COHERENT INC
Form 10-Q
August 10, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended July 2, 2016
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: 001-33962
COHERENT, INC.

Delaware	94-1622541
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5100 Patrick Henry Drive, Santa Clara, California 95054
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (408) 764-4000

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x 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 x	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 x

The number of shares outstanding of registrant’s common stock, par value $.01 per share, on August 8, 2016 was 24,322,965.

Table of Contents

COHERENT, INC.

INDEX

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements included in or incorporated by reference in this quarterly report, other than statements of historical fact, are forward-looking statements. These statements are generally accompanied by words such as “trend,” “may,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “rely,” “believe,” “estimate,” “predict,” “intend,” “potential,” “continue,” "outlook," “forecast” or the negative of or other comparable terminology, including without limitation statements made under “Our Strategy,” discussions regarding our bookings and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Actual results of Coherent, Inc. (referred to herein as the Company, we, our or Coherent) may differ significantly from those anticipated in these forward-looking statements as a result of various factors, including those discussed in the sections captioned “Our Strategy,” “Risk Factors,” “Key Performance Indicators,” as well as any other cautionary language in this quarterly report. All forward-looking statements included in the document are based on information available to us on the date hereof. We undertake no obligation to update these forward-looking statements as a result of events or circumstances or to reflect the occurrence of unanticipated events or non-occurrence of anticipated events.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

COHERENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Net sales	$218,767	$188,502	$608,924	$592,838
Cost of sales	124,208	109,720	341,868	348,433
Gross profit	94,559	78,782	267,056	244,405
Operating expenses:				
Research and development	21,441	21,270	61,536	61,467
Selling, general and administrative	46,256	36,154	123,970	113,777
Impairment of investment	—	2,017	—	2,017
Amortization of intangible assets	574	647	1,975	2,009
Total operating expenses	68,271	60,088	187,481	179,270
Income from operations	26,288	18,694	79,575	65,135
Other income (expense):				
Interest and dividend income	351	183	854	440
Interest expense	(63)	(4)	(108)	(29)
Other—net	564	(787)	(1,896)	286
Total other income (expense), net	852	(608)	(1,150)	697
Income before income taxes	27,140	18,086	78,425	65,832
Provision for income taxes	8,490	4,822	21,708	16,725
Net income	$18,650	$13,264	$56,717	$49,107
Net income per share:				
Basic	$0.77	$0.54	$2.35	$1.98
Diluted	$0.76	$0.53	$2.33	$1.96
Shares used in computation:				
Basic	24,192	24,737	24,108	24,794
Diluted	24,467	24,972	24,355	25,018

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

COHERENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited; in thousands)

	Three Months Ended		Nine Months Ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Net income	$18,650	$13,264	$56,717	$49,107
Other comprehensive income (loss): [1]				
Translation adjustment, net of taxes [2]	(6,396)	1,108	(1,334)	(46,691)
Net gain (loss) on derivative instruments, net of taxes [3]	—	77	(28)	627
Changes in unrealized gains (losses) on available-for-sale securities, net of taxes [4]	(37)	1,059	2,426	1,260
Other comprehensive income (loss), net of tax	(6,433)	2,244	1,064	(44,804)
Comprehensive income	$12,217	$15,508	$57,781	$4,303

(1) Reclassification adjustments were not significant during the three and nine months ended July 2, 2016 and July 4, 2015.

(2) Tax expenses of $185 and $304 were provided on translation adjustments during the three and nine months ended July 2, 2016, respectively. Tax benefits of $98 and $1,960 were provided on translation adjustments during the three and nine months ended July 4, 2015, respectively.

(3) Tax expenses (benefits) of $0 and $(17) were provided on net gain (loss) on derivative instruments during the three and nine months ended July 2, 2016. Tax expenses of $45 and $364 were provided on net gain (loss) on derivative instruments during the three and nine months ended July 4, 2015.

(4) Tax expenses (benefits) of $(22) and $1,415 were provided on unrealized gains (losses) on available for sale securities during the three and nine months ended July 2, 2016. Tax expenses of $619 and $738 were provided on unrealized gains (losses) on available-for-sale securities for the three and nine months ended July 4, 2015.

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

COHERENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited; in thousands, except par value)

	July 2, 2016	October 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$139,407	$130,607
Short-term investments	234,205	194,908
Accounts receivable—net of allowances of $2,632 and $3,015, respectively	150,184	142,260
Inventories	200,171	156,614
Prepaid expenses and other assets	36,349	28,294
Total current assets	760,316	652,683
Property and equipment, net	111,738	102,445
Goodwill	101,308	101,817
Intangible assets, net	16,092	22,776
Other assets	92,856	89,226
Total assets	$1,082,310	$968,947
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$20,000	$—
Accounts payable	44,182	33,379
Income taxes payable	10,136	4,279
Other current liabilities	92,061	84,932
Total current liabilities	166,379	122,590
Other long-term liabilities	44,985	49,939
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, Authorized—500,000 shares, par value $.01 per share:		
Outstanding—24,295 shares and 23,970 shares, respectively	242	238
Additional paid-in capital	145,350	128,607
Accumulated other comprehensive loss	(8,449)	(9,513)
Retained earnings	733,803	677,086
Total stockholders' equity	870,946	796,418
Total liabilities and stockholders' equity	$1,082,310	$968,947

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

COHERENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in thousands)

	Nine Months Ended	
	July 2, 2016	July 4, 2015
Cash flows from operating activities:		
Net income	$56,717	$49,107
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,410	18,453
Amortization of intangible assets	6,201	6,176
Impairment of investment	—	2,017
Deferred income taxes	(3,356)	5,312
Stock-based compensation	14,821	13,737
Other non-cash expense	387	8
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(4,195)	(15,637)
Inventories	(43,627)	2,011
Prepaid expenses and other assets	(4,809)	(21,193)
Other assets	(577)	(670)
Accounts payable	9,824	641
Income taxes payable/receivable	(2,759)	(11,800)
Other current liabilities	4,519	19,177
Other long-term liabilities	2,065	1,496
Net cash provided by operating activities	54,621	68,835
Cash flows from investing activities:		
Purchases of property and equipment	(28,310)	(16,187)
Proceeds from dispositions of property and equipment	422	1,848
Purchases of available-for-sale securities	(180,842)	(274,832)
Proceeds from sales and maturities of available-for-sale securities	144,966	270,044
Net cash used in investing activities	(63,764)	(19,127)
Cash flows from financing activities:		
Short-term borrowings	54,792	24,354
Repayments of short-term borrowings	(34,792)	(24,354)
Debt issuance costs	(2,530)	—
Issuance of common stock under employee stock option and purchase plans	7,249	7,256
Increase in cash overdraft	880	—
Repurchase of common stock	—	(25,009)
Net settlement of restricted common stock	(5,414)	(5,295)
Net cash provided by(used in) financing activities	20,185	(23,048)
Effect of exchange rate changes on cash and cash equivalents	(2,242)	(14,739)
Net increase in cash and cash equivalents	8,800	11,921
Cash and cash equivalents, beginning of period	130,607	91,217
Cash and cash equivalents, end of period	$139,407	$103,138
Noncash investing and financing activities:		
Unpaid property and equipment purchases	$2,538	$941

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

COHERENT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes thereto should be read in conjunction with the Coherent, Inc. (referred to herein as the "Company," "we," "our," "us" or "Coherent") condensed consolidated financial statements and notes thereto filed on Form 10-K for the fiscal year ended October 3, 2015. In the opinion of management, all adjustments necessary for a fair presentation of financial condition and results of operation as of and for the periods presented have been made and include only normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year or any other interim periods. Our fiscal year ends on the Saturday closest to September 30 and our third fiscal quarters include 13 weeks of operations in each fiscal year presented. Fiscal year 2016 includes 52 weeks and fiscal year 2015 includes 53 weeks. Certain reclassifications have been made to the prior period amounts to conform to the current period's presentation related to the reclassification of $28.1 million of current deferred income tax assets to non-current deferred income tax assets and non-current deferred income tax liabilities.

2. RECENT ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncements

In November 2015, the FASB issued amended guidance that clarifies that in a classified statement of financial position, an entity shall classify deferred tax liabilities and assets as noncurrent amounts. The new guidance supersedes ASC 740-10-45-5 which required the valuation allowance for a particular tax jurisdiction be allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis. We elected to early adopt the standard retrospectively in the first quarter of fiscal 2016, which resulted in the reclassification of $28.1 million from current deferred income tax assets to non-current deferred income tax assets and non-current deferred income tax liabilities as of October 3, 2015.

In April 2015, the FASB issued amended guidance that simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amended guidance. The new standard will become effective for our fiscal year beginning October 2, 2016. We elected to early adopt the standard in the second quarter of fiscal 2016 and have recorded the debt issuance costs of $2.5 million as of July 2, 2016 in other assets for the debt commitment we entered into in the second quarter of fiscal 2016.

Recently Issued Accounting Pronouncements

In March 2016, the FASB issued amended guidance that simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Under the new guidance, an entity recognizes all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. This change eliminates the notion of the APIC pool and significantly reduces the complexity and cost of accounting for excess tax benefits and tax deficiencies. The new standard will become effective for our fiscal year beginning October 2, 2017. We are currently assessing the impact of this amended guidance and the timing of adoption.

In February 2016, the FASB issued amended guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new guidance clarifies the criteria for distinguishing between a finance lease and operating lease, as well as classification between the two types of leases, which is substantially unchanged from the previous lease guidance.
Further, the new guidance requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset, initially measured at the present value of the lease payments. For finance leases, a lessee should recognize interest on the lease liability separately from amortization of the right-of-use

Table of Contents

asset. For operating leases, a lessee should recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. The new standard will become effective for our fiscal year beginning September 29, 2019. We are currently assessing the impact of this amended guidance and the timing of adoption.

In January 2016, the FASB issued amended guidance that revises the recognition and measurement of financial instruments. The new guidance requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The new standard will become effective for our fiscal year beginning September 30, 2018. We are currently assessing the impact of this amended guidance and the timing of adoption.

