsolidated entities	(1,740)	(1,642)
Income tax expense	(168)	(125)
Net income	\$ 33,671	\$ 80,398

The following table reconciles our segment assets to our consolidated total assets (in thousands):

	March 31, 2024	March 31, 2023
Segment assets	\$ 3,628,212	\$ 3,585,114
Operating properties lease liabilities included in segment assets	33,550	35,327
Non-operating property assets	245,828	345,518
Other assets	325,305	212,033
Total consolidated assets	<u>\$ 4,232,895</u>	<u>\$ 4,177,992</u>

The accounting policies of the segments are the same as those used to prepare our consolidated financial statements. In the segment reporting presented above, we did not allocate interest expense, depreciation and amortization, gain on sales of real estate and equity in income (loss) of unconsolidated entities not included in NOI to our real estate segments since they are not included in the measure of segment profit reviewed by management. We also did not allocate general, administrative, leasing and other expenses, interest and other income, net, income taxes and noncontrolling interests because these items represent general corporate or non-operating property items not attributable to segments.

13. Construction Contract and Other Service Revenues

We disaggregate in the table below our construction contract and other service revenues by compensation arrangement as we believe it best depicts the nature, timing and uncertainty of our revenue (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Construction contract revenue:		
Guaranteed maximum price	\$ 13,640	\$ 6,743
Firm fixed price	10,900	5,879
Cost-plus fee	1,486	2,709
Other	577	489
	<u>\$ 26,603</u>	<u>\$ 15,820</u>

We recognized an insignificant amount of revenue in the three months ended March 31, 2024 and 2023 from performance obligations satisfied (or partially satisfied) in previous periods.

Accounts receivable related to our construction contract services is included in accounts receivable, net on our consolidated balance sheets. The beginning and ending balances of accounts receivable related to our construction contracts were as follows (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Beginning balance	\$ 10,500	\$ 7,618
Ending balance	\$ 12,734	\$ 6,786

Contract assets are included in prepaid expenses and other assets, net on our consolidated balance sheets. The beginning and ending balances of our contract assets were as follows (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Beginning balance	\$ 15,086	\$ 22,331
Ending balance	\$ 25,857	\$ 20,619

Contract liabilities are included in other liabilities on our consolidated balance sheets. Changes in contract liabilities were as follows (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Beginning balance	\$ 4,176	\$ 2,867
Ending balance	\$ 2,783	\$ 3,399
Portion of beginning balance recognized in revenue during period	\$ 1,487	\$ 77

Revenue allocated to the remaining performance obligations under existing contracts as of March 31, 2024 that will be recognized as revenue in future periods was \$49.3 million, all of which we expect to recognize in the nine months ending December 31, 2024.

We have no deferred incremental costs incurred to obtain or fulfill our construction contracts or other service revenues as of March 31, 2024 and December 31, 2023. Credit loss expense or recoveries on construction contracts receivable and unbilled construction revenue were insignificant for the periods reported herein.

14. Credit Losses on Financial Assets and Other Instruments

The table below sets forth the activity for our allowance for credit losses for the three months ended March 31, 2024 and 2023 (in thousands):

	Investing Receivables	Tenant Notes Receivable (1)	Other Assets (2)	Total
December 31, 2023	\$ 2,377	\$ 666	\$ 153	\$ 3,196
Credit loss expense (recoveries) (3)	(16)	116	(78)	22
March 31, 2024	\$ 2,361	\$ 782	\$ 75	\$ 3,218
December 31, 2022	\$ 2,794	\$ 778	\$ 268	\$ 3,840
Credit loss expense (recoveries) (3)	143	(19)	(57)	67
Write-offs	—	(33)	—	(33)
March 31, 2023	\$ 2,937	\$ 726	\$ 211	\$ 3,874

(1) Included in the line entitled "accounts receivable, net" on our consolidated balance sheets.

(2) The balance as of March 31, 2024 and December 31, 2023 included \$16,000 and \$87,000, respectively, in the line entitled "accounts receivable, net" and \$59,000 and \$66,000, respectively, in the line entitled "prepaid expenses and other assets, net" on our consolidated balance sheets.

(3) Included in the line entitled "interest and other income, net" on our consolidated statements of operations.

The following table presents the amortized cost basis of our investing receivables, tenant notes receivable and sales-type lease receivables by credit risk classification, by origination year as of March 31, 2024 (in thousands):

	Origination Year						Total
	2019 and Earlier	2020	2021	2022	2023	2024	
Investing receivables:							
Credit risk classification:							
Investment grade	\$ 65,932	\$ 2,529	\$ 9,291	\$ —	\$ 265	\$ —	\$ 78,017
Non-investment grade	—	—	—	6,867	—	—	6,867
Total	\$ 65,932	\$ 2,529	\$ 9,291	\$ 6,867	\$ 265	\$ —	\$ 84,884
Tenant notes receivable:							
Credit risk classification:							
Investment grade	\$ 658	\$ 94	\$ —	\$ —	\$ —	\$ —	\$ 752
Non-investment grade	151	1,400	—	—	—	487	2,038
Total	\$ 809	\$ 1,494	\$ —	\$ —	\$ —	\$ 487	\$ 2,790
Sales-type lease receivables:							
Credit risk classification:							
Investment grade	\$ —	\$ 4,949	\$ —	\$ —	\$ —	\$ 1,160	\$ 6,109

Our investment grade credit risk classification represents entities with investment grade credit ratings from ratings agencies (such as S&P Global Ratings, Moody's Investors Service, Inc. or Fitch Ratings, Inc.), meaning that they are considered to have

at least an adequate capacity to meet their financial commitments, with credit risk ranging from minimal to moderate. Our non-investment grade credit risk classification represents entities with either no credit agency credit ratings or ratings deemed to be sub-investment grade; we believe that there is significantly more credit risk associated with this classification. The credit risk classifications of our investing receivables and tenant notes receivable were last updated in March 2024.

An insignificant portion of the tenant notes receivable set forth above was past due, which we define as being delinquent by more than three months from the due date.

Tenant notes receivable on nonaccrual status as of March 31, 2024 and December 31, 2023 were not significant. We did not recognize any interest income on tenant notes receivable on nonaccrual status during the three months ended March 31, 2024 and 2023.

15. Share-Based Compensation

Restricted Shares

The following table summarizes restricted shares activity under our share-based compensation plans for the three months ended March 31, 2024:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2023	353,455	\$ 25.82
Granted	135,481	\$ 24.56
Forfeited	(7,131)	\$ 26.01
Vested	(121,702)	\$ 26.06
Unvested as of March 31, 2024	360,103	\$ 25.26

Restricted shares granted to employees generally vest based on increments and over periods of time set forth under the terms of the respective awards provided that the employee remains employed by us. Restricted shares granted to non-employee Trustees vest on the first anniversary of the grant date, provided that the Trustee remains in his or her position.

The aggregate intrinsic value of restricted shares that vested was \$3.0 million for the three months ended March 31, 2024.

Profit Interest Units in CDPLP ("PIUs")

We granted two forms of PIUs: time-based PIUs ("TB-PIUs"); and performance-based PIUs ("PB-PIUs"). TB-PIUs are subject to forfeiture restrictions until the end of the requisite service period, at which time the TB-PIUs automatically convert into vested PIUs. PB-PIUs are subject to a market condition in that the number of earned awards are determined at the end of the performance period (as described further below) and then settled in vested PIUs. Vested PIUs automatically convert into common units in CDPLP if, or when, a book-up event (as defined under federal income tax regulations) has occurred and carry substantially the same rights to distributions as common units.

TB-PIUs

The following table summarizes TB-PIUs activity under our share-based compensation plans for the three months ended March 31, 2024:

	Number of TB-PIUs	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2023	194,415	\$ 25.76
Granted	110,203	\$ 24.56
Vested	(75,485)	\$ 26.08
Unvested as of March 31, 2024	229,133	\$ 25.08

TB-PIUs granted to senior management team members vest based on increments and over periods of time set forth under the terms of the respective awards provided that the employee remains employed by us. TB-PIUs granted to non-employee Trustees vest on the first anniversary of the grant date, provided that the Trustee remains in his or her position. Prior to vesting, TB-PIUs carry substantially the same rights to distributions as common units but carry no redemption rights.

The aggregate intrinsic value of TB-PIUs that vested was \$1.8 million for the three months ended March 31, 2024.

PB-PIUs

On January 1, 2024, we granted certain senior management team members 299,766 PB-PIUs with a three-year performance period concluding on the earlier of December 31, 2026 or the date of: (1) termination by us without cause, death or disability of the employee or constructive discharge of the employee (collectively, “qualified termination”); or (2) a sale event.

