

Armada Hoffler Properties, Inc.

Form 10-Q

November 12, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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: 001-35908

ARMADA HOFFLER PROPERTIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland
(State of Organization)

46-1214914
(IRS Employer

Identification No.)

222 Central Park Avenue, Suite 2100

Virginia Beach, Virginia
(Address of Principal Executive Offices)

23462
(Zip Code)

(757) 366-4000

(Registrant's Telephone Number, Including Area Code)

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller reporting company

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 November 7, 2014, the Registrant had 25,019,470 shares of common stock outstanding.

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ARMADA HOFFLER PROPERTIES, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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Table of Contents**PART I. Financial Information****Item 1. Financial Statements****ARMADA HOFFLER PROPERTIES, INC.****Condensed Consolidated Balance Sheets**

(In Thousands, except par value and share data)

	SEPTEMBER 30, 2014 (UNAUDITED)	DECEMBER 31, 2013
<u>ASSETS</u>		
Real estate investments:		
Income producing property	\$ 499,661	\$ 406,239
Held for development		
Construction in progress	93,946	56,737
	593,607	462,976
Accumulated depreciation	(115,839)	(105,228)
Net real estate investments	477,768	357,748
Cash and cash equivalents	17,101	18,882
Restricted cash	4,425	2,160
Accounts receivable, net	20,307	18,272
Construction receivables, including retentions	15,285	12,633
Construction contract costs and estimated earnings in excess of billings	40	1,178
Other assets	32,409	24,409
Total Assets	\$ 567,335	\$ 435,282
<u>LIABILITIES AND EQUITY</u>		
Indebtedness	\$ 335,792	\$ 277,745
Accounts payable and accrued liabilities	7,569	6,463
Construction payables, including retentions	39,820	28,139
Billings in excess of construction contract costs and estimated earnings	3,420	1,541
Other liabilities	17,979	15,873
Total Liabilities	404,580	329,761

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Stockholders' equity:				
Common stock, \$0.01 par value, 500,000,000 shares authorized, 25,018,733 and 19,163,413 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively		250	192	
Additional paid-in capital		51,179	1,247	
Distributions in excess of earnings		(53,695)	(47,934)	
Total stockholders' deficit		(2,266)	(46,495)	
Noncontrolling interests		165,021	152,016	
Total Equity		162,755	105,521	
Total Liabilities and Equity	\$	567,335	\$	435,282

See Notes to Condensed Consolidated and Combined Financial Statements.

Table of Contents**ARMADA HOFFLER PROPERTIES, INC. AND PREDECESSOR****Condensed Consolidated and Combined Statements of Income**

(In Thousands, except per share data)

(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30, 2014	2013	SEPTEMBER 30, 2014	2013
Revenues				
Rental revenues	\$ 16,713	\$ 14,899	\$ 47,225	\$ 42,528
General contracting and real estate services revenues	31,532	21,896	71,261	63,143
Total revenues	48,245	36,795	118,486	105,671
Expenses				
Rental expenses	4,414	3,840	12,230	10,468
Real estate taxes	1,480	1,317	4,231	3,777
General contracting and real estate services expenses	30,468	20,907	67,807	60,868
Depreciation and amortization	4,567	3,933	12,593	11,112
General and administrative expenses	1,741	1,638	5,768	5,212
Acquisition, development and other pursuit costs	174		174	
Impairment charges	15		15	533
Total expenses	42,859	31,635	102,818	91,970
Operating income	5,386	5,160	15,668	13,701
Interest expense	(2,734)	(2,598)	(7,977)	(9,802)
Loss on extinguishment of debt		(1,127)		(2,252)
Gain on acquisitions				9,460
Other income (loss)	59	(109)	(23)	343
Income before taxes	2,711	1,326	7,668	11,450
Income tax benefit (provision)	43	(74)	(135)	137
Net income	2,754	1,252	7,533	11,587
Net income attributable to Predecessor				(2,020)
Net income attributable to noncontrolling interests	(1,139)	(507)	(3,128)	(3,936)
Net income attributable to stockholders	\$ 1,615	\$ 745	\$ 4,405	\$ 5,631
Net income per share:				
Basic and diluted	\$ 0.08	\$ 0.04	\$ 0.23	\$ 0.30

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Weighted-average outstanding:				
Common shares	20,266	19,164	19,574	18,969
Common units	14,291	13,059	13,905	13,059
Basic and diluted	34,557	32,223	33,479	32,028
Dividends declared per common share and unit	\$ 0.16	\$ 0.16	\$ 0.48	\$ 0.24

See Notes to Condensed Consolidated and Combined Financial Statements.

Table of Contents**ARMADA HOFFLER PROPERTIES, INC.****Condensed Consolidated Statement of Equity****(In Thousands, except share data)****(Unaudited)**

	Shares of common stock	Common stock	Additional Distributions paid- in capital	in excess of earnings	Total stockholder deficit	Noncontrolling interests	Total Equity
Balance, January 1, 2014	19,163,413	\$ 192	\$ 1,247	\$ (47,934)	\$ (46,495)	\$ 152,016	\$ 105,521
Net proceeds from sale of common stock	5,750,000	57	49,242		49,299		49,299
Restricted stock award grants	128,050	1	(1)				
Vesting of restricted stock awards			1,204		1,204		1,204
Minimum tax withholding	(21,376)		(212)		(212)		(212)
Restricted stock award forfeitures	(1,354)						
Acquisitions of real estate investments in exchange for common units						16,351	16,351
Exchange of owners equity for common units			(301)		(301)	301	
Net income				4,405	4,405	3,128	7,533
Dividends and distributions declared				(10,166)	(10,166)	(6,775)	(16,941)
Balance, September 30, 2014	25,018,733	\$ 250	\$ 51,179	\$ (53,695)	\$ (2,266)	\$ 165,021	\$ 162,755

See Notes to Condensed Consolidated and Combined Financial Statements.

Table of Contents**ARMADA HOFFLER PROPERTIES, INC. AND PREDECESSOR****Condensed Consolidated and Combined Statements of Cash Flows****(In Thousands)****(Unaudited)**

	NINE MONTHS ENDED SEPTEMBER 30,	
	2014	2013
OPERATING ACTIVITIES		
Net income	\$ 7,533	\$ 11,587
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of buildings and tenant improvements	10,611	9,482
Amortization of deferred leasing costs and in-place lease intangibles	1,982	1,630
Accrued straight-line rental revenue	(1,730)	(763)
Amortization of lease incentives and above or below-market rents	461	537
Accrued straight-line ground rent expense	236	273
Bad debt expense	48	155
Noncash stock compensation	720	1,012
Impairment charges	15	533
Noncash interest expense	410	482
Noncash loss on extinguishment of debt		542
Gain on acquisitions		(9,460)
Change in the fair value of derivatives	123	(41)
Income from real estate joint ventures		(210)
Changes in operating assets and liabilities:		
Property assets	(1,932)	6,438
Property liabilities	234	(563)
Construction assets	(4,298)	(2,375)
Construction liabilities	6,879	(1,071)
Net cash provided by operating activities	21,292	18,188
INVESTING ACTIVITIES		
Development of real estate investments	(77,094)	(24,928)
Tenant and building improvements	(4,622)	(2,452)
Acquisitions of real estate investments, net of cash acquired	(2,754)	(2,106)