3. BUSINESS COMBINATIONS

Rofin-Sinar Technologies, Inc.

On March 16, 2016, we entered into a definitive agreement to acquire Rofin-Sinar Technologies, Inc. ("Rofin"), one of the world's leading developers and manufacturers of high-performance industrial laser sources and laser-based solutions and components. The acquisition will be an all-cash transaction at a price of $32.50 per share of Rofin common stock for a total approximate offer value of $942.0 million before fees and transaction costs. The completion of the acquisition is subject to customary closing conditions, including regulatory approvals.

Fiscal 2015 Acquisitions

Raydiance, Inc.

On July 24, 2015, we acquired certain assets of Raydiance, Inc. ("Raydiance") for approximately $5.0 million, excluding transaction costs. Raydiance manufactured complete tools and lasers for ultrafast processing systems and subsystems in the precision micromachining processing market. The Raydiance assets have been included in our Specialty Lasers and Systems segment.

Our allocation of the purchase price is as follows (in thousands):

Tangible assets	$1,048
Goodwill	1,552
Intangible assets:	
Existing technology	800
Customer lists	1,600
Total	$5,000

The purchase price allocated to goodwill was finalized in the first quarter of fiscal 2016, with an increase of $0.4 million and a corresponding decrease of $0.4 million to tangible assets, and has been updated from the preliminary allocation in the fourth quarter of fiscal 2015.

Results of operations for the business have been included in our consolidated financial statements subsequent to the date of acquisition and pro forma results of operations in accordance with authoritative guidance for prior periods have not been presented because the effect of the acquisition was not material to our prior period consolidated financial results.

The identifiable intangible assets are being amortized over their respective useful lives of three to five years.

None of the goodwill from this purchase is deductible for tax purposes.

We expensed $0.1 million of acquisition-related costs as selling, general and administrative expenses in our consolidated statements of operations for our fiscal year 2015.

Tinsley Optics

9

Table of Contents

On July 27, 2015, we acquired the assets and certain liabilities of the Tinsley Optics ("Tinsley") business from L-3 Communications Corporation for approximately $4.3 million, excluding transaction costs. Tinsley is a specialized manufacturer of high precision optical components and subsystems sold primarily in the aerospace and defense industry. Tinsley manufactures the large form factor optics for our excimer laser annealing systems. Tinsley has been included in our Specialty Lasers and Systems segment.

Our allocation of the purchase price is as follows (in thousands):

Tangible assets:	
Inventories	$2,240
Accounts receivable	2,263
Prepaid expenses and other assets	1,132
Property and equipment	2,451
Liabilities assumed	(1,702)
Deferred tax liabilities	(768)
Gain on business combination	(1,316)
Total	$4,300

The purchase price was lower than the fair value of net assets purchased, resulting in a gain of $1.3 million recorded as a separate line item in our consolidated statements of operations for our fiscal year 2015. We reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed and concluded that all acquired assets and assumed liabilities were recognized and that the valuation procedures and resulting measures were appropriate.

Results of operations for the business have been included in our consolidated financial statements subsequent to the date of acquisition and pro forma results of operations in accordance with authoritative guidance for prior periods have not been presented because the effect of the acquisition was not material to our prior period consolidated financial results.

The gain from the bargain purchase is not subject to income taxation.

We expensed $0.4 million of acquisition-related costs as selling, general and administrative expenses in our consolidated statements of operations for our fiscal year 2015.

4. FAIR VALUES

We have not changed our valuation techniques in measuring the fair value of any financial assets and liabilities during the period. We recognize transfers between levels within the fair value hierarchy, if any, at the end of each quarter. There were no transfers between levels during the periods presented. As of July 2, 2016 and October 3, 2015, we did not have any assets or liabilities valued based on Level 3 valuations.

Financial assets and liabilities measured at fair value as of July 2, 2016 and October 3, 2015 are summarized below (in thousands):

Table of Contents

	Aggregate Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Aggregate Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
	July 2, 2016			October 3, 2015		
		(Level 1)	(Level 2)		(Level 1)	(Level 2)
Assets:						
Cash equivalents:						
Money market fund deposits	$29,112	$ 29,112	$—	$8,297	$ 8,297	$—
Commercial paper [2]	4,727	—	4,727	—	—	—
Short-term investments:						
U.S. Treasury and agency obligations [2]	$145,752	$ —	$145,752	$150,748	$ —	$150,748
Corporate notes and obligations [2]	19,780	—	19,780	17,942	—	17,942
Commercial paper [2]	48,318	—	48,318	9,740	—	9,740
Equity securities [1]	20,355	20,355	—	16,478	16,478	—
Prepaid and other assets:						
Foreign currency contracts [3]	290	—	290	258	—	258
Mutual funds — Deferred comp and supplemental plan [4]	13,838	13,838	—	13,891	13,891	—
Total	$282,172	$ 63,305	$218,867	$217,354	$ 38,666	$178,688
Liabilities:						
Other current liabilities:						
Foreign currency contracts [3]	$(3,750)	$ —	$(3,750)	$(239)	$ —	$(239)
Total	$278,422	$ 63,305	$215,117	$217,115	$ 38,666	$178,449

(1) Valuations are based upon quoted market prices.

(2) Valuations are based upon quoted market prices in active markets involving similar assets. The market inputs used to value these instruments generally consist of market yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. Pricing sources include industry standard data providers, security master files from large financial institutions, and other third party sources which are input into a distribution-curve-based algorithm to determine a daily market value. This creates a “consensus price” or a weighted average price for each security.

(3) The principal market in which we execute our foreign currency contracts is the institutional market in an over-the-counter environment with a relatively high level of price transparency. The market participants usually are large commercial banks. Our foreign currency contracts’ valuation inputs are based on quoted prices and quoted pricing intervals from public data sources and do not involve management judgment. At July 2, 2016, prepaid expenses and other assets include $290 non-designated forward contracts; other current liabilities include $3,750 non-designated forward contracts. At October 3, 2015, prepaid expenses and other assets include $217 non-designated forward contracts and $41 foreign currency contracts designated for cash flow hedges, respectively; other current liabilities include $239 non-designated forward contracts and $0 foreign currency contracts designated for cash flow hedges, respectively. See Note 6, "Derivative Instruments and Hedging Activities".

(4) The fair value of mutual funds is determined based on quoted market prices. Securities traded on a national exchange are stated at the last reported sales price on the day of valuation; other securities traded in

over-the-counter markets and listed securities for which no sale was reported on that date are stated as the last quoted bid price.

Table of Contents

5. SHORT-TERM INVESTMENTS

We consider all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Investments classified as available-for-sale are reported at fair value with unrealized gains and losses, net of related income taxes, recorded as a separate component of other comprehensive income ("OCI") in stockholders' equity until realized. Interest and amortization of premiums and discounts for debt securities are included in interest income. Gains and losses on securities sold are determined based on the specific identification method and are included in other income (expense).

Cash, cash equivalents and short-term investments consist of the following (in thousands):

	July 2, 2016			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$139,407	$ —	$ —	$139,407
Short-term investments:				
Available-for-sale securities:				
Commercial paper	$48,318	$ —	$ —	$48,318
U.S. Treasury and agency obligations	145,222	533	(3)	145,752
Corporate notes and obligations	19,676	105	(1)	19,780
Equity securities	15,269	5,086	—	20,355
Total short-term investments	$228,485	$ 5,724	$ (4)	$234,205

	October 3, 2015			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$130,607	$ —	$ —	$130,607
Short-term investments:				
Available-for-sale securities:				
Commercial paper	$9,740	$ —	$ —	$9,740
U.S. Treasury and agency obligations	149,708	1,040	—	150,748
Corporate notes and obligations	17,892	52	(2)	17,942
Equity securities	15,269	1,209	—	16,478
Total short-term investments	$192,609	$ 2,301	$ (2)	$194,908

None of the unrealized losses as of July 2, 2016 or October 3, 2015 were considered to be other-than-temporary impairments.

The amortized cost and estimated fair value of available-for-sale investments in debt securities as of July 2, 2016 and October 3, 2015 classified as short-term investments on our condensed consolidated balance sheet were as follows (in thousands):

Table of Contents

	July 2, 2016		October 3, 2015	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Investments in available-for-sale debt securities due in less than one year	$211,327	$ 211,951	$148,088	$ 149,100
Investments in available-for-sale debt securities due in one to five years (1)	$1,889	$ 1,899	$29,252	$ 29,330

(1) Classified as short-term investments because these securities are highly liquid and can be sold at any time.

During the three and nine months ended July 2, 2016, we received proceeds totaling $15.5 million and $44.1 million, respectively, from the sale of available-for-sale securities and realized gross gains of less than $0.1 million and $0.1 million, respectively. During the three and nine months ended July 4, 2015, we received proceeds totaling $44.6 million and $122.5 million, respectively, from the sale of available-for-sale securities and realized gross gains of less than $0.1 million and $0.1 million, respectively.

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We maintain operations in various countries outside of the United States and have foreign subsidiaries that manufacture and sell our products in various global markets. The majority of our sales are transacted in U.S. dollars. However, we do generate revenues in other currencies, primarily the Euro, Japanese Yen, South Korean Won and Chinese Renminbi (RMB). As a result, our earnings, cash flows and cash balances are exposed to fluctuations in foreign currency exchange rates. We attempt to limit these exposures through financial market instruments. We utilize derivative instruments, primarily forward contracts with maturities of two months or less, to manage our exposure associated with anticipated cash flows and net asset and liability positions denominated in foreign currencies. Gains and losses on the forward contracts are mitigated by gains and losses on the underlying instruments. We do not use derivative financial instruments for speculative or trading purposes. The credit risk amounts represent the Company’s gross exposure to potential accounting loss on derivative instruments that are outstanding or unsettled if all counterparties failed to perform according to the terms of the contract, based on then-current currency or interest rates at each respective date.

For derivative instruments that are not designated as hedging instruments, gains and losses are recognized in other income (expense).