The number of earned awards following the end of the performance period will be determined based on the percentile rank of COPT Defense’s total shareholder return (“TSR”) relative to a peer group of companies, as set forth in the following schedule:

Percentile Rank	Earned PB-PIUs Payout %
75th or greater	100% of PB-PIUs granted
50th (target)	50% of PB-PIUs granted
25th	25% of PB-PIUs granted
Below 25th	0% of PB-PIUs granted

If the percentile rank exceeds the 25th percentile and is between two of the percentile ranks set forth in the table above, then the percentage of the earned awards will be interpolated between the ranges set forth in the table above to reflect any performance between the listed percentiles. If COPT’s TSR is negative when its TSR’s percentile rank exceeds the 50th percentile, then the earned PB-PIU payout percentage used to arrive at the earned awards would be reduced by 12.5 percentage points, but in no event to a payout percentage of less than 50% of PB-PIUs granted; however, the resulting reduction in earned awards would subsequently be deemed earned awards if COPT Defense’s TSR becomes positive on any date in the calendar year following the end of the performance period. In addition, regardless of COPT Defense’s TSR relative to the peer group, no less than 50% (target) of the PB-PIUs granted will be earned if COPT Defense’s TSR is at least 10% and no less than 25% of the PB-PIUs granted will be earned if COPT Defense’s TSR is at least 6%, with linear interpolation if COPT Defense’s TSR is between 6% and 10%.

During the performance period, PB-PIUs carry rights to distributions equal to 10% of the distribution rights of common units but carry no redemption rights.

Following the end of the performance period, we will settle the award by issuing vested PIUs equal to: the number of earned awards; and the excess, if any, of (1) the aggregate distributions that would have been paid with respect to vested PIUs issued in settlement of the earned awards through the date of settlement had such vested PIUs been issued on the grant date over (2) the aggregate distributions made on the PB-PIUs through the date of settlement, divided by the price of our common shares over a defined period of time. If a performance period ends due to a sale event or qualified termination, the number of earned awards is prorated based on the portion of the three-year performance period that has elapsed. If employment is terminated by the employee or by us for cause, all PB-PIUs are forfeited.

These PB-PIU grants had an aggregate grant date fair value of \$5.4 million (\$36.06 per target-level award associated with the grants) that is being recognized over the performance period. The grant date fair value was computed using a Monte Carlo model that included the following assumptions: baseline common share value of \$25.63; expected volatility for common shares of 25.9%; and a risk-free interest rate of 4.13%.

Based on COPT Defense’s TSR relative to its peer group of companies, for the 2021 PB-PIUs issued to executives that vested on December 31, 2023, we issued 211,845 PIUs in settlement of the PB-PIUs on February 1, 2024.

16. Earnings Per Share (“EPS”)

We present both basic and diluted EPS. We compute basic EPS by dividing net income available to common shareholders allocable to unrestricted common shares by the weighted average number of unrestricted common shares outstanding during the period after allocating undistributed earnings between common shareholders and participating securities under the two-class method. Our participating securities include restricted shares and PIUs and deferred share awards not previously settled by common share issuances. Our computation of diluted EPS is similar except that:

- the denominator is increased to include: (1) the weighted average number of potential additional common shares that would have been outstanding if securities that are convertible into common shares were converted; and (2) the effect of dilutive potential common shares outstanding during the period attributable to redeemable noncontrolling interests and share-based compensation awards using the if-converted or treasury stock methods; and
- the numerator is adjusted to add back any changes in income or loss that would result from the assumed conversion into common shares that we add to the denominator.

We compute diluted EPS using the treasury stock method for unvested restricted shares, TB-PIUs and deferred share awards and the if-converted method for common units, redeemable noncontrolling interests, PB-PIUs and vested PIUs and deferred share awards not previously settled by common share issuances.

Summaries of the numerator and denominator for purposes of basic and diluted EPS calculations are set forth below (in thousands, except per share data):

	For the Three Months Ended March 31,	
	2024	2023
Numerator:		
Net income attributable to common shareholders	\$ 32,609	\$ 78,779
Income attributable to share-based compensation awards for basic EPS	(150)	(297)
Numerator for basic EPS on net income attributable to common shareholders	32,459	78,482
Redeemable noncontrolling interests	—	(64)
Adjustment to income attributable to share-based compensation awards for diluted EPS	21	49
Numerator for diluted EPS on net income attributable to common shareholders	<u>\$ 32,480</u>	<u>\$ 78,467</u>
Denominator (all weighted averages):		
Denominator for basic EPS (common shares)	112,231	112,127
Dilutive effect of redeemable noncontrolling interests	—	91
Dilutive effect of share-based compensation awards	509	410
Denominator for diluted EPS (common shares)	<u>112,740</u>	<u>112,628</u>
Basic EPS attributable to common shareholders	<u>\$ 0.29</u>	<u>\$ 0.70</u>
Diluted EPS attributable to common shareholders	<u>\$ 0.29</u>	<u>\$ 0.70</u>

Our diluted EPS computations do not include the effects of the following securities since the conversions of such securities would increase diluted EPS for the respective periods

	Weighted Average Shares Excluded from Denominator		
	For the Three Months Ended March 31,		
	2024	2023	2022
Conversion of common units	1,625	1,489	1,489
Conversion of redeemable noncontrolling interests	947	972	972

(in thousands):

The following securities were also excluded from the computation of diluted EPS because their effect was antidilutive:

- weighted average restricted shares and deferred share awards for the three months ended March 31, 2024 and 2023 of 429,000 and 398,000, respectively;
- weighted average TB-PIUs for the three months ended March 31, 2024 and 2023 of 206,000 and 181,000, respectively; and
- weighted average vested PIUs for the three months ended March 31, 2024 and 2023 of 188,000 and 103,000, respectively.

Our 5.25% Notes have an exchange settlement feature under which the principal amount of notes exchanged is payable in cash, with the remainder of the exchange obligation, if any, as determined based on the exchange price per common share at the time of settlement, payable in cash, common shares or a combination thereof at our election. These notes did not affect our diluted EPS reported above since the weighted average closing price of our common shares for the three months ended March 31, 2024 was less than the exchange price applicable to that period.

17. Commitments and Contingencies

Litigation and Claims

In the normal course of business, we are subject to legal actions and other claims. We record losses for specific legal proceedings and claims when we determine that a loss is probable and the amount of loss can be reasonably estimated. As of March 31, 2024, management believes that it is reasonably possible that we could recognize a loss of up to \$4.6 million for certain municipal tax claims; while we do not believe this loss would materially affect our financial position or liquidity, it could be material to our results of operations. Management believes that it is also reasonably possible that we could incur losses pursuant to other claims but do not believe such losses would materially affect our financial position, liquidity or results of operations. Our assessment of the potential outcomes of these matters involves significant judgment and is subject to change based on future developments.

Environmental

We are subject to various federal, state and local environmental regulations related to our property ownership and operations. We have performed environmental assessments of our properties, the results of which have not revealed any environmental liability that we believe would have a materially adverse effect on our financial position, operations or liquidity.

In connection with a lease and subsequent sale in 2008 and 2010 of three properties in Dayton, New Jersey, we agreed to provide certain environmental indemnifications limited to \$19 million in the aggregate. We have insurance coverage in place to mitigate most of any potential future losses that may result from these indemnification agreements.

Tax Incremental Financing Obligation

Anne Arundel County, Maryland issued tax incremental financing bonds to third-party investors in order to finance public improvements needed in connection with our project known as the National Business Park. These bonds had a remaining principal balance of approximately \$27 million as of March 31, 2024. The real estate taxes on increases in assessed values post-bond issuance of properties in development districts encompassing the National Business Park are transferred to a special fund pledged to the repayment of the bonds. While we are obligated to fund, through a special tax, any future shortfalls between debt service of the bonds and real estate taxes available to repay the bonds, as of March 31, 2024, we do not expect any such future fundings will be required.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

During the three months ended March 31, 2024, we:

- finished the period with our portfolio 93.6% occupied and 94.9% leased;
- achieved a tenant retention rate of 78.0%, which was driven by strong leasing demand for space in our Defense/IT Portfolio; and
- acquired a 202,000 square foot operating office property in Columbia, Maryland that was 56% leased for a purchase price of \$15.0 million.

For operating portfolio square footage, occupancy and leasing statistics included below and elsewhere in this Quarterly Report on Form 10-Q, amounts disclosed include information pertaining to properties owned through unconsolidated real estate joint ventures.

We discuss significant factors contributing to changes in our net income or loss in the section below entitled "Results of Operations." In addition, the section below entitled "Liquidity and Capital Resources" includes discussions of, among other things:

- how we expect to generate and obtain cash for short and long-term capital needs; and
- material cash requirements for known contractual and other obligations.

You should refer to our consolidated financial statements and the notes thereto as you read this section.

This section contains "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on our current expectations, estimates and projections about future events and financial trends affecting the financial condition and operations of our business. 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 we cannot predict with accuracy and some of which we might not even anticipate. Although we believe that the expectations, estimates and projections reflected in such forward-looking statements are based on reasonable assumptions at the time made, we 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. We caution readers that forward-looking statements reflect our opinion only as of the date on which they were made. You should not place undue reliance on forward-looking statements. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- 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, property operating and construction costs, and property values;
- adverse changes in the real estate markets, including, among other things, increased competition with other companies;
- our ability to borrow on favorable terms;
- risks of property 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 our joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with our objectives;
- changes in our 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;
- potential impact of prolonged government shutdowns or budgetary reductions or impasses, such as a reduction of rental revenues, non-renewal of leases and/or reduced or delayed demand for additional space by existing or new tenants;
- potential additional costs, such as capital improvements, fees and penalties, associated with environmental laws or regulations;
- adverse changes resulting from other government actions and initiatives, such as changes in taxation, zoning laws or other regulations;
- our ability to satisfy and operate effectively under federal income tax rules relating to real estate investment trusts and partnerships;
- the dilutive effects of issuing additional common shares; and
- security breaches relating to cyber attacks, cyber intrusions or other factors, and other significant disruptions of our information technology networks and related systems.

We undertake no obligation to publicly update or supplement forward-looking statements.

Occupancy and Leasing

The tables below set forth occupancy information:

	March 31, 2024	December 31, 2023
Occupancy rates at period end		
Total	93.6 %	94.2 %
Defense/IT Portfolio:		
Fort Meade/BW Corridor	95.3 %	96.4 %
NoVA Defense/IT	88.2 %	88.9 %
Lackland Air Force Base	100.0 %	100.0 %
Navy Support	85.9 %	87.4 %
Redstone Arsenal	97.4 %	97.5 %
Data Center Shells	100.0 %	100.0 %
Total Defense/IT Portfolio	95.6 %	96.2 %
Other	72.5 %	73.2 %
Annualized rental revenue per occupied square foot at period end	\$ 34.36	\$ 34.14

	Rentable Square Feet	Occupied Square Feet
	(in thousands)	
December 31, 2023	23,859	22,470
Vacated upon lease expiration (1)	—	(187)
Occupancy for new leases	—	117
Development placed in service	73	73
Acquisition	202	112
Other changes	3	(1)
March 31, 2024	<u>24,137</u>	<u>22,584</u>

(1) Includes lease terminations and space reductions occurring in connection with lease renewals.

During the three months ended March 31, 2024, we leased 721,000 square feet, including: 551,000 square feet of renewal leasing (representing a tenant retention rate of 78.0%); 160,000 square feet of vacant space leasing; and 10,000 square feet of development leasing.

Annualized rental revenue is a measure that we use to evaluate the source of our rental revenue as of a point in time. It is computed by multiplying by 12 the sum of monthly contractual base rents and estimated monthly expense reimbursements under active leases as of a point in time (ignoring free rent then in effect and rent associated with tenant funded landlord assets). Our computation of annualized rental revenue excludes the effect of lease incentives. We consider annualized rental revenue to be a useful measure for analyzing revenue sources because, since it is point-in-time based, it does not contain increases and decreases in revenue associated with periods in which lease terms were not in effect; historical revenue under generally accepted accounting principles in the United States of America ("GAAP") does contain such fluctuations. We find the measure particularly useful for leasing, tenant, segment and industry analysis. Tenant retention rate is a measure we use that represents the percentage of square feet renewed in a period relative to the total square feet scheduled to expire in that period; we include the effect of early renewals in this measure.

Results of Operations

We evaluate the operating performance of our properties using NOI from real estate operations, our segment performance measure, which includes: real estate revenues and property operating expenses; and the net of revenues and property operating expenses of real estate operations owned through unconsolidated real estate joint ventures ("UJV" or "UJVs") that is allocable to our ownership interest ("UJV NOI allocable to COPT Defense"). The table below reconciles net income, the most directly comparable GAAP measure, to NOI from real estate operations:

	For the Three Months Ended March 31,	
	2024	2023
	(in thousands)	
Net income	\$ 33,671	\$ 80,398
Construction contract and other service revenues	(26,603)	(15,820)
Depreciation and other amortization associated with real estate operations	38,351	36,995
Construction contract and other service expenses	26,007	15,201
General, administrative, leasing and other expenses	11,747	10,490
Interest expense	20,767	16,442
Interest and other income, net	(4,122)	(2,256)
Gain on sales of real estate	—	(49,378)
Equity in (income) loss of unconsolidated entities	(69)	64
UJV NOI allocable to COPT Defense included in equity in (income) loss of unconsolidated entities	1,740	1,642
Income tax expense	168	125
NOI from real estate operations	\$ 101,657	\$ 93,903

We view our changes in NOI from real estate operations as being comprised of the following primary categories:

- Same Property, which we define as properties stably owned and 100% operational throughout the current and prior year reporting periods being compared;
- developed properties placed into service that were not 100% operational throughout the current and prior year reporting periods being compared;
- acquired property; and
- disposed properties.

In addition to owning properties, we provide construction management and other services. The primary manner in which we evaluate the operating performance of our construction management and other service activities is through a measure we define as NOI from service operations, which is based on the net of the revenues and expenses from these activities. The revenues and expenses from these activities consist primarily of subcontracted costs that are reimbursed to us by customers along with a management fee. The operating margins from these activities are small relative to the revenue. We believe NOI from service operations is a useful measure in assessing both our level of activity and our profitability in conducting such operations.

Since both of the measures discussed above exclude certain items includable in net income or loss, reliance on these measures has limitations; management compensates for these limitations by using the measures simply as supplemental measures that are considered alongside other GAAP and non-GAAP measures. A reconciliation of NOI from real estate operations and NOI from service operations to net income reported on the consolidated statements of operations is provided in Note 12 to our consolidated financial statements.

Comparison of Statements of Operations for the Three Months Ended March 31, 2024 and 2023

	For the Three Months Ended March 31,		
	2024	2023	Variance
	(in thousands)		
Revenues			
Revenues from real estate operations	\$ 166,663	\$ 151,681	\$ 14,982
Construction contract and other service revenues	26,603	15,820	10,783
Total revenues	193,266	167,501	25,765
Operating expenses			
Property operating expenses	66,746	59,420	7,326
Depreciation and amortization associated with real estate operations	38,351	36,995	1,356
Construction contract and other service expenses	26,007	15,201	10,806
General, administrative, leasing and other expenses	11,747	10,490	1,257
Total operating expenses	142,851	122,106	20,745
Interest expense	(20,767)	(16,442)	(4,325)
Interest and other income, net	4,122	2,256	1,866
Gain on sales of real estate	—	49,378	(49,378)
Equity in income (loss) of unconsolidated entities	69	(64)	133
Income tax expense	(168)	(125)	(43)
Net income	\$ 33,671	\$ 80,398	\$ (46,727)

NOI from Real Estate Operations

	For the Three Months Ended March 31,		
	2024	2023	Variance
(Dollars in thousands, except per square foot data)			
Revenues			
Same Property revenues			
Lease revenue, excluding lease termination revenue and collectability loss provisions	\$ 155,906	\$ 148,211	\$ 7,695
Lease termination revenue, net	775	1,221	(446)
Collectability loss provisions included in lease revenue	109	(1,168)	1,277
Other property revenue	1,202	1,085	117
Same Property total revenues	157,992	149,349	8,643
Developed properties placed in service	6,503	276	6,227
Acquired property	162	—	162
Dispositions, net of retained interest in newly-formed UJVs	—	399	(399)
Other	2,006	1,657	349
	166,663	151,681	14,982
Property operating expenses			
Same Property			
Developed properties placed in service	(971)	(92)	(879)
Acquired property	(91)	—	(91)
Dispositions, net of retained interest in newly-formed UJVs	5	(54)	59
Other	(1,799)	(1,403)	(396)
	(66,746)	(59,420)	(7,326)
UJV NOI allocable to COPT Defense			
Same Property			
Retained interest in newly-formed UJVs	439	397	42
	1,740	1,642	98
NOI from real estate operations			
Same Property			
Developed properties placed in service	5,532	184	5,348
Acquired property	71	—	71
Dispositions, net of retained interest in newly-formed UJVs	444	742	(298)
Other	207	254	(47)
	\$ 101,657	\$ 93,903	\$ 7,754
Same Property NOI from real estate operations by segment			
Defense/IT Portfolio			
Other	6,515	7,576	(1,061)
	\$ 95,403	\$ 92,723	\$ 2,680
Same Property rent statistics			
Average occupancy rate	93.4 %	92.6 %	0.8 %
Average straight-line rent per occupied square foot (1)	\$ 6.86	\$ 6.74	\$ 0.12

(1) Includes minimum base rents, net of abatements and lease incentives and excluding lease termination revenue, on a straight-line basis for the periods set forth above.

Our Same Property pool consisted of 189 properties, comprising 92.1% of our portfolio's square footage as of March 31, 2024. This pool of properties changed from the pool used for purposes of comparing 2023 and 2022 in our 2023 Annual Report on Form 10-K due to the addition of seven properties placed in service and 100% operational on or before January 1, 2023 and two properties owned through a UJV that was formed in 2022.

Regarding the changes in NOI from real estate operations reported above:

- developed properties placed in service reflects the effect of eight properties placed in service in 2023 and 2024;
- acquired property reflects the effect of one operating office property acquired in 2024; and
- dispositions, net of retained interest in newly-formed UJVs reflects the effect of our sale of 90% of our interests in three data center shells in 2023.

NOI from Service Operations

	For the Three Months Ended March 31,		
	2024	2023	Variance
	(in thousands)		
Construction contract and other service revenues	\$ 26,603	\$ 15,820	\$ 10,783
Construction contract and other service expenses	(26,007)	(15,201)	(10,806)
NOI from service operations	<u>\$ 596</u>	<u>\$ 619</u>	<u>\$ (23)</u>

Construction contract and other service revenues and expenses increased in the current period due to a higher volume of construction activity for one of our tenants. Construction contract activity is inherently subject to significant variability depending on the volume and nature of projects undertaken by us primarily on behalf of tenants. Service operations are an ancillary component of our overall operations that typically contribute an insignificant amount of income relative to our real estate operations.

Interest Expense

Interest expense increased due primarily to additional interest associated with our 5.25% Notes that we issued in September 2023.