Non-Designated Derivatives

The outstanding notional contract and fair value asset (liability) amounts of non-designated hedge contracts, with maximum maturity of two months, are as follows (in thousands):

Table of Contents

	U.S. Notional Contract Value		U.S. Fair Value	
	July 2, 2016	October 3, 2015	July 2, 2016	October 3, 2015
Euro currency hedge contracts				
Purchase	$64,730	$52,699	$(143)	$33
Sell	$(307)	$—	$6	$—
Japanese Yen currency hedge contracts				
Purchase	$—	$558	$—	$8

	(3,448)				
Gain on real estate dispositions and acquisitions	2,211	9,460			
Income from continuing operations	12,759	14,453	8,907	2,647	4,081
Results from discontinued operations			(10)	(381)	(337)
Net income	$ 12,759	$ 14,453	$ 8,897	$ 2,266	$ 3,744
Net income attributable to stockholders	$ 7,691	$ 7,336			
Net income per share basic and diluted	$ 0.37	$ 0.39			
Cash dividends declared per share	$ 0.64	$ 0.40			
Balance Sheet Data:					
Real estate investments, at cost	$ 595,000	$ 462,976	$ 354,740	$ 349,933	$ 343,627
Accumulated depreciation	(116,099)	(105,228)	(92,454)	(80,923)	(69,532)
Net real estate investments	478,901	357,748	262,286	269,010	274,095
Real estate investments held for sale	8,538			473	3,162
Cash and cash equivalents	25,883	18,882	9,400	13,449	8,435
Construction assets	19,704	13,811	11,696	13,866	21,560
Total assets	590,906	435,282	331,813	340,134	359,448
Indebtedness	359,229	277,745	335,081	339,562	334,211
Debt related to real estate investments held for sale					1,225
Construction liabilities	43,452	29,680	21,605	23,825	31,400
Total liabilities	429,000	329,761	373,154	377,533	382,993
Total equity	161,906	105,521	(41,341)	(37,399)	(23,545)
Other Data:					
Funds from operations[1]	$ 28,117	$ 19,806	$ 21,886	$ 15,861	$ 16,150
Cash provided by operating activities	31,362	22,175	22,326	23,183	6,090
Cash used for investing activities	(105,306)	(47,947)	(4,702)	(5,998)	(14,715)
Cash provided by (used for) financing activities	80,945	35,254	(21,673)	(12,171)	5,566

(1) We calculate funds from operations (FFO) in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT. FFO represents net income (loss) (computed in accordance with U.S. generally accepted accounting principles, or GAAP), excluding gains (or losses) from sales of depreciable operating property, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. FFO is a supplemental non-GAAP financial measure. Management uses FFO as a supplemental performance measure because it believes that FFO is beneficial to investors as a starting point in measuring our operational performance. Specifically, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, which do not relate to or are not indicative of operating performance, FFO provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes real estate related depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effects and could materially impact our results from operations, the utility of FFO as a measure of our performance is limited. In addition, other equity REITs may not calculate FFO in accordance with the NAREIT definition as we do, and, accordingly, our FFO may not be comparable to such other REITs FFO. Accordingly, FFO should be considered only as a supplement to net income as a measure of our performance. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or service indebtedness. FFO also should not be used as a supplement to or substitute for cash flow from operating activities computed in accordance with GAAP. The following table sets forth a reconciliation of our FFO to net income, the most directly comparable GAAP equivalent, for the periods presented:

	Years Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
	($ in thousands)				
Net income	$ 12,759	$ 14,453	$ 8,897	$ 2,266	$ 3,744
Depreciation and amortization	17,569	14,898	12,909	12,994	12,158
(Gain) loss on real estate dispositions and acquisitions	(2,211)	(9,460)		569	
Real estate joint ventures, net		(85)	80	32	248
Funds from operations	$ 28,117	$ 19,806	$ 21,886	$ 15,861	$ 16,150

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

References to we, our, us, and our company refer to Armada Hoffler Properties, Inc., a Maryland corporation, toget with our consolidated subsidiaries, including Armada Hoffler, L.P., a Virginia limited partnership, of which we are the sole general partner and to which we refer in this Annual Report on Form 10-K as our Operating Partnership.

Business Description

We are a full service real estate company with extensive experience developing, building, owning and managing high-quality, institutional-grade office, retail and multifamily properties in attractive markets throughout the Mid-Atlantic United States.

We are a Maryland corporation formed on October 12, 2012 to acquire the entities in which Daniel A. Hoffler and his affiliates, certain of our other officers, directors and their affiliates and other third parties owned a direct or indirect interest (our Predecessor) through a series of related formation transactions (the Formation Transactions). We did not have any operating activity until the consummation of our initial public offering of our shares of common stock (the IPO) and the Formation Transactions on May 13, 2013. Upon completing our IPO and the Formation Transactions, we carry on our operations through Armada Hoffler, L.P. (our Operating Partnership), whose assets, liabilities and results of operations we consolidate.

Our Predecessor was not a single legal entity, but rather a combination of real estate and construction entities that were under common control by our Executive Chairman, Daniel A. Hoffler. These entities included: (i) controlling interests in entities that owned seven office properties, 14 retail properties and one multifamily property, (ii) noncontrolling interests in entities that owned one retail and one multifamily property (Bermuda Crossroads and Smith s Landing, respectively), (iii) the property development and asset management businesses of Armada Hoffler Holding Company, Inc. and (iv) the general commercial construction businesses of Armada Hoffler Construction Company and Armada Hoffler Construction Company of Virginia.

Because of the timing of the IPO and the Formation Transactions, the results of operations for the year ended December 31, 2012 are solely those of our Predecessor. The results of operations for the year ended December 31, 2013 reflect our results together with those of our Predecessor. The financial condition as of December 31, 2014 and 2013 as well as the results of operations for the year ended December 31, 2014 are solely ours.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated and combined financial statements that have been prepared in accordance with GAAP. The preparation of these financial statements requires us to exercise our best judgment in making estimates that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates on an ongoing basis, based upon current available information. Actual results could differ from these estimates.

We believe the following accounting policies and estimates are the most critical to understanding our reported financial results as their effect on our financial condition and results of operations is material.

Revenue Recognition

Rental Revenues

We lease our properties under operating leases and recognize base rents on a straight-line basis over the lease term. We also recognize revenue from tenant recoveries, through which tenants reimburse us for expenses paid by us such as utilities, janitorial, repairs and maintenance, security and alarm, parking lot and grounds, general and administrative, management fees, insurance and real estate taxes, on an accrual basis. Our rental revenues are reduced by the amount of any leasing incentives on a straight-line basis over the term of the applicable lease. We include a renewal period in the lease term only if it appears at lease inception that the renewal is reasonably assured. We begin recognizing rental revenue when the tenant has the right to take possession of or controls the physical use of the property under lease. We maintain control of the physical use of the property under lease if we serve as the general contractor for the tenant. Rental revenue is recognized subject to management s evaluation of tenant credit risk. The extended collection period for accrued straight-line rental revenue along with our evaluation of tenant credit risk may result in the non-recognition of all or a portion of straight-line rental revenue until the collection of such revenue is reasonably assured.

General Contracting and Real Estate Services Revenues

We recognize revenue on construction contracts using the percentage-of-completion method. Using this method, we recognize revenue and an estimated profit as construction contract costs are incurred based on the proportion of incurred costs to total estimated costs under the contract. Provisions for estimated losses on uncompleted contracts are recognized immediately in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which they are determined. We include profit incentives in revenues when their realization is probable and the amount can be reasonably estimated. General contracting and real estate services revenue is recognized subject to management s evaluation of customer credit risk.

Real Estate Project Costs

We capitalize direct and certain indirect costs clearly associated with the development, redevelopment, construction, leasing or expansion of our real estate assets. Capitalized project costs include direct material, labor, subcontract costs, real estate taxes, insurance, utilities, ground rent, interest on borrowing obligations and salaries and related personnel costs.

We capitalize direct and indirect project costs associated with the initial construction or redevelopment of a property up to the time the property is substantially complete and ready for its intended use. We believe the completion of the building shell is the proper basis for determining substantial completion of initial construction.

We also capitalize direct and indirect costs, including interest costs, on vacant space during extended lease-up periods after construction of the building shell has been completed if costs are being incurred to prepare the vacant space for its intended use. If costs and activities incurred to prepare the vacant space for its intended use cease, then cost capitalization is also discontinued until such activities are resumed. Once necessary work has been completed on a vacant space, project costs are no longer capitalized. In addition, all leasing commissions paid to third parties for new leases or lease renewals are capitalized.

We depreciate buildings on a straight-line basis over 39 years and tenant improvements over the shorter of their estimated useful lives or the term of the related lease.

Real Estate Impairment

We evaluate our real estate assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If such an evaluation is necessary, we compare the carrying amount of any such real estate asset with the undiscounted expected future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition. Our estimate of the expected future cash flows attributable to a real estate asset is based upon, among other things, our estimates regarding future market conditions, rental rates, occupancy levels, tenant improvements, leasing commissions, tenant concessions and assumptions regarding the residual value of our properties. If the carrying amount of a real estate asset exceeds its associated undiscounted expected future cash flows, we recognize an impairment loss to reduce the carrying amount of the real estate asset to its fair value based on marketplace participant assumptions.

Adoption of New or Revised Accounting Standards

As an emerging growth company under the Jumpstart Our Business Startups Act, we can elect to adopt new or revised accounting standards as they are effective for private companies. However, we have elected to opt out of such extended transition period. Therefore, we will adopt new or revised accounting standards as they are effective for public companies. This election is irrevocable.

Segment Results of Operations

As of December 31, 2014, we operated our business in four segments: (i) office real estate, (ii) retail real estate, (iii) multifamily residential real estate and (iv) general contracting and real estate services that are conducted through our taxable REIT subsidiaries (TRS). Net operating income (segment revenues minus segment expenses) or NOI is the measure used by management to assess segment performance and allocate our resources among our segments. NOI is not a measure of operating income or cash flows from operating activities as measured by GAAP and is not indicative of cash available to fund cash needs. As a result, NOI should not be considered an alternative to cash flows as a measure of liquidity. Not all companies calculate NOI in the same manner. We consider NOI to be an appropriate supplemental measure to net income because it assists both investors and management in understanding the core operations of our real estate and construction businesses. See Note 3 to our consolidated and combined financial statements in Item 8 of this Annual Report on Form 10-K for a reconciliation of NOI to net income.