Interest and Other Income, Net

Interest and other income, net increased due in large part to interest income earned from a portion of the net proceeds from the 5.25% Notes issuance being invested in short-term interest-bearing money market accounts.

Funds from Operations

Funds from operations ("FFO") is defined as net income or loss computed using GAAP, excluding gains on sales and impairment losses of real estate and investments in UJVs (net of associated income tax) and real estate-related depreciation and amortization. FFO also includes adjustments to net income or loss for the effects of the items noted above pertaining to UJVs that were allocable to our ownership interest in the UJVs. We believe that we use the National Association of Real Estate Investment Trusts ("Nareit") definition of FFO, although others may interpret the definition differently and, accordingly, our presentation of FFO may differ from those of other REITs. We believe that FFO is useful to management and investors as a supplemental measure of operating performance because, by excluding gains on sales and impairment losses of real estate (net of associated income tax), and real estate-related depreciation and amortization, FFO can help one compare our operating performance between periods. In addition, since most equity REITs provide FFO information to the investment community, we believe that FFO is useful to investors as a supplemental measure for comparing our results to those of other equity REITs. We believe that net income or loss is the most directly comparable GAAP measure to FFO.

Since FFO excludes certain items includable in net income or loss, reliance on the measure has limitations; management compensates for these limitations by using the measure simply as a supplemental measure that is weighed in balance with other GAAP and non-GAAP measures. FFO is not necessarily an indication of our cash flow available to fund cash needs. Additionally, it should not be used as an alternative to net income or loss when evaluating our financial performance or to cash flow from operating, investing and financing activities when evaluating our liquidity or ability to make cash distributions or pay debt service.

Basic FFO available to common share and common unit holders ("Basic FFO") is FFO adjusted to subtract (1) preferred share dividends, (2) income attributable to noncontrolling interests through ownership of preferred units in the Operating Partnership or interests in other consolidated entities not owned by us, (3) depreciation and amortization allocable to noncontrolling interests in other consolidated entities and (4) Basic FFO allocable to share-based compensation awards. With these adjustments, Basic FFO represents FFO available to common shareholders and common unitholders. Common units in the Operating Partnership are substantially similar to our common shares and are exchangeable into common shares, subject to certain conditions. We believe that Basic FFO is useful to investors due to the close correlation of common units to common shares. We believe that net income or loss is the most directly comparable GAAP measure to Basic FFO. Basic FFO has essentially the same limitations as FFO; management compensates for these limitations in essentially the same manner as described above for FFO.

Diluted FFO available to common share and common unit holders ("Diluted FFO") is Basic FFO adjusted to add back any changes in Basic FFO that would result from the assumed conversion of securities that are convertible or exchangeable into common shares. We believe that Diluted FFO is useful to investors because it is the numerator used to compute Diluted FFO per share, discussed below. We believe that net income or loss is the most directly comparable GAAP measure to Diluted FFO. Since Diluted FFO excludes certain items includable in the numerator to diluted EPS, reliance on the measure has limitations; management compensates for these limitations by using the measure simply as a supplemental measure that is weighed in the balance with other GAAP and non-GAAP measures. Diluted FFO (which includes discontinued operations) is not necessarily an indication of our cash flow available to fund cash needs. Additionally, it should not be used as an alternative to net income or loss when evaluating our financial performance or to cash flow from operating, investing and financing activities when evaluating our liquidity or ability to make cash distributions or pay debt service.

Diluted FFO available to common share and common unit holders, as adjusted for comparability is defined as Diluted FFO adjusted to exclude: operating property acquisition costs; gain or loss on early extinguishment of debt; FFO associated with properties that secured non-recourse debt on which we defaulted and, subsequently, extinguished, via conveyance of such properties (including property NOI, interest expense and gains on debt extinguishment); loss on interest rate derivatives; executive transition costs associated with named executive officers; and, for periods prior to October 1, 2022, demolition costs on redevelopment and nonrecurring improvements and executive transition costs associated with other senior management team members. This measure also includes adjustments for the effects of the items noted above pertaining to UJVs that were allocable to our ownership interest in the UJVs. We believe this to be a useful supplemental measure alongside Diluted FFO as it excludes gains and losses from certain investing and financing activities and certain other items that we believe are not closely correlated to (or associated with) our operating performance. We believe that net income or loss is the most directly comparable GAAP measure to this non-GAAP measure. This measure has essentially the same limitations as Diluted FFO, as well as the further limitation of not reflecting the effects of the excluded items; we compensate for these limitations in essentially the same manner as described above for Diluted FFO.

Diluted FFO per share is (1) Diluted FFO divided by (2) the sum of the (a) weighted average common shares outstanding during a period, (b) weighted average common units outstanding during a period and (c) weighted average number of potential additional common shares that would have been outstanding during a period if other securities that are convertible or exchangeable into common shares were converted or exchanged. We believe that Diluted FFO per share is useful to investors because it provides investors with a further context for evaluating our FFO results in the same manner that investors use earnings per share ("EPS") in evaluating net income or loss available to common shareholders. In addition, since most equity REITs provide Diluted FFO per share information to the investment community, we believe that Diluted FFO per share is a useful supplemental measure for comparing us to other equity REITs. We believe that diluted EPS is the most directly comparable GAAP measure to Diluted FFO per share. Diluted FFO per share has most of the same limitations as Diluted FFO (described above); management compensates for these limitations in essentially the same manner as described above for Diluted FFO.

Diluted FFO per share, as adjusted for comparability is (1) Diluted FFO, as adjusted for comparability divided by (2) the sum of the (a) weighted average common shares outstanding during a period, (b) weighted average common units outstanding during a period and (c) weighted average number of potential additional common shares that would have been outstanding during a period if other securities that are convertible or exchangeable into common shares were converted or exchanged. We believe that this measure is useful to investors because it provides investors with a further context for evaluating our FFO results. We believe this to be a useful supplemental measure alongside Diluted FFO per share as it excludes gains and losses from investing and financing activities and certain other items that we believe are not closely correlated to (or associated with) our operating performance. We believe that diluted EPS is the most directly comparable GAAP measure to this per share measure. This measure has most of the same limitations as Diluted FFO (described above) as well as the further limitation of not reflecting the effects of the excluded items; we compensate for these limitations in essentially the same manner as described above for Diluted FFO.

The computations for all of the above measures on a diluted basis assume the conversion of common units in CDPLP but do not assume the conversion of other securities that are convertible into common shares if the conversion of those securities would increase per share measures in a given period.

The table below sets forth the computation of the above stated measures, and provides reconciliations from the GAAP measures associated with such measures:

	For the Three Months Ended March 31,	
	2024	2023
	(Dollars and shares in thousands, except per share data)	
Net income	\$ 33,671	\$ 80,398
Real estate-related depreciation and amortization	38,351	36,995
Gain on sales of real estate	—	(49,378)
Depreciation and amortization on UJVs allocable to COPT Defense	777	801
FFO	72,799	68,816
FFO allocable to other noncontrolling interests	(836)	(708)
Basic FFO allocable to share-based compensation awards	(587)	(466)
Basic FFO available to common share and common unit holders	71,376	67,642
Redeemable noncontrolling interests	469	(30)
Diluted FFO adjustments allocable to share-based compensation awards	47	39
Diluted FFO available to common share and common unit holders	71,892	67,651
Executive transition costs	77	—
Diluted FFO available to common share and common unit holders, as adjusted for comparability	\$ 71,969	\$ 67,651
Weighted average common shares	112,231	112,127
Conversion of weighted average common units	1,625	1,489
Weighted average common shares/units - Basic FFO per share	113,856	113,616
Dilutive effect of share-based compensation awards	509	410
Redeemable noncontrolling interests	947	91
Weighted average common shares/units - Diluted FFO per share and as adjusted for comparability	115,312	114,117
Diluted EPS	\$ 0.29	\$ 0.70
Diluted FFO per share	\$ 0.62	\$ 0.59
Diluted FFO per share, as adjusted for comparability	\$ 0.62	\$ 0.59
Denominator for diluted EPS	112,740	112,628
Weighted average common units	1,625	1,489
Redeemable noncontrolling interests	947	—
Denominator for diluted FFO per share and as adjusted for comparability	115,312	114,117

Property Additions

The table below sets forth the major components of our additions to properties for the three months ended March 31, 2024 (in thousands):

Development	\$ 25,404
Tenant improvements on operating properties (1)	10,361
Capital improvements on operating properties	4,953
Acquisition of operating properties (2)	7,962
	\$ 48,680

- (1) Tenant improvement costs incurred on newly-developed properties are classified in this table as development.
(2) Excludes intangible assets associated with the acquisition.

Cash Flows

Net cash flow from operating activities increased \$12.2 million when comparing the three months ended March 31, 2024 and 2023 due primarily to the effects of increased cash flow from real estate operations resulting from the growth of our operating portfolio, which was partially offset by higher cash paid for interest expense due in large part to our 5.25% Notes issued in September 2023.

Net cash flow used in investing activities increased \$164.1 million when comparing the three months ended March 31, 2024 and 2023 due primarily to proceeds from properties sold in the prior period (which included our sale of a 90% interest in three data center shells).

Net cash flow used in financing activities in the three months ended March 31, 2024 was \$36.4 million, and included primarily the following:

- repayments of debt borrowings during the period of \$769,000; and
- dividends to common shareholders of \$32.1 million.

Net cash flow used in financing activities in the three months ended March 31, 2023 was \$143.5 million, and included primarily the following:

- net repayments of debt borrowings during the period of \$109.7 million, most of which resulted from the net paydown of our Revolving Credit Facility primarily using property sale proceeds; and
- dividends to common shareholders of \$30.9 million.

Supplemental Guarantor Information

As of March 31, 2024, CDPLP had several series of unsecured senior notes outstanding that were issued in transactions registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended. These notes are CDPLP's direct, senior unsecured and unsubordinated obligations and rank equally in right of payment with all of CDPLP's existing and future senior unsecured and unsubordinated indebtedness. However, these notes are effectively subordinated in right of payment to CDPLP's existing and future secured indebtedness. The notes are also effectively subordinated in right of payment to all existing and future liabilities and other indebtedness, whether secured or unsecured, of CDPLP's subsidiaries. COPT Defense fully and unconditionally guarantees CDPLP's obligations under these notes. COPT Defense's guarantees of these notes are senior unsecured obligations that rank equally in right of payment with other senior unsecured obligations of, or guarantees by, COPT Defense. COPT Defense itself does not hold any indebtedness, and its only material asset is its investment in CDPLP.

As permitted under Rule 13-01(a)(4)(vi), we do not provide summarized financial information for the Operating Partnership since: the assets, liabilities, and results of operations of the Company and the Operating Partnership are not materially different than the corresponding amounts presented in the consolidated financial statements of the Company; and we believe that inclusion of such summarized financial information would be repetitive and not provide incremental value to investors.

Liquidity and Capital Resources

As of March 31, 2024, we had \$123.1 million in cash and cash equivalents. We were carrying a significant amount of cash and cash equivalents as of the end of the period due to our use of a portion of the net proceeds from our issuance of the 5.25% Notes to pre-fund future development investments, which resulted in a portion of the net proceeds being invested in short-term interest-bearing money market accounts pending such use.

We have a Revolving Credit Facility with a maximum borrowing capacity of \$600.0 million. We use this facility to initially fund most of the cash requirements from our investing activities, including property development and acquisition costs, as well as certain debt balloon payments due upon maturity. We then subsequently pay down the facility using cash available from operations and proceeds from financing and/or investing activities, such as long-term borrowings, equity issuances and sales of interests in properties. The facility matures in October 2026 and may be extended by two six-month periods at our option, provided that there is no default under the facility and we pay an extension fee of 0.0625% of the total availability under the facility for each extension period. Our available borrowing capacity under the facility totaled \$525.0 million as of March 31, 2024.

Our senior unsecured debt is rated investment grade, with stable outlooks, by the three major rating agencies. We aim to maintain an investment grade rating to enable us to use debt comprised of unsecured, primarily fixed-rate debt (including the effect of interest rate swaps) from public markets and banks. We also use secured nonrecourse debt from institutional lenders and banks primarily for joint venture financings. In addition, we periodically raise equity when we access the public equity markets by issuing common shares and, to a lesser extent, preferred shares.

We have a program in place under which we may offer and sell common shares in at-the-market stock offerings having an aggregate gross sales price of up to \$300 million. Under this program, we may also, at our discretion, sell common shares under forward equity sales agreements. The use of a forward equity sales agreement would enable us to lock in a price on a sale of common shares when the agreement is executed but defer issuing the shares and receiving the sale proceeds until a later date.

We believe that our liquidity and capital resources are adequate for our near-term and longer-term requirements without necessitating property sales. However, we may dispose of interests in properties opportunistically or when market conditions otherwise warrant.

Our material cash requirements, including contractual and other obligations, include:

- property operating expenses, including future lease obligations from us as a lessee;
- construction contract expenses;
- general, administrative, leasing and other expenses;
- debt service, including interest expense;
- property development costs;
- tenant and capital improvements and leasing costs for operating properties (expected to total approximately \$70 million during the remainder of 2024);
- debt balloon payments due upon maturity; and
- dividends to our shareholders.

We expect to use cash flow from operations during the remainder of 2024 and annually thereafter for the foreseeable future to fund all of these cash requirements except for debt balloon payments due upon maturity and a portion of property development costs, the fundings for which are discussed below.

During the remainder of 2024, we expect to spend \$180 million to \$210 million on development costs, most of which was contractually obligated as of March 31, 2024, and had \$27.6 million in debt balloon payments maturing. We expect to fund these cash requirements using, in part, remaining cash flow from operations and any remaining excess available cash and cash equivalents, with the balance funded using borrowings under our Revolving Credit Facility, at least initially.

Beyond 2024, we expect to continue to actively develop properties and also could opportunistically acquire operating properties. We expect to fund these activities using, in part, remaining cash flow from operations, with the balance, at least initially, funded primarily using borrowings under our Revolving Credit Facility.

We provide disclosure in our consolidated financial statements on our future lessee obligations (expected to be funded primarily by cash flow from operations) in Note 5 and future debt obligations (expected to be refinanced by new debt borrowings or funded by future equity issuances and/or sales of interests in properties) in Note 8.

Certain of our debt instruments require that we comply with a number of restrictive financial covenants, including maximum leverage ratio, unencumbered leverage ratio, minimum net worth, minimum fixed charge coverage, minimum unencumbered interest coverage ratio, minimum debt service and maximum secured indebtedness ratio. As of March 31, 2024, we were compliant with these covenants.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain market risks, one of the most predominant of which is a change in interest rates. Increases in interest rates can result in increased interest expense under our Revolving Credit Facility and other variable-rate debt to the extent we do not have interest rate swaps in place to hedge the effect of such rate increases. Increases in interest rates can also result in increased interest expense when our fixed-rate debt matures and needs to be refinanced.

The following table sets forth as of March 31, 2024 our debt obligations and weighted average interest rates on debt maturing each year (dollars in thousands):

	For the Periods Ending December 31,							Total
	2024	2025	2026	2027	2028	Thereafter		
Debt:								
Fixed rate debt (1)	\$ 28,809	\$ 1,302	\$ 436,140	\$ —	\$ 345,000	\$ 1,400,000	\$ 2,211,251	
Weighted average interest rate	4.43%	3.23%	2.38%	—%	5.25%	2.58%	2.98%	
Variable rate debt (2)	\$ 405	\$ 22,415	\$ 210,160	\$ —	\$ —	\$ —	\$ 232,980	
Weighted average interest rate (3)	6.92%	6.96%	6.64%	—%	—%	—%	6.67%	

(1) Represents principal maturities only and therefore excludes net discounts and deferred financing costs of \$27.4 million.

(2) As of March 31, 2024, maturities in 2026 included \$75.0 million that may be extended to 2027 and \$125.0 million that may be extended to 2028, both subject to certain conditions.

(3) The amounts reflected above used interest rates as of March 31, 2024 for variable-rate debt.

The fair value of our debt was \$2.2 billion as of March 31, 2024. If interest rates had been 1% lower, the fair value of our fixed-rate debt would have increased by approximately \$78 million as of March 31, 2024.

See Note 9 to our consolidated financial statements for information pertaining to interest rate swap contracts in place as of March 31, 2024 and their respective fair values.

Based on our variable-rate debt balances, including the effect of interest rate swap contracts, our interest expense would not have changed in the three months ended March 31, 2024 if the applicable variable index rate was 1% higher.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of March 31, 2024. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of March 31, 2024 were functioning effectively to provide reasonable assurance that the information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Change in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently involved in any material litigation nor, to our knowledge, is any material litigation currently threatened against us (other than routine litigation arising in the ordinary course of business, substantially all of which is expected to be covered by liability insurance).

Item 1A. Risk Factors

There have been no material changes to the risk factors included in our 2023 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) Not applicable
- (b) Not applicable
- (c) Not applicable

Item 3. Defaults Upon Senior Securities

- (a) Not applicable
- (b) Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

- (a) Not applicable
- (b) Not applicable
- (c) Rule 10b5-1 Trading Plans

During the quarter ended March 31, 2024, none of our trustees or executive officers entered into, modified, terminated or had in place contracts, instructions or written plans for the sale or purchase of our securities that were intended to satisfy the affirmative defense conditions of Rule 10b5-1.

Item 6. Exhibits

(a) Exhibits.

EXHIBIT NO.	DESCRIPTION
10.1	Form of COPT Defense Properties 2024 Performance-Based Profit Interest Unit Award Certificate (2017 Omnibus Equity and Incentive Plan) (filed herewith).
22.1	List of Subsidiary Issuers and Guaranteed Securities (filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2023 and incorporated herein by reference).
31.1	Certification of the Chief Executive Officer of COPT Defense Properties required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.2	Certification of the Chief Financial Officer of COPT Defense Properties required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
32.1	Certification of the Chief Executive Officer of COPT Defense Properties required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).
32.2	Certification of the Chief Financial Officer of COPT Defense Properties required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith).
101.INS	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document (filed herewith).
101.SCH	Inline XBRL Taxonomy Extension Schema Document (filed herewith).
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).
101.LAB	Inline XBRL Extension Labels Linkbase (filed herewith).
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith).
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (filed herewith).
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COPT DEFENSE PROPERTIES

Date: May 1, 2024

By: /s/ Stephen E. Budorick
Stephen E. Budorick
President and Chief Executive Officer

Date: May 1, 2024

By: /s/ Anthony Mifsud
Anthony Mifsud
Executive Vice President and Chief Financial Officer

COPT DEFENSE PROPERTIES
PERFORMANCE-BASED PROFIT INTEREST UNIT AWARD CERTIFICATE
(2017 OMNIBUS EQUITY AND INCENTIVE PLAN)

This Certificate pertains to the Target Award (as hereinafter defined) granted on [DATE] (the “Grant Date”) by COPT Defense Properties, L.P. (the “Partnership” or “Company”), to Profit Interest Holdings LLC (the “Intermediary”) on behalf of the undersigned grantee (the “Grantee”).