We define same store properties as those that we owned and operated and that were stabilized for the entirety of both periods compared. Same store properties exclude those that were in lease-up during the periods compared. We generally consider a property to be in lease-up until the earlier of: (i) the quarter after the property reaches 80% occupancy or (ii) the thirteenth quarter after the property receives its certificate of occupancy.

45

Table of Contents

Office Segment Data

	Years Ended December 31, 2014	2013	2012
	($ in thousands)		
Rental revenues	$ 27,827	$ 25,794	$ 25,815
NOI	$ 19,117	$ 17,902	$ 18,147
Square feet(1)	918,162	952,603	953,442
Occupancy(1)	95.2%	95.2%	94.1%

(1) Stabilized properties as of the end of the periods presented.

Rental revenues for the year ended December 31, 2014 increased $2.0 million compared to the year ended December 31, 2013. NOI for the year ended December 31, 2014 increased $1.2 million compared to the year ended December 31, 2013. The increases in rental revenues and NOI resulted from the delivery and initial occupancy of our new 4525 Main Street office tower, higher occupancy at One Columbus and Two Columbus and lease renewals at Armada Hoffler Tower.

Rental revenues for the year ended December 31, 2013 were relatively unchanged compared to the year ended December 31, 2012. NOI decreased $0.2 million during the year ended December 31, 2013 compared to the year ended December 31, 2012 due to increased operating costs at our office properties in the Town Center of Virginia Beach.

Office Same Store Results

Office same store rental revenues, property expenses and NOI for the comparative years ended December 31, 2014 and 2013 and December 31, 2013 and 2012 were as follows:

	Years Ended December 31, 2014(1)	2013(1)	Change	Years Ended December 31, 2013	2012	Change
	($ in thousands)					
Rental revenues	$ 25,640	$ 25,117	$ 523	$ 25,794	$ 25,815	$ (21)
Property expenses	8,208	7,816	392	7,892	7,668	224
Same Store NOI	**$ 17,432**	**$ 17,301**	**$ 131**	**$ 17,902**	**$ 18,147**	**$ (245)**
Non-Same Store NOI	1,685	601	1,084			
Segment NOI	$ 19,117	$ 17,902	$ 1,215	$ 17,902	$ 18,147	$ (245)

(1) Same store excludes 4525 Main Street and the Virginia Natural Gas office building.

Same store rental revenues and NOI for the year ended December 31, 2014 increased compared to the year ended December 31, 2013 because of higher occupancy at One Columbus and Two Columbus as well as lease renewals at Armada Hoffler Tower.

Same store rental revenues for the year ended December 31, 2013 were relatively unchanged compared to the year ended December 31, 2012. Same store NOI decreased during the year ended December 31, 2013 compared to the year ended December 31, 2012 due to increased operating costs at our office properties in the Town Center of Virginia Beach.

46

Table of Contents

Retail Segment Data

	Years Ended December 31,		
	2014	2013	2012
	($ in thousands)		
Rental revenues	$ 23,956	$ 21,755	$ 21,164
NOI	$ 16,848	$ 14,976	$ 14,535
Square feet(1)	1,200,738	1,093,301	983,107
Occupancy(1)	96.4%	93.4%	93.9%

(1) Stabilized properties as of the end of the periods presented.

Rental revenues for the year ended December 31, 2014 increased $2.2 million compared to the year ended December 31, 2013. NOI for the year ended December 31, 2014 increased $1.9 million compared to the year ended December 31, 2013. The increases in rental revenues and NOI resulted primarily from our consolidation of Bermuda Crossroads upon completion of our IPO and Formation Transactions on May 13, 2013 and our acquisition of Dimmock Square on August 15, 2014.

Rental revenues increased $0.6 million and NOI increased $0.4 million during the year ended December 31, 2013 compared to the year ended December 31, 2012. The increases in rental revenues and NOI resulted from our consolidation of Bermuda Crossroads upon completion of our IPO and the Formation Transactions on May 13, 2013 and our completion and concurrent stabilization of Tyre Neck Harris Teeter in the second quarter of 2012. The increased rental revenues and NOI from Bermuda Crossroads and Tyre Neck Harris Teeter were partially offset by declines in occupancy at South Retail in the Town Center of Virginia Beach and Dick s at Town Center.

Retail Same Store Results

Retail same store rental revenues, property expenses and NOI for the comparative years ended December 31, 2014 and 2013 and December 31, 2013 and 2012 were as follows:

	Years Ended December 31,			Years Ended December 31,		
	2014(1)	2013(1)	Change	2013(2)	2012(2)	Change
	($ in thousands)					
Rental revenues	$ 20,874	$ 20,474	$ 400	$ 19,898	$ 20,786	$ (888)
Property expenses	6,487	6,525	(38)	6,254	6,458	(204)
Same Store NOI	**$ 14,387**	**$ 13,949**	**$ 438**	**$ 13,644**	**$ 14,328**	**$ (684)**
Non-Same Store NOI	2,461	1,027	1,434	1,332	207	1,125
Segment NOI	$ 16,848	$ 14,976	$ 1,872	$ 14,976	$ 14,535	$ 441

(1) Same store excludes Bermuda Crossroads, Dimmock Square and Greentree Shopping Center.
(2) Same store excludes Bermuda Crossroads and Tyre Neck Harris Teeter.

Same store rental revenues and NOI for the year ended December 31, 2014 increased compared to the year ended December 31, 2013 because of higher occupancy at South Retail in the Town Center of Virginia Beach, North Point Center, Gainsborough Square and Fountain Plaza, as well as increased percentage rent from 249 Central Park Retail.

Same store rental revenues and NOI decreased during the year ended December 31, 2013 compared to the year ended December 31, 2012. The decreases in same store rental revenues and same store NOI resulted from declines in occupancy at South Retail in the Town Center of Virginia Beach and Dick s at Town Center.

47

Table of Contents

Multifamily Segment Data

	Years Ended December 31, 2014	2013	2012
	($ in thousands)		
Rental revenues	$ 12,963	$ 9,971	$ 7,457
NOI	$ 6,371	$ 5,493	$ 4,281
Apartment units(1)	626	626	342
Occupancy(1)	95.7%	94.2%	91.9%

(1) Stabilized properties as of the end of the periods presented.

Rental revenues for the year ended December 31, 2014 increased $3.0 million compared to the year ended December 31, 2013. NOI increased $0.9 million compared to the year ended December 31, 2013. The increases in rental revenues and NOI resulted primarily from our consolidation of Smith s Landing upon completion of our IPO and Formation Transactions on May 13, 2013 as well as higher occupancy at The Cosmopolitan. Our acquisition of Liberty Apartments on January 17, 2014 and our initial delivery of Encore Apartments during the third quarter of 2014 also contributed to the increase in rental revenues.

Rental revenues increased $2.5 million and NOI increased $1.2 million during the year ended December 31, 2013 compared to the year ended December 31, 2012 due to our consolidation of Smith s Landing upon completion of our IPO and the Formation Transactions on May 13, 2013.

Multifamily Same Store Results

Multifamily same store rental revenues, property expenses and NOI for the comparative years ended December 31, 2014 and 2013 and December 31, 2013 and 2012 were as follows:

	Years Ended December 31, 2014(1)	2013(1)	Change	Years Ended December 31, 2013(2)	2012(2)	Change
	($ in thousands)					
Rental revenues	$ 7,758	$ 7,494	$ 264	$ 7,494	$ 7,457	$ 37
Property expenses	3,555	3,441	114	3,441	3,176	265
Same Store NOI	**$ 4,203**	**$ 4,053**	**$ 150**	**$ 4,053**	**$ 4,281**	**$ (228)**
Non-Same Store NOI	2,168	1,440	728	1,440		1,440
Segment NOI	$ 6,371	$ 5,493	$ 878	$ 5,493	$ 4,281	$ 1,212

(1) Same store excludes Smith s Landing, Encore Apartments, Liberty Apartments and Whetstone Apartments.
(2) Same store excludes Smith s Landing.

Same store rental revenues and NOI for the year ended December 31, 2014 increased compared to the year ended December 31, 2013 because of higher occupancy at The Cosmopolitan.

Same store rental revenues increased slightly while same store NOI decreased $0.2 million during the year ended December 31, 2013 compared to the year ended December 31, 2012. The increase in same store rental revenues resulted from increased ground floor retail occupancy at The Cosmopolitan, which helped to offset residential occupancy declines. Increased operating expenses at The Cosmopolitan caused the decrease in same store NOI during the year ended December 31, 2013.

Table of Contents

General Contracting and Real Estate Services Segment Data

	Years Ended December 31, 2014	2013	2012
	($ in thousands)		
Segment revenues	$ 103,321	$ 82,516	$ 54,046
NOI	4,567	3,703	3,943
Operating margin	4.4%	4.5%	7.3%
Construction backlog	$ 159,139	$ 46,385	$ 64,577

Segment revenues for the year ended December 31, 2014 increased $20.8 million compared to the year ended December 31, 2013. NOI for the year ended December 31, 2014 increased $0.9 million compared to the year ended December 31, 2013. The increases in segment revenues and NOI resulted from higher volume on our construction contracts driven by the Exelon construction project as operating margins year over year were consistent.

Segment revenues for the year ended December 31, 2013 increased $28.5 million compared to the year ended December 31, 2012. The increase in segment revenues was driven primarily by our progress and completion of the Newport News Apprentice School of Shipbuilding, Liberty Apartments and the Biomedical Research Laboratory at Hampton University. NOI decreased $0.2 million during the year ended December 31, 2013 compared to the year ended December 31, 2012 as we experienced tighter operating margins on our construction contracts during 2013.