1. **Definitions.** For purposes of this Certificate, the following terms shall be defined as set forth below:

“Absolute Total Shareholder Return” means, with respect to the Performance Period, the average, compounded, annual return that would have been realized by a shareholder who (1) bought one Share on the first day of the Performance Period for the Share Price on such date, (2) reinvested each dividend and other distribution declared during such period of time and received with respect to such Share (and any other Shares previously received upon reinvestment of dividends or other distributions), without deduction for any taxes with respect to such dividends or other distributions or any charges in connection with such reinvestment, in additional Shares at a price per Share equal to the sum of (A) the Fair Market Value on the trading day immediately preceding the ex-dividend date for such dividend or other distribution less (B) the amount of such dividend or other distribution and (3) sold such Shares on the last day of such Performance Period for the Share Price on such date, without deduction for any taxes with respect to any gain on such sale or any charges in connection with such sale. As set forth in, and pursuant to, Section 6 of this Certificate, appropriate adjustments to the Absolute Total Shareholder Return shall be made to take into account all share dividends, share splits, reverse share splits and the other events set forth in Section 6 that occur during the Performance Period.

“Administrator” means [NEO] the compensation committee of the Board OR [Non-NEO] the Administrator as defined under the terms of the Plan, or its delegate, to the extent so authorized by such Administrator under the terms of the Plan, if and to the extent the Administrator has delegated its authority under the terms of the Plan, the term “Administrator” herein will be deemed to refer to the authorized delegate.

“Cause” means (A) if the Grantee is a party to an Employment Agreement that includes a definition of “cause” or is a participant in the Executive Change in Control and Severance Plan, the definition of such term in such Employment Agreement or the Executive Change in Control and Severance Plan, as applicable, or (B) if the Grantee is not party to an Employment Agreement that defines “cause” and is not a participant in the Executive Change in Control and Severance Plan, a determination by the Administrator that the Grantee shall be dismissed as a result of (i) a violation by the Grantee of any applicable law or regulation respecting the business of the Company; (ii) the Grantee’s conviction of, indictment for or plea of no contest by the Grantee of a felony or any crime involving moral turpitude; (iii) any act of dishonesty or fraud, or, if applicable, the Grantee’s commission of an act which in the opinion of the Administrator disqualifies the Grantee from serving as an officer or director of the Company; (iv) the willful or negligent failure of the Grantee to perform his or her duties to the Company (other than by reason of disability), which failure

continues for a period of thirty (30) days after written notice thereof is given to the Grantee; or (v) a violation of any provision of the Company's Code of Business Conduct and Ethics.

"Change in Control" has the meaning set forth in the Plan.

"Comparator Companies" means the companies listed on Appendix I, attached hereto, which are the companies that currently comprise the Office Property Sector of the FTSE NAREIT All REIT Index; provided that, unless otherwise determined by the Administrator in its sole discretion, no such company will be deemed a Comparator Company if such company ceases to have a class of common equity securities listed on a national securities exchange. In the event that a company listed on Appendix I ceases trading earlier than the last six (6) months of the Performance Period, the total return of an index, as determined by the Administrator, calculated in the same manner as Absolute Total Shareholder Return is calculated, for the entire period shall be substituted for such Comparator Company's Absolute Total Shareholder Return. In the event that a company listed on Appendix I ceases trading during the last six (6) months of the Performance Period, the Administrator shall calculate and utilize such Comparator Company's Absolute Total Shareholder Return ranking relative to Comparator Companies on the trading day immediately prior to the announcement of the transaction or event leading to the company no longer having a class of common equity securities listed on a national securities exchange, for comparison to the other full-period Comparator Company Absolute Total Shareholder Return results.

"Comparator Company Absolute Total Shareholder Return" means, for a Comparator Company, with respect to the Performance Period, the absolute total shareholder return of the common equity of such Comparator Company during the Performance Period, calculated in the same manner as Absolute Total Shareholder Return is calculated.

"Constructively Discharged" means (A) if the Grantee is a party to an Employment Agreement that includes a definition of "constructively discharged" or is a participant in the Executive Change in Control and Severance Plan, the definition of such term in such Employment Agreement or the Executive Change in Control and Severance Plan, as applicable, or (B) if the Grantee is not party to an Employment Agreement that defines "constructively discharged" and is not a participant in the Executive Change in Control and Severance Plan, the occurrence of any one of the following events: (i) the Grantee is not re-elected to, or is removed from, the position the Grantee holds with the Company as of the Grant Date, other than as a result of the Grantee's election or appointment to positions of equal or superior scope and responsibility; (ii) the Grantee shall fail to be vested by the Company with the powers, authority and support services normally attendant to any of said offices; (iii) the Company shall notify the Grantee that the employment of the Grantee will be terminated or materially modified in the future or that the Grantee will be Constructively Discharged in the future; or (iv) the Company changes the primary employment location of the Grantee to a place that is more than fifty (50) miles from the primary employment location as of the Grant Date. Notwithstanding the foregoing, the Grantee shall not be deemed to be Constructively Discharged unless (1) the Grantee notifies the Company in writing of the occurrence of the condition that would constitute a Constructive Discharge hereunder within 90 days after the first occurrence of such condition; (ii) the Company fails to remedy the condition within 30 days after such notice is provided (the "Cure Period"); and (iii) the Grantee terminates the Grantee's employment within 10 days after the end of the Cure Period.

“Disability” means (A) if the Grantee is a party to an Employment Agreement, and “disability” is defined therein, such definition, or (B) if the Grantee is not party to an Employment Agreement that defines “disability,” the Grantee is determined to be disabled under the long-term disability program of the Company then covering the Grantee or by a physician engaged by the Company and reasonably approved by the Grantee.

“Employment Agreement” means, as of a particular date, the Grantee’s employment agreement with the Company, or a subsidiary of the Company, in effect as of that date, if any.

“Executive Change in Control and Severance Plan” means the Corporate Office Properties Trust, Corporate Office Properties L.P. Executive Change in Control and Severance Plan, as in effect from time to time.

“Fair Market Value” of Shares as of a particular date means (a) if Shares are then listed on a national stock exchange, the closing sales price per share on the principal national stock exchange on which Shares are listed on such date (or, if such date is not a trading date on which there was a sale of such shares on such exchange, the last preceding date on which there was a sale of Shares on such exchange), (b) if Shares are not then listed on a national stock exchange but are then traded on an over-the-counter market, the average of the closing bid and asked prices for Shares in the principal over-the-counter market on which Shares are traded on such date (or, if such date is not a trading date on which there was a sale of Shares on such market, for the last preceding date on which there was a sale of Shares in such market), or (c) if Shares are not then listed on a national stock exchange or traded on an over-the-counter market, such value as the Administrator in its discretion may in good faith determine; provided that, where Shares are so listed or traded, the Administrator may make such discretionary determinations where Shares have not been traded for 10 trading days.

“Performance Period” means, the period commencing on **[PERFORMANCE PERIOD START]** and concluding on the earlier of (i) **[PERFORMANCE PERIOD END]** (ii) the date of a Change in Control or (iii) the date of a Qualified Termination.

“Plan” means the Corporate Office Properties Trust 2017 Omnibus Equity and Incentive Plan, as amended from time to time.

“Qualified Termination” means termination of the Grantee’s employment by the Company without Cause, by the Grantee following the date on which the Grantee is Constructively Discharged, or by reason of the Grantee’s death or Disability.

“Share Price” means, as of a particular date, the average of the Fair Market Value of one Share for the fifteen (15) trading days starting on, and including, such date (or, if such date is not a trading day, the trading day immediately following such date); provided that if such date is the date upon which a Transactional Change in Control occurs, the Share Price as of such date shall be equal to the fair market value in cash, as determined by the Administrator, of the total consideration paid or payable in the transaction resulting in the Transactional Change in Control for one Share.

“Transactional Change in Control” means (a) a Change in Control described in clause (i) of the definition thereof where the person makes a tender offer for Shares or (b) a Change in Control described in clause (ii) of the definition thereof.

2. **Award.**

(a) **Profit Interest Units.** Pursuant to the Plan and the Third Amended and Restated Limited Partnership Agreement, as amended (the “LP Agreement”), of the Partnership, the Partnership hereby grants, as of the Grant Date, **XX,XXX** Profit Interest Units (200% of the “Target Award”) to the Intermediary, subject to the restrictions and conditions set forth herein and in the Plan. The Intermediary will simultaneously grant the same quantity of units of the Intermediary to the Grantee. Profit Interest Units are intended to constitute “profits interests” within the meaning of Revenue Procedures 93-27 and 2001-43. However, notwithstanding any provisions herein or in the Plan, the Partnership does not guarantee that the Profit Interest Units will be treated as profits interests for tax purposes, and none of the Board, the Partnership, or any affiliate of the Partnership shall indemnify, defend or hold the Grantee harmless with respect to the tax consequences if the Profit Interest Units are not so treated. For the avoidance of doubt, the Profit Interest Units granted to the Intermediary hereunder constitute Units under the Plan for all purposes of the Plan.