The changes in construction backlog for the years ended December 31, 2014 and 2013 were as follows:

	Years Ended December 31, 2014	2013
	($ in thousands)	
Beginning backlog	$ 46,385	$ 64,577
New contracts/change orders	215,303	64,742
Work performed	(102,549)	(82,934)
Ending backlog	**$ 159,139**	**$ 46,385**

During the year ended December 31, 2014, we executed a $168.8 million contract for the construction of the new headquarters for Exelon s Constellation business unit in Baltimore, Maryland. Exelon is the nation s leading competitive energy provider. Construction began in the spring of 2014 with completion expected in the spring of 2016. As of December 31, 2014, we had $126.0 million of backlog on the Exelon construction project.

Table of Contents

Consolidated and Combined Results of Operations

Because of the timing of our IPO, the results of operations for the year ended December 31, 2012 reflect those of our Predecessor. The results of operations for the year ended December 31, 2013 reflect our results together with those of our Predecessor, while the results of operations for the year ended December 31, 2014 are solely ours.

The following table summarizes our results of operations for each of the three years ended December 31, 2014:

	Years Ended December 31,			2014	2013
	2014	**2013**	**2012**	**Change**	**Change**
		($ in thousands)			
Revenues					
Rental revenues	$ 64,746	$ 57,520	$ 54,436	$ 7,226	$ 3,084
General contracting and real estate services revenues	103,321	82,516	54,046	20,805	28,470
Total revenues	**168,067**	**140,036**	**108,482**	**28,031**	**31,554**
Expenses					
Rental expenses	16,667	14,025	12,682	2,642	1,343
Real estate taxes	5,743	5,124	4,865	619	259
General contracting and real estate services expenses	98,754	78,813	50,103	19,941	28,710
Depreciation and amortization	17,569	14,898	12,909	2,671	1,989
General and administrative expenses	7,711	6,937	3,232	774	3,705
Acquisition, development and other pursuit costs	229			229	
Impairment charges	15	580		(565)	580
Total expenses	**146,688**	**120,377**	**83,791**	**26,311**	**36,586**
Operating income	**21,379**	**19,659**	**24,691**	**1,720**	**(5,032)**
Interest expense	(10,648)	(12,303)	(16,561)	1,655	4,258
Loss on extinguishment of debt		(2,387)		2,387	(2,387)
Gain on real estate dispositions and acquisitions	2,211	9,460		(7,249)	9,460
Other (expense) income	(113)	297	777	(410)	(480)
Income before taxes	12,829	14,726	8,907	(1,897)	5,819
Income tax provision	(70)	(273)		203	(273)
Income from continuing operations	**12,759**	**14,453**	**8,907**	**(1,694)**	**5,546**
Results from discontinued operations			(10)		10
Net income	**$ 12,759**	**$ 14,453**	**$ 8,897**	**$ (1,694)**	**$ 5,556**

Rental Revenues. Rental revenues by segment for each of the three years ended December 31, 2014 were as follows:

	Years Ended December 31, 2014	2013	2012	2014 Change	2013 Change
	($ in thousands)				
Office	$ 27,827	$ 25,794	$ 25,815	$ 2,033	$ (21)
Retail	23,956	21,755	21,164	2,201	591
Multifamily	12,963	9,971	7,457	2,992	2,514
	$ 64,746	**$ 57,520**	**$ 54,436**	**$ 7,226**	**$ 3,084**

Rental revenues increased $7.2 million during the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase in office rental revenues resulted from the delivery and initial occupancy of our new 4525 Main Street office tower, higher occupancy at One Columbus and Two Columbus and lease renewals at Armada Hoffler Tower. The increase in retail rental revenues resulted primarily from our consolidation of Bermuda Crossroads upon completion of our IPO and Formation Transactions on May 13, 2013 and our acquisition of Dimmock Square on August 15, 2014. The increase in multifamily rental revenues resulted primarily from our consolidation of Smith s Landing upon completion of our IPO and Formation Transactions on May 13, 2013, higher occupancy at The Cosmopolitan, our acquisition of Liberty Apartments on January 17, 2014 and our initial delivery of Encore Apartments during the third quarter of 2014.

Table of Contents

Rental revenues increased $3.1 million during the year ended December 31, 2013 compared to the year ended December 31, 2012. Office rental revenues for the year ended December 31, 2013 were relatively unchanged compared to the year ended December 31, 2012. Retail rental revenues increased due to our consolidation of Bermuda Crossroads beginning May 13, 2013 and our completion and concurrent stabilization of Tyre Neck Harris Teeter in the second quarter of 2012. Multifamily rental revenues increased due to our consolidation of Smith s Landing beginning on May 13, 2013.

General Contracting and Real Estate Services Revenues. General contracting and real estate services revenues for the year ended December 31, 2014 increased $20.8 million compared to the year ended December 31, 2013 because of higher volume on our construction contracts driven by the Exelon construction project. General contracting and real estate services revenues for the year ended December 31, 2013 increased $28.5 million compared to the year ended December 31, 2012. The increase was driven primarily by our progress and completion of the Newport News Apprentice School of Shipbuilding, Liberty Apartments and the Biomedical Research Laboratory at Hampton University.

Rental Expenses. Rental expenses by segment for each of the three years ended December 31, 2014 were as follows:

	Years Ended December 31,			2014	2013
	2014	2013	2012	Change	Change
	($ in thousands)				
Office	$ 6,395	$ 5,721	$ 5,499	$ 674	$ 222
Retail	5,011	4,808	4,791	203	17
Multifamily	5,261	3,496	2,383	1,765	1,113
Other			9		(9)
	$ 16,667	**$ 14,025**	**$ 12,682**	**$ 2,642**	**$ 1,343**

Rental expenses increased $2.6 million during the year ended December 31, 2014 compared to the year ended December 31, 2013. Office rental expenses increased primarily because of the initial operation of 4525 Main Street. Retail rental expenses increased because of our consolidation of Bermuda Crossroads on May 13, 2013 as well as our acquisition of Dimmock Square on August 15, 2014. Multifamily rental expenses increased because of our acquisition of Liberty Apartments on January 17, 2014, our initial delivery of Encore Apartments and Whetstone Apartments during the second half of 2014 and our consolidation of Smith s Landing on May 13, 2013.

Rental expenses increased $1.3 million during the year ended December 31, 2013 compared to the year ended December 31, 2012, primarily driven by our multifamily segment. Multifamily rental expenses increased due to our consolidation of Smith s Landing beginning on May 13, 2013. Office rental expenses increased $0.2 million because of repairs and maintenance. Retail rental expenses were relatively unchanged.

Real Estate Taxes. Real estate taxes by segment for each of the three years ended December 31, 2014 were as follows:

Years Ended December 31,			2014	2013
2014	2013	2012	Change	Change
($ in thousands)				

Office	$ 2,315	$ 2,171	$ 2,169	$ 144	$ 2
Retail	2,097	1,971	1,838	126	133
Multifamily	1,331	982	793	349	189
Other			65		(65)
	$ 5,743	**$ 5,124**	**$ 4,865**	**$ 619**	**$ 259**

Real estate taxes increased $0.6 million during the year ended December 31, 2014 compared to the year ended December 31, 2013. Office real estate taxes increased because of the delivery of 4525 Main Street. Retail real estate taxes increased because of our consolidation of Bermuda Crossroads on May 13, 2013 and our acquisition of Dimmock Square on August 15, 2014. Multifamily real estate taxes increased because of our acquisition of Liberty Apartments on January 17, 2014 and our consolidation of Smith s Landing on May 13, 2013.

Real estate taxes increased $0.3 million during the year ended December 31, 2013 compared to the year ended December 31, 2012. Office real estate taxes were relatively unchanged. Retail real estate taxes increased due to our consolidation of Bermuda Crossroads beginning May 13, 2013 and our completion and concurrent stabilization of Tyre Neck Harris Teeter in the second quarter of 2012. Multifamily real estate taxes increased due to our consolidation of Smith s Landing beginning on May 13, 2013.

Table of Contents

General Contracting and Real Estate Services Expenses. General contracting and real estate services expenses for the year ended December 31, 2014 increased $19.9 million compared to the year ended December 31, 2013 because of higher volume on our construction contracts driven by the Exelon construction project. General contracting and real estate services expenses for the year ended December 31, 2013 increased $28.7 million compared to the year ended December 31, 2012. The increase was driven primarily by our progress and completion of the Newport News Apprentice School of Shipbuilding, Liberty Apartments and the Biomedical Research Laboratory at Hampton University.

Depreciation and Amortization. Depreciation and amortization for the year ended December 31, 2014 increased $2.7 million compared to the year ended December 31, 2013. The increase was attributable to Liberty Apartments and Dimmock Square, both of which we acquired during 2014, as well as 4525 Main Street, which we delivered during 2014. Depreciation and amortization for the year ended December 31, 2013 increased $2.0 million compared to the year ended December 31, 2012. The increase was attributable to depreciation and amortization associated with our consolidation of Bermuda Crossroads and Smith s Landing beginning on May 13, 2013.

General and Administrative Expenses. General and administrative expenses for the year ended December 31, 2014 increased $0.8 million compared to the year ended December 31, 2013 because of higher regulatory and compliance costs. General and administrative expenses for the year ended December 31, 2013 increased $3.7 million compared to the year ended December 31, 2012. The increase resulted from noncash stock compensation of $1.2 million and increased corporate, regulatory and compliance costs of operating as a public company.

Acquisition, Development and Other Pursuit Costs. During the year ended December 31, 2014, we recognized $0.2 million of costs related primarily to our acquisition of Dimmock Square.

Impairment Charges. Impairment charges during the year ended December 31, 2014 were nominal. We recognized impairment charges of approximately $0.6 million during the year ended December 31, 2013 resulting from three retail tenants that vacated prior to their lease expiration. The impairment charge consisted of unamortized leasing costs, leasing incentives and acquired lease intangibles related to these three tenants.

Interest Expense. Interest expenses for the year ended December 31, 2014 decreased $1.7 million compared to the year ended December 31, 2013 because we repaid $174.7 million of secured debt during 2013. This was partially offset by our assumption of $25.0 million of debt secured by Smith s Landing and $17.0 million of debt secured by Liberty Apartments. Interest expense for the year ended December 31, 2013 decreased $4.3 million compared to the year ended December 31, 2012. The decrease resulted from our overall reduction in our debt using a portion of the net proceeds from our IPO, as well as our refinancing to lower interest rates during 2013. Our consolidated indebtedness as of December 31, 2013 was $277.7 million compared to $335.1 million as of December 31, 2012. Our weighted average interest rate as of December 31, 2013 and 2012 was 3.6% and 4.3%, respectively.

Loss on Extinguishment of Debt. During the year ended December 31, 2013, we used a portion of the net proceeds from our IPO and borrowings under our credit facility to repay $150.0 million of debt. As a result, we recognized a loss on extinguishment of $1.1 million consisting of $0.5 million of unamortized deferred financing costs and $0.6 million of defeasance expenses. On July 17, 2013, we defeased the loan on One Columbus and recognized a loss on extinguishment of $1.0 million representing defeasance expenses. On October 11, 2013, we repaid the Bermuda Crossroads loan for $10.8 million and recognized a $0.1 million gain on extinguishment of debt representing the unamortized fair value premium adjustment. On October 25, 2013, we amended Broad Creek Shopping Center Notes 1, 2 and 3 to remove the recourse component, lower the interest rates to LIBOR plus 2.25% and extend the maturity dates to October 31, 2018. We recognized a $0.2 million loss on extinguishment of debt representing unamortized debt issuance costs on Broad Creek Shopping Center Notes 2 and 3.

Gain on Real Estate Dispositions and Acquisitions. On November 20, 2014, we completed the sale of the Virginia Natural Gas office building and recognized a gain on disposition of $2.2 million. We accounted for our acquisition of controlling interests in Bermuda Crossroads and Smith s Landing as purchases at fair value under the acquisition method of accounting in accordance with GAAP. As a result, we recognized a gain upon acquisition of $9.5 million representing the difference between the fair value and carrying value of our Predecessor s prior noncontrolling equity interests in Bermuda Crossroads and Smith s Landing.

Other Income (Loss). Other income (loss) decreased during year ended December 31, 2014 compared to the year ended December 31, 2013 because of our consolidation of Bermuda Crossroads and Smith s Landing on May 13, 2013. We previously accounted for our noncontrolling interests in both Bermuda Crossroads and Smith s Landing under the equity method and presented our earnings from each within other income. Negative mark-to-market adjustments on our interest rate derivatives also contributed to

52

the decrease in other income (loss) during the year ended December 31, 2014. Other income for the year ended December 31, 2013 decreased $0.5 million compared to the year ended December 31, 2012 due to negative mark-to-market adjustments on our interest rate derivatives.

Income Taxes. Prior to the completion of our IPO on May 13, 2013, we made no provision for U.S. federal, state or local income taxes because the profits and losses of our Predecessor flowed through to its respective partners, members and shareholders who were individually responsible for reporting such amounts. Subsequent to the completion of our IPO, our TRS, through which we conduct our development and construction business, are subject to federal, state and local corporate income taxes. The income tax provision recognized during the years ended December 31, 2014 and 2013 is attributable to the profits of our TRS.

Liquidity and Capital Resources

Overview

We believe our primary short-term liquidity requirements consist of general contractor expenses, operating expenses and other expenditures associated with our properties, including tenant improvements, leasing commissions and leasing incentives, dividend payments to our stockholders required to maintain our REIT qualification, debt service, capital expenditures, new real estate development projects and strategic acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations, reserves established from existing cash, borrowings under construction loans to fund new real estate development and construction and borrowings available under our credit facility.

Our long-term liquidity needs consist primarily of funds necessary for the repayment of debt at or prior to maturity, general contracting expenses, property development and acquisitions, tenant improvements and capital improvements. We expect to meet our long-term liquidity requirements with net cash from operations, long-term secured and unsecured indebtedness and the issuance of equity and debt securities. We also may fund property development and acquisitions and capital improvements using our credit facility pending long-term financing.

As of December 31, 2014, we had unrestricted cash and cash equivalents of $25.9 million and restricted cash in escrow of $4.2 million available for both current liquidity needs as well as development activities. As of December 31, 2014, we had $87.5 million available under our credit facility to meet our short-term liquidity requirements.

Credit Facility

On May 13, 2013, we agreed to a $100.0 million senior secured credit facility that included an accordion feature that allowed us to increase the borrowing capacity under the facility up to $250.0 million, subject to certain conditions. On October 10, 2013, we increased the borrowing capacity under the credit facility to $155.0 million pursuant to the accordion feature by adding six properties to the borrowing base collateral. As of December 31, 2014, the following properties collectively served as the borrowing base collateral for the credit facility: (i) Armada Hoffler Tower, (ii) Richmond Tower, (iii) One Columbus, (iv) Two Columbus, (v) Sentara Williamsburg, (vi) Bermuda Crossroads, (vii) a portion of North Point Center, (viii) Gainsborough Square, (ix) Parkway Marketplace and (x) Courthouse 7-Eleven.

The credit facility required us to comply with various financial covenants, including:

Maximum leverage ratio (as amended on April 22, 2014) of 65% as of the last day of each fiscal quarter through maturity;

Minimum fixed charge coverage ratio of 1.75 to 1.0;

Minimum tangible net worth equal to at least the sum of 80% of tangible net worth on the closing date of the credit facility plus 75% of the net proceeds of any additional equity issuances;

Maximum amount of variable rate indebtedness not exceeding 30% of our total asset value; and

Maximum amount of secured recourse indebtedness of 35% of our total asset value.

The credit facility permitted investments in the following types of assets: (i) unimproved land holdings in an aggregate amount not exceeding 5% of our total asset value, (ii) construction in progress in an aggregate amount not exceeding 25% of our total asset value and (iii) unconsolidated affiliates in an aggregate amount not exceeding 5% of our total asset value. Investments in these types of assets collectively could not exceed 30% of our total asset value. In addition to these financial covenants, the credit facility required us to comply with various customary affirmative and negative covenants that restricted our ability to, among other things, incur debt and liens, make investments, dispose of properties and make distributions. We were in compliance with all covenants under the credit facility as of December 31, 2014 and as of the date the credit facility terminated.

The credit facility bore interest at LIBOR plus 1.60% to 2.20%, depending on our total leverage ratio. As of December 31, 2014, the interest rate on the credit facility was LIBOR plus 1.75%. In addition to interest owed under the credit facility, we were obligated to pay an annual fee based on the average unused portion of the credit facility. This fee was payable quarterly in arrears and was 0.25% of the amount of the unused portion of the credit facility if amounts borrowed were greater than 50% of the credit facility and 0.30% of the unused portion of the credit facility if amounts borrowed were less than 50% of the credit facility.

As of December 31, 2014, we had $59.0 million borrowed under the credit facility and had standby letters of credit issued under the credit facility totaling $8.5 million. As of December 31, 2014, we had $87.5 million of aggregate capacity available under the credit facility. On January 23, 2015, we borrowed an additional $5.0 million under the credit facility. The credit facility was scheduled to mature on May 13, 2016; however, we repaid all amounts due under the credit facility with proceeds from our new credit facility and terminated the existing credit facility on February 20, 2015, as discussed below.

New Credit Facility

On February 20, 2015, we agreed to a new $200.0 million senior unsecured credit facility that includes a $150.0 million senior unsecured revolving credit facility and a $50.0 million senior unsecured term loan facility. The new credit facility replaced the existing $155.0 million senior secured revolving credit facility that was scheduled to mature on May 13, 2016. On February 20, 2015, we borrowed $54.0 million under the revolving credit facility and $50.0 million under the term loan facility to repay in full all outstanding amounts due under the prior credit facility and to repay approximately $39.0 million of other indebtedness secured by properties in our portfolio for the purpose of unencumbering those properties. We intend to use future borrowings under the new credit facility for general corporate purposes, including funding acquisitions, development and redevelopment of properties in our portfolio and for working capital.

The new credit facility includes an accordion feature that allows the total commitments to be increased to $350.0 million, subject to certain conditions. The amount permitted to be borrowed under the new credit facility, together with all of our other unsecured indebtedness is generally limited to the lesser of: (i) 60% of the value of our unencumbered borrowing base properties, (ii) the maximum amount of principal that would result in a debt service coverage ratio of 1.50 to 1.0, and (iii) the maximum aggregate loan commitment, which currently is $200.0 million.

The new revolving credit facility has a scheduled maturity date of February 20, 2019, with a one-year extension option. The term loan facility has a scheduled maturity date of February 20, 2020. We may, at any time, voluntarily prepay any loan under the new credit facility in whole or in part without premium or penalty.

The new revolving credit facility bears interest at LIBOR plus 1.40% to 2.00%, depending on our total leverage. The term loan facility bears interest at LIBOR plus 1.35% to 1.95%, depending on our total leverage. We are also obligated to pay an unused commitment fee of 15 or 25 basis points on the unused portions of the commitments under the new credit facility, depending on the amount of borrowings under the new credit facility. If we attain investment grade credit ratings from S&P and Moody s, we may elect to have borrowings become subject to interest rates based on our credit ratings.

The new credit facility requires us to comply with various financial covenants, affirmative covenants and other restrictions, including the following:

Total leverage ratio of the Company of not more than 60%;

Ratio of adjusted EBITDA to fixed charges of the Company of not less than 1.50 to 1.0;

Tangible net worth of not less than the sum of $220.0 million and 75% of the net equity proceeds received after December 31, 2014;

Ratio of variable rate indebtedness to total asset value of not more than 30%;

Ratio of secured indebtedness to total asset value of not more than 45%; and

Ratio of secured recourse debt to total asset value of not more than 25%.

The new credit facility limits our ability to pay cash dividends. However, so long as no default or event of default exists, the credit agreements allow us to pay cash dividends with respect to any 12-month period in an amount not to exceed the greater of: (i) 95% of adjusted funds from operations (as defined in the credit agreement) or (ii) the amount required for us (a) to maintain our status as a REIT and (b) to avoid income or excise tax under the Code. If certain defaults or events of default exist, we may pay cash dividends with respect to any 12-month period to the extent necessary to maintain our status as a REIT. The new credit facility also restricts the amount of capital that we can invest in specific categories of assets, such as unimproved land holdings, development properties, notes receivable, mortgages, mezzanine loans and unconsolidated affiliates.

Table of Contents

Consolidated Indebtedness

The following table sets forth our consolidated indebtedness as of December 31, 2014 ($ in thousands):

	Amount Outstanding	Interest Rate (1)	Effective Rate for Variable-Rate Debt as of December 31, 2014	Maturity Date	Balance at Maturity
Oyster Point	$ 6,274	5.41%		December 1, 2015	$ 6,089
Broad Creek Shopping Center					
Note 1	4,452	LIBOR+2.25	2.42%	October 31, 2018	4,223
Note 2	8,173	LIBOR+2.25	2.42%	October 31, 2018	7,752
Note 3	3,422	LIBOR+2.25	2.42%	October 31, 2018	3,246
Hanbury Village					
Note 1	21,218	6.67		October 11, 2017	20,499
Note 2	4,090	LIBOR+2.25	2.42%	October 31, 2018	3,777
Harrisonburg Regal	3,659	6.06		June 8, 2017	3,165
North Point Center					
Note 1	10,149	6.45		February 5, 2019	9,333
Note 2	2,753	7.25		September 15, 2025	1,344
Note 5	685	LIBOR+2.00	3.57%(2)	February 1, 2017	641
Tyre Neck Harris Teeter	2,437	LIBOR+2.25	2.42%	October 31, 2018	2,235
249 Central Park Retail	15,566	5.99		September 8, 2016	15,084
South Retail	6,867	5.99		September 8, 2016	6,655
Studio 56 Retail	2,618	3.75		May 7, 2015	2,592
Commerce Street Retail	5,549	LIBOR+2.25	2.42%	October 31, 2018	5,264
Fountain Plaza Retail	7,783	5.99		September 8, 2016	7,542
Dick s at Town Center	8,216	LIBOR+2.75	2.92%	October 31, 2017	7,889
The Cosmopolitan	47,132	3.75		July 1, 2051	
Smith s Landing	24,470	LIBOR+2.15	2.32%	January 31, 2017	23,793
Stabilized Portfolio	**$ 185,513**				**$ 131,123**
Credit Facility	59,000	LIBOR+1.60-2.20	1.92%	May 13, 2016	59,000
4525 Main Street	30,870	LIBOR+1.95	2.12%	January 30, 2017	30,870
Encore Apartments	22,215	LIBOR+1.95	2.12%	January 30, 2017	22,215
Whetstone Apartments	16,019	LIBOR+1.90	2.07%	October 8, 2016	16,019
Sandbridge Commons	5,892	LIBOR+1.85	2.02%	January 17, 2018	5,407
Oceaneering	13,490	LIBOR+1.75	1.92%	February 28, 2018	12,770
Commonwealth of Virginia					
Chesapeake	3,585	LIBOR+1.90	2.07%	August 28, 2017	3,585
Lightfoot Marketplace	3,484	LIBOR+1.90	2.07%	November 14, 2017	3,484

Liberty Apartments	20,673(3)	5.66	November 1, 2043	
Total	**$ 360,671**			**$ 284,473**
Unamortized fair value adjustments	(1,442)			
Indebtedness	**$ 359,229**			

(1) LIBOR rate is determined by individual lenders.
(2) Subject to an interest rate swap lock.
(3) Principal balance excluding fair value adjustments.

We currently are in compliance with all covenants on our outstanding indebtedness.

55

Table of Contents

As of December 31, 2014, our outstanding indebtedness matures during the following years ($ in thousands):

Year	Amount Due	Percentage of Total
2015	$ 8,681	3%
2016	104,300	37
2017	116,141	41
2018	44,674	16
2019	9,333	3
Thereafter	1,344	<1
	$ 284,473	**100%**

Interest Rate Derivatives

We may use interest rate derivatives from time to time to manage our exposure to interest rate risks. Using an interest rate swap lock, we fixed our interest payments under North Point Center Note 5 at 3.57% through maturity on February 1, 2017.

As of December 31, 2014, we were party to the following LIBOR interest rate cap agreements ($ in thousands):

Effective Date	Maturity Date	Strike Rate	Notional Amount
May 31, 2012	May 29, 2015	1.09%	$ 8,888
September 1, 2013	March 1, 2016	3.50%	25,198
September 1, 2013	March 1, 2016	3.50%	37,848
September 1, 2013	March 1, 2016	1.50%	40,000
October 4, 2013	April 1, 2016	1.50%	18,500
March 14, 2014	March 1, 2017	1.25%	50,000
Total			**$ 180,434**

On February 20, 2015, we entered into a $50.0 million floating-to-fixed interest rate swap attributable to one-month LIBOR indexed interest payments. The $50.0 million interest rate swap has a fixed rate of 2.00%, an effective date of March 1, 2016 and a maturity date of February 20, 2020. We entered into this interest rate swap agreement in connection with the new $50.0 million senior unsecured term loan facility that bears interest at LIBOR plus 1.35% to 1.95%, depending on our total leverage. We designated this interest rate swap as a cash flow hedge of the variable interest payments associated with the term loan facility.

Contractual Obligations

The following table summarizes the future payments for known contractual obligations as of December 31, 2014 (in thousands):

Contractual Obligations	Total	Less than 1 year	1 3 years	3 5 years	More than 5 years
			Payments due by period		
Principal payments of long-term indebtedness	$ 360,671	$ 11,903	$ 226,715	$ 57,031	$ 65,022
Long-term debt fixed interest	73,283	7,631	11,599	6,585	47,468
Long-term debt variable interest	11,272	4,941	5,668	663	
Ground and other operating leases	67,795	1,546	3,000	3,051	60,198
Tenant-related and other commitments	5,923	4,071	7		1,845
Total	**$ 518,944**	**$ 30,092**	**$ 246,989**	**$ 67,330**	**$ 174,533**

For long-term debt that bears interest at variable rates, we estimated future interest payments using the indexed rates as of December 31, 2014. LIBOR as of December 31, 2014 was 17 basis points.

Table of Contents

Off-Balance Sheet Arrangements

We have entered into standby letters of credit relating to the guarantee of future performance on certain of our construction contracts. Letters of credit generally are available for draw down in the event we do not perform. As of December 31, 2014, we had aggregate outstanding letters of credit totaling $8.5 million, all of which expire during 2015. However, all of our standby letters of credit are expected to renew for additional periods until completion of the underlying contractual obligation.

Cash Flows

	Years Ended December 31, 2014	Years Ended December 31, 2013	Change
	($ in thousands)		
Operating Activities	$ 31,362	$ 22,175	$ 9,187
Investing Activities	(105,306)	(47,947)	(57,359)
Financing Activities	80,945	35,254	45,691
Net Increase (Decrease)	**$ 7,001**	**$ 9,482**	**$ (2,481)**
Cash and Cash Equivalents, Beginning of Period	$ 18,882	$ 9,400	
Cash and Cash Equivalents, End of Period	$ 25,883	$ 18,882	

Net cash provided by operating activities for the year ended December 31, 2014 increased $9.2 million compared to the year ended December 31, 2013 primarily because of higher net income adjusted for noncash items. Net income adjusted for noncash items increased $7.2 million during the year ended December 31, 2014.

Net cash used for investing activities for the year ended December 31, 2014 increased $57.4 million compared to the year ended December 31, 2013 because of higher investments in new real estate development. During the year ended December 31, 2014, we invested $98.5 million in new real estate development compared to $41.3 million during the year ended December 31, 2013.

Net cash provided by financing activities for the year ended December 31, 2014 increased $45.6 million compared to the year ended December 31, 2013 primarily because of our underwritten public offering of common stock that raised net proceeds of $49.3 million during the year ended December 31, 2014.

	Years Ended December 31, 2013	Years Ended December 31, 2012	Change
	($ in thousands)		
Operating Activities	$ 22,175	$ 22,326	$ (151)
Investing Activities	(47,947)	(4,702)	(43,245)
Financing Activities	35,254	(21,673)	56,927
Net Increase (Decrease)	**$ 9,482**	**$ (4,049)**	**$ 13,531**
Cash and Cash Equivalents, Beginning of Period	$ 9,400	$ 13,449	

Cash and Cash Equivalents, End of Period	$ 18,882	$ 9,400

Net cash provided by operating activities decreased slightly for the year ended December 31, 2013 compared to the year ended December 31, 2012. The less than 1.0% change resulted from increased net income adjusted for noncash items offset by cash used for operating assets and liabilities. Net income adjusted for noncash items increased $2.0 million during the year ended December 31, 2013 while cash used for operating assets and liabilities increased at a slightly higher rate.

We made significant progress on executing on the opportunities in our development pipeline during the year ended December 31, 2013 and, as a result, net cash used for investing activities increased $43.2 million during the year. During the year ended December 31, 2013, we invested $41.3 million of cash on new real estate development compared to $2.7 million during the year ended December 31, 2012. During the year ended December 31, 2013, we began construction of the following properties in our development pipeline: (i) 4525 Main Street, (ii) Encore Apartments, (iii) Whetstone Apartments, (iv) Sandbridge Commons, (v) Greentree Shopping Center and (vi) the Oceaneering International facility. During the year ended December 31, 2013, we invested $3.9 million in tenant and building improvements compared to $2.3 million during the year ended December 31, 2012. In connection with our Formation Transactions, we paid $2.1 million of cash to acquire controlling interests in Bermuda Crossroads and Smith s Landing. Leasing costs and leasing incentives paid during the year ended December 31, 2013 were $1.4 million compared to $1.2 million during the year ended December 31, 2012.

Table of Contents

Net proceeds from our IPO in May 2013 and borrowings under our credit facility offset by debt repayments resulted in the overall $56.9 million increase in cash provided by financing activities during the year ended December 31, 2013.

Non-GAAP Financial Measures

We calculate FFO in accordance with the standards established by NAREIT. NAREIT defines FFO as net income (loss) (calculated in accordance with GAAP), excluding gains (or losses) from sales of depreciable operating property, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures.

FFO is a supplemental non-GAAP financial measure. Management uses FFO as a supplemental performance measure because it believes that FFO is beneficial to investors as a starting point in measuring our operational performance. Specifically, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, which do not relate to or are not indicative of operating performance, FFO provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs.

However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effects and could materially impact our results from operations, the utility of FFO as a measure of our performance is limited. In addition, other equity REITs may not calculate FFO in accordance with the NAREIT definition as we do, and, accordingly, our FFO may not be comparable to such other REITs FFO. Accordingly, FFO should be considered only as a supplement to net income as a measure of our performance. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or service indebtedness. FFO also should not be used as a supplement to or substitute for cash flow from operating activities computed in accordance with GAAP.

Management also believes that the computation of FFO in accordance with NAREIT s definition includes certain items that are not indicative of the results provided by our stabilized operating property portfolio and affect the comparability of our period-over-period performance. Accordingly, we further adjust FFO to arrive at Core FFO, which eliminates certain of these items, including, but not limited to, impairment charges, gains and losses on the extinguishment of debt, non-cash stock compensation expense, acquisition, development and other pursuit costs and the FFO from non-stabilized development projects. We generally consider a property to be stabilized when it reaches 80% occupancy or three years after acquisition or completion. Other REITs may not calculate Core FFO in the same manner as us and accordingly, our Core FFO may not be comparable to other REIT s Core FFO.

The following table sets forth a reconciliation of FFO and Core FFO for each of the three years ended December 31, 2014 to net income, the most directly comparable GAAP equivalent:

	Years Ended December 31,		
	2014	**2013**	**2012**
	($ in thousands)		
Net income	$ 12,759	$ 14,453	$ 8,897
Depreciation and amortization	17,569	14,898	12,909

Gain on real estate dispositions and acquisitions	(2,211)	(9,460)	
Real estate joint ventures, net		(85)	80
Funds from operations	**$ 28,117**	**$ 19,806**	**$ 21,886**
Impairment charges	15	580	
Loss on extinguishment of debt		2,387	
Loan modification costs		27	
Non-cash stock compensation	917	1,249	
Acquisition, development and other pursuit costs	229		
Non-stabilized development projects	79		
Core funds from operations	**$ 29,357**	**$ 24,049**	**$ 21,886**

Table of Contents

Inflation

Substantially all of our office and retail leases provide for the recovery of increases in real estate taxes and operating expenses. In addition, substantially all of the leases provide for annual rent increases. We believe that inflationary increases may be offset in part by the contractual rent increases and expense escalations previously described. In addition, our multifamily leases generally have lease terms ranging from 7 to 15 months with a majority having 12-month lease terms allowing negotiation of rental rates at term end, which we believe reduces our exposure to the effects of inflation.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The primary market risk to which we are exposed is interest rate risk. Our primary interest rate exposure is daily LIBOR. We primarily use fixed interest rate financing to manage our exposure to fluctuations in interest rates. On a limited basis, we also use derivative financial instruments to manage interest rate risk. We do not use these derivatives for trading or other speculative purposes. We have not designated any of our derivatives as hedges for accounting purposes.

At December 31, 2014, approximately $143.2 million, or 40%, of our debt had fixed interest rates and approximately $216.0 million, or 60%, had variable interest rates. Considering interest rate swaps, approximately $215.4 million of our debt is subject to interest rate risk. Assuming no increase in the level of our variable rate debt, if interest rates increased by 1.0%, our cash flow would decrease by approximately $2.2 million per year. At December 31, 2014, LIBOR was approximately 17 basis points. Assuming no increase in the level of our variable rate debt, if LIBOR was reduced to 0 basis points, our cash flow would increase by approximately $0.4 million per year.

Item 8. Financial Statements and Supplementary Data

Our consolidated and combined financial statements and supplementary data are included as a separate section of this Annual Report on Form 10-K commencing on page F-1 and are incorporated herein by reference.

Item 9. Changes and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

The Company s management has evaluated, under the supervision and with the participation of the Company s Chief Executive Officer and Chief Financial Officer, the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as required by paragraph (b) of Rules 13a-15 and 15d-15 of the Exchange Act. Based on this evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2014, the Company s disclosure controls and procedures were effective to ensure that information we are required to disclose in reports filed or submitted with the Securities and Exchange Commission (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Management s Annual Report on Internal Control over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2014 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, the Company s management concluded that our internal control over financial reporting was effective as of December 31, 2014.

Attestation Report of Independent Registered Public Accounting Firm

Not applicable.

Table of Contents

Changes in Internal Control over Financial Reporting

There have been no changes in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information.
None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.
This information is incorporated by reference from the Company s Proxy Statement with respect to the 2015 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2015.

Item 11. Executive Compensation.
This information is incorporated by reference from the Company s Proxy Statement with respect to the 2015 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2015.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.
This information is incorporated by reference from the Company s Proxy Statement with respect to the 2015 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2015.

Item 13. Certain Relationships and Related Transactions, and Director Independence.
This information is incorporated by reference from the Company s Proxy Statement with respect to the 2015 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2015.

Item 14. Principal Accountant Fees and Services.
This information is incorporated by reference from the Company s Proxy Statement with respect to the 2015 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2015.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

The following is a list of documents filed as a part of this report:

(1) Financial Statements

Included herein at pages F-1 through F-33.

(2) Financial Statement Schedules

The following financial statement schedule is included herein at pages F-32 through F-33:

Schedule III Consolidated Real Estate Investments and Accumulated Depreciation

All other schedules for which provision is made in Regulation S-X are either not required to be included herein under the related instructions, are inapplicable or the related information is included in the footnotes to the applicable financial statements and, therefore, have been omitted.

(3) Exhibits

The exhibits required to be filed by Item 601 of Regulation S-K are listed in the Exhibit Index.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 16, 2015

ARMADA HOFFLER PROPERTIES, INC.

By: /s/ Louis S. Haddad
Louis S. Haddad
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Daniel A. Hoffler	Executive Chairman and Director	March 16, 2015
Daniel A. Hoffler		
/s/ A. Russell Kirk	Vice Chairman and Director	March 16, 2015
A. Russell Kirk		
/s/ Louis S. Haddad	President, Chief Executive Officer and Director	March 16, 2015
Louis S. Haddad	(principal executive officer)	
/s/ Michael P. O Hara	Chief Financial Officer and Treasurer	March 16, 2015
Michael P. O Hara	(principal financial officer and principal accounting officer)	
/s/ George F. Allen	Director	March 16, 2015
George F. Allen		
/s/ James A. Carroll	Director	March 16, 2015
James A. Carroll		
/s/ James C. Cherry	Director	March 16, 2015

James C. Cherry		
/s/ Joseph W. Prueher	Director	March 16, 2015
Adm. Joseph W. Prueher (Ret.)		
/s/ John W. Snow	Director	March 16, 2015
John W. Snow		

62

Table of Contents

ARMADA HOFFLER PROPERTIES, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

ITEM 8, ITEM 15(A)(1) AND (2)

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of

Armada Hoffler Properties, Inc.

We have audited the accompanying consolidated balance sheets of Armada Hoffler Properties, Inc. (the Company), as of December 31, 2014 and 2013, and the related consolidated and combined statements of income, equity, and cash flows, as described in Note 1, for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(2). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Armada Hoffler Properties, Inc. at December 31, 2014 and 2013, and the consolidated and combined results of its operations and its cash flows, as described in Note 1, for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Richmond, Virginia

March 16, 2015

Table of Contents

ARMADA HOFFLER PROPERTIES, INC.

Consolidated Balance Sheets

(In thousands, except par value and share data)

	DECEMBER 31, 2014	DECEMBER 31, 2013
ASSETS		
Real estate investments:		
Income producing property	$ 513,918	$ 406,239
Held for development		
Construction in progress	81,082	56,737
	595,000	462,976
Accumulated depreciation	(116,099)	(105,228)
Net real estate investments	478,901	357,748
Real estate investments held for sale	8,538	
Cash and cash equivalents	25,883	18,882
Restricted cash	4,224	2,160
Accounts receivable, net	20,548	18,272
Construction receivables, including retentions	19,432	12,633
Construction contract costs and estimated earnings in excess of billings	272	1,178
Other assets	33,108	24,409
Total Assets	$ 590,906	$ 435,282
LIABILITIES AND EQUITY		
Indebtedness	$ 359,229	$ 277,745
Accounts payable and accrued liabilities	8,358	6,463
Construction payables, including retentions	42,399	28,139
Billings in excess of construction contract costs and estimated earnings	1,053	1,541
Other liabilities	17,961	15,873
Total Liabilities	$ 429,000	$ 329,761
Stockholders equity:		
Common stock, $0.01 par value, 500,000,000 shares authorized, 25,022,701 and 19,163,413 shares issued and outstanding as of December 31, 2014 and 2013, respectively	250	192
Additional paid-in capital	51,472	1,247
Distributions in excess of earnings	(54,413)	(47,934)
Total stockholders deficit	(2,691)	(46,495)
Noncontrolling interests	164,597	152,016

Total Equity	161,906	105,521
Total Liabilities and Equity	$ 590,906	$ 435,282

See Notes to Consolidated and Combined Financial Statements.

Table of Contents

ARMADA HOFFLER PROPERTIES, INC. AND PREDECESSOR

Consolidated and Combined Statements of Income

(In thousands, except per share data)

	YEARS ENDED DECEMBER 31, 2014	2013	2012
Revenues			
Rental revenues	$ 64,746	$ 57,520	$ 54,436
General contracting and real estate services revenues	103,321	82,516	54,046
Total revenues	168,067	140,036	108,482
Expenses			
Rental expenses	16,667	14,025	12,682
Real estate taxes	5,743	5,124	4,865
General contracting and real estate services expenses	