(b) **Plan and LP Agreement Incorporated.** The Profit Interest Units granted hereunder shall be subject to and governed by all of the terms and conditions set forth in the Plan and the LP Agreement including future amendments thereto, if any, pursuant to the terms thereof, which Plan is incorporated herein by reference as a part of this Certificate. Capitalized terms in this Certificate shall have the meaning specified in the Plan, unless a different meaning is specified herein.

3. **Determination of Earned Profit Interest Units.**

(a) The number of profit interests units to be earned pursuant to this certificate (“the Earned Profit Interest Units”), expressed as a percentage of the Target Award (the “Award Earned Percentage”), will be based on the percentile rank of the Absolute Total Shareholder Return relative to the Comparator Company Absolute Total Shareholder Returns for the Comparator Companies for the Performance Period as set forth below, except as set forth in Section 4(c) below.

<u>Percentile Rank</u>	<u>Award Earned Percentage</u>
75 th percentile or greater	200% of the Target Award
50 th percentile	100% of the Target Award
25 th percentile	50% of the Target Award
Below 25 th percentile	0% of the Target Award

The percentile rank above shall be calculated using the following formula:

$$\text{Percentile Rank} = \frac{X}{Y}$$

Where:

X = the number of Comparator Companies with a Comparator Company Absolute Total Shareholder Return less than the Absolute Total Shareholder Return during the Performance Period.

Y = the number of Comparator Companies.

If the percentile rank exceeds the 25th percentile and is between two of the percentile ranks set forth in the table above, then the Award Earned Percentage will be interpolated between the ranges set forth in the table above to reflect any performance between the listed percentiles (e.g., a 62.5 percentile rank would result in an Award Earned Percentage of 150% of the Target Award).

(b) Notwithstanding the foregoing,

(i)(X) if the Award Earned Percentage under Section 3(a) is more than 100% of the Target Award when the Absolute Total Shareholder Return is negative, then the Award Earned Percentage under Section 3(a) will be reduced by 25 percentage points (e.g., a 100th percentile rank would result in an Award Earned Percentage of 175% of the Target Award), but in no event to an Award Earned Percentage of less than 100% of the Target Award; and (Y) the profit interest units associated with the decrease in Earned Profit Interest Units resulting from the reduction in Award Earned Percentage applied in Section 3(b)(i)(X) above (the “Adjusted Profit Interest Units”) will remain outstanding and, in the event that the Absolute Shareholder Return becomes positive on any date during the twelve months following the expiration of the originally applicable Performance Period (i.e., by December 31, 2027), the Adjusted Profit Interest Units will be deemed to be Earned Profit Interest Units within thirty (30) days of when such date occurred, no later than December 31, 2027 (such date on which the units are deemed to be Earned Profit Interest Units, the “Reinstatement Date”);

(ii) regardless of the percentile rank of CDP under Section 3(a), no less than 50% of the Target Award shall be considered Earned Profit Interest Units if the Absolute Total Shareholder Return is at least 6%, and no less than 100% of the Target Award shall be considered Earned Profit Interest Units if the Absolute Total Shareholder Return is at least 10%, with linear interpolation for the minimum percentage of the Target Award to be considered Earned Profit Interest Units if the Absolute Total Shareholder Return is between 6% and 10% (e.g., no less than 75% of the Target Award shall be considered Earned Profit Interest Units if the Absolute Total Shareholder Return is 8%).

(c) As soon as practicable following the conclusion of the Performance Period, the Administrator shall determine the actual number of Earned Profit Interest Units, if any, as of the final day of the Performance Period (the date on which the determination is made, the “Determination Date”). Any Profit Interest Units which do not become Earned Profit Interest Units at the Determination Date, other than the Adjusted Profit Interest Units, if any, shall be forfeited automatically and without further action as of that date. The Adjusted Profit Interest Units, if any, will remain outstanding until the earlier of the Reinstatement Date under Section 3(b)(i)(Y) above, or the first anniversary of the expiration of the Performance Period, at which time any Adjusted Profit Interest Units that have not become Earned Profit Interest Units shall be forfeited automatically and without further action as of that date. In the case that any Adjusted Profit Interest Units that become Earned Profit Interest Units, the applicable “Determination Date” for purposes of this Certificate will be applicable Reinstatement Date.

4. Termination of Employment/Change in Control.

(a) In the event that prior to **[PERFORMANCE PERIOD END]** the Grantee's employment with the Company shall terminate and such termination of employment is a Qualified Termination, then the Performance Period will end early, as provided in the definition of such term, and the amount of the Target Award earned under this Certificate will be calculated as provided in Section 3 above and Section 4(c) below. In the event that prior to the conclusion of the Performance Period, the Grantee's employment with the Company shall terminate and such termination of employment is not a Qualified Termination, then the Intermediary shall automatically forfeit the Profit Interest Units and all other rights granted hereunder as of the date of termination of employment.

(b) In the event that prior to **[PERFORMANCE PERIOD END]** a Change in Control occurs, then the Performance Period will end early, as provided in the definition of such term, and the amount of the Target Award earned under this Certificate will be calculated as provided in Section 3 (provided, however, that Section 3(b)(i)(X) will not apply) above and Section 4(c) below.

(c) In the event that the Performance Period ends prior to **[PERFORMANCE PERIOD END]** due to a Change in Control or a Qualified Termination, the number of Profit Interest Units that are earned shall be prorated based upon (X) the number of days from and including the Grant Date to and including the effective date of such Change in Control or Qualified Termination, divided by (Y) the number of days from and including the Grant Date to and including **[PERFORMANCE PERIOD END]**.

5. Distributions.

(a) The Grantee shall be entitled to receive distributions and allocations with respect to the Profit Interest Units granted hereunder to the extent provided for in the LP Agreement, as modified hereby.

(b) The Profit Interest Units granted hereunder shall be allocated Profits and Losses (as defined in the LP Agreement), for any taxable year or portion of a taxable year occurring after the issuance of such Profit Interest Units and prior to the Distribution Participation Date (as defined below), in amounts per Profit Interest Unit equal to the amounts allocated per Partnership Unit (as defined in the LP Agreement) for the same period multiplied by the Profit Interest Unit Sharing Percentage (as defined below). Commencing with the portion of the taxable year of the Partnership that begins on the Distribution Participation Date, the Earned Profit Interest Units, if any, shall be allocated Profits and Losses in amounts per Earned Profit Interest Unit equal to the amounts allocated per Partnership Unit. For purposes of this Certificate, the Distribution Participation Date shall be the Determination Date, and the Profit Interest Unit Sharing Percentage shall be ten percent (10%).

(c) During the period commencing on the Grant Date and ending on the day immediately prior to the Distribution Participation Date, each Profit Interest Unit granted hereunder shall be entitled to receive regular cash distributions and non-liquidating special, extraordinary or other distributions under the LP Agreement, in each case in an amount equal to the product of (i) the Profit Interest Unit Sharing Percentage and (ii) the amount that would have been distributable in respect of such Profit Interest Unit if such Profit Interest Unit had been a Partnership Unit for the period to which such distributions relate.

(d) As of the Determination Date, with respect to each Earned Profit Interest Unit, if any, the Grantee shall be entitled to receive a distribution in an amount equal to the difference between the

aggregate amount of distributions that the Grantee would have been entitled to receive under Section 5(b) had the Profit Interest Unit Sharing Percentage been equal to one-hundred percent (100%) and the aggregate amount of distributions that the Grantee actually received under Section 5(b) (the “Catch-Up Distribution”), but not less than zero. The Catch-Up Distribution shall be issuable to the Grantee as soon as practicable (but not later than sixty (60) days) following the Determination Date in the form of Shares, with such number of Shares being equal to (a) the aggregate value of those distributions that would have been paid with respect to the Profit Interest Units issued upon settlement of the Earned Profit Interest Units on or before the Determination Date if such Units had been issued on the first day of the Performance Period divided by (b) the Share Price used in connection with the calculation of the Earned Profit Interest Units.

(e) All distributions paid with respect to Profit Interest Units, both before and after the Distribution Participation Date, shall be fully vested and non-forfeitable when paid, whether or not the underlying Profit Interest Units have been earned based on performance as provided in Section 3 or Section 4 hereof.

6. **Adjustments.** Without duplication with the provisions of Section 3 of the Plan, if (i) COPT Defense Properties shall at any time be involved in a merger, consolidation, dissolution, liquidation, reorganization, exchange of shares, sale of all or substantially all of the assets or Shares of COPT Defense Properties or a transaction similar thereto, (ii) any share dividend, share split, reverse share split, share combination, reclassification, recapitalization, or other similar change in the capital structure of COPT Defense Properties, or any distribution to holders of Shares other than ordinary cash distributions, shall occur or (iii) any other event shall occur which in the judgment of the Administrator necessitates action by way of adjusting the terms of the Certificate, then and in that event, the Administrator shall take such action as shall be necessary to maintain the Grantee’s rights hereunder so that they are substantially proportionate to the rights existing under this Certificate prior to such event, including, but not limited to, adjustments to Absolute Total Shareholder Return, in the number of Profit Interest Units then subject to this Certificate and substitution of other awards under the Plan or otherwise.

7. **Representations and Warranties.** The Grantee hereby makes the following representations, warranties and agreements with respect to the Profit Interest Units:

- (a) **Restrictions.** The Grantee understands and agrees that the Profit Interest Units are being sold or granted in a transaction not involving any public offering in the United States within the meaning of the Securities Act of 1933, as amended (the “Securities Act”) and that the Profit Interest Units will not be registered under the Securities Act or any state or foreign securities or “blue sky” laws and that it is anticipated that there will be no public market for the Profit Interest Units. The Grantee understands and agrees that the Partnership is under no obligation to file any registration statement with the Securities and Exchange Commission in order to permit transfers of the Profit Interest Units.
- (b) **Nature of Grantee.** The Grantee’s knowledge and experience in financial and business matters are such that the Grantee is capable of evaluating the merits and risks of the investment in the Profit Interest Units. The Grantee understands that the Profit Interest Units are a speculative investment which involves a high degree of risk of loss of the Grantee’s investment therein. It may not be possible for the Grantee to liquidate

the investment in case of emergency, if at all. The Grantee is able to bear the economic risk of an investment in the Profit Interest Units, including the risk of a complete loss of the investment.

- (c) **Purchase for Investment**. The Grantee is acquiring the Profit Interest Units indirectly through the Intermediary for his or her own account for investment purposes and not with a view to, or for offer or sale on behalf of it or for the Partnership in connection with, the distribution or resale thereof.
- (d) **Receipt of, Access to and Reliance on Information**. The Grantee acknowledges that (i) the Partnership has given him or her, at a reasonable time prior to the Grant Date, an opportunity to ask questions and receive answers regarding the terms and conditions of the Plan, the LP Agreement and the Award; (ii) the Partnership has given him or her, at a reasonable time prior to the date hereof, an opportunity to obtain any additional information that the Partnership possesses or can acquire without unreasonable effort or expense deemed necessary by him or her to verify the accuracy of the information provided, and he or she received all such additional information requested; and (iii) he or she has not relied on any of the Partnership or any of its “affiliates” (as defined in Regulation D of the Securities Act), officers, employees or representatives in connection with his or her investigation of the accuracy of the information provided or his or her investment decision. The Grantee acknowledges that no person has been authorized to give any information or to make any representations concerning the Profit Interest Units, written or oral, that does not conform to the information included in the Plan, the LP Agreement or this Certificate and if given or made, such other information or representation should not be relied upon as having been authorized by any of the Partnership or any of its respective affiliates, officers, employees or representatives.
- (e) **No Misrepresentations; Notification of any Change**. The Grantee understands that the Partnership and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, and warranties, and agrees that if any of the acknowledgements, representations and warranties deemed to have been made by the Grantee upon his or her acquisition of the Profit Interest Units are no longer accurate at any time, the Grantee shall promptly notify the Partnership.

8. **Tax Matters; Section 83(b) Election**. The Intermediary hereby agrees to make an election to include in gross income in the year of transfer the Profit Interest Unit Award hereunder pursuant to Section 83(b) of the Internal Revenue Code and to supply the necessary information in accordance with the regulations promulgated thereunder.

9. **Restrictions and Conditions**. Subject to the provisions of the Plan, the LP Agreement and this Certificate, except as may otherwise be permitted by the Administrator, the Intermediary shall not be permitted voluntarily or involuntarily to sell, assign, transfer, or otherwise encumber or dispose of the Profit Interest Units or this award.

10. **Withholding of Tax**. The Partnership (and COPT Defense Properties) shall be entitled to withhold from any payments or deemed payments any amount of tax withholding it determines to be required by law. The Intermediary shall, not later than the date as of which vesting or payment

in respect of this award becomes a taxable event for Federal income tax purposes, pay to the Partnership (or COPT Defense Properties) or make arrangements satisfactory to the Partnership (or COPT Defense Properties) for payment of any Federal, state and local taxes required by law to be withheld on account of such taxable event.

11. **Employment Relationship.** For purposes of this Certificate, the Grantee shall be considered to be in the employment of the Company as long as the Grantee remains an employee of either the Company, any successor entity or a subsidiary of the Company or any successor. Any question as to whether and when there has been a termination of such employment, and the cause of such termination, shall be determined by the Administrator, or its delegate, as appropriate, and its determination shall be final.

12. **Administrator's Powers.** No provision contained in this Certificate shall in any way terminate, modify or alter, or be construed or interpreted as terminating, modifying or altering any of the powers, rights or authority vested in the Administrator or, to the extent delegated, in its delegate pursuant to the terms of the Plan or resolutions adopted in furtherance of the Plan, including, without limitation, the right to make certain determinations and elections with respect to the Profit Interest Units.

13. **Binding Effect.** This terms and conditions set forth in this Certificate shall be binding upon and inure to the benefit of any successors to the Company, the Intermediary and all persons lawfully claiming under the Grantee.

14. **Governing Law.** This Certificate and the Award shall be governed by, and construed in accordance with, the laws of the State of Maryland.

15. **No Obligation to Continue Employment.** Neither the Company, the Partnership nor any Company subsidiary is obligated by or as a result of the Plan or this Certificate to continue the Grantee in employment and neither the Plan nor this Certificate shall interfere in any way with the right of the Company, the Partnership or any Company subsidiary to terminate the employment of the Grantee at any time.

16. **Notices.** Notices hereunder shall be mailed or delivered (electronically or otherwise) to the Partnership and Intermediary at their respective principal places of business and shall be mailed or delivered to the Grantee at the address or email address on file with the Partnership or, in either case, at such other address or email address as one party may subsequently furnish to the other party in writing.

18. **Employment Agreement; Executive Change in Control and Severance Plan.** Except as specifically provided otherwise in this Certificate, any provisions in the Employment Agreement or the Executive Change in Control and Severance Plan relating to accelerated vesting or that would otherwise modify the vesting provisions set forth herein in connection with a termination of employment, a Change in Control or in any other circumstance shall not apply to this Certificate or the Profit Interest Units granted hereunder, and the specific terms of this Certificate shall supersede such provisions.

19. **Data Privacy Consent.** In order to administer the Plan and the Award and to implement or structure future equity grants, the Partnership and its agents may process any and all personal or professional data, including but not limited to Social Security or other identification number, home address and telephone number, date of birth and other information that is necessary or desirable for the administration of the Plan and/or the Profit Interest Units granted hereunder.

[Signature Page Follows]

IN WITNESS WHEREOF, the Partnership, the Intermediary and the Grantee have caused this Certificate to be duly executed by an officer thereunto duly authorized.

COPT DEFENSE PROPERTIES, L.P.

By: _____
Name: On Behalf of COPT Defense Properties Name
Title: *Title*

PROFIT INTEREST HOLDINGS LLC

By: CORPORATE OFFICE PROPERTIES HOLDINGS INC.
Its Managing Member

By: _____
Name: On Behalf of COPT Defense Properties Name
Title: *Title*

GRANTEE

By: _____
Name: **Recipient Name**
Title: *Recipient Title*

Address:

ADDRESS LINE 1
ADDRESS LINE 2

[Signature Page to Performance-Based Profit Interest Unit Award Certificate]

Appendix I

Comparator Companies

ARE	Alexandria Real Estate	HIW	Highwoods Properties Inc.
BXP	Boston Properties Inc.	HPP	Hudson Pacific Properties Inc.
BDN	Brandywine Realty Trust	KRC	Kilroy Realty Corp.
CMCT	Creative Media & Community Trust Corporation	NLOP	Net Lease Office Properties
CIO	City Office REIT Inc.	ONL	Orion Office REIT, Inc.
CUZ	Cousins Properties Inc.	OPI	Office Properties Income Trust
DEI	Douglas Emmett Inc.	PGRE	Paramount Group Inc.
DEA	Easterly Government Properties Inc.	PDM	Piedmont Office Realty Trust
ESRT	Empire State Realty Trust Inc.	SLG	SL Green Realty Corp.
EQC	Equity Commonwealth	VNO	Vornado Realty Trust
FSP	Franklin Street Properties		

COPT DEFENSE PROPERTIES

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

CERTIFICATIONS

I, Stephen E. Budorick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of COPT Defense Properties;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2024

/s/ Stephen E. Budorick

Stephen E. Budorick
President and Chief Executive Officer

COPT DEFENSE PROPERTIES

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934CERTIFICATIONS

I, Anthony Mifsud, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of COPT Defense Properties;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2024/s/ Anthony Mifsud
Anthony Mifsud
Executive Vice President and Chief Financial Officer

COPT DEFENSE PROPERTIES

CERTIFICATIONS REQUIRED BY

RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Quarterly Report on Form 10-Q of COPT Defense Properties (the "Company") for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen E. Budorick, President and Chief Executive Officer of the Company, certify that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Stephen E. Budorick

Stephen E. Budorick
President and Chief Executive Officer

Date: May 1, 2024

COPT DEFENSE PROPERTIES

CERTIFICATIONS REQUIRED BY

RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Quarterly Report on Form 10-Q of COPT Defense Properties (the "Company") for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony Mifsud, Executive Vice President and Chief Financial Officer of the Company, certify that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Anthony Mifsud

Anthony Mifsud

Executive Vice President and Chief Financial Officer

Date: May 1, 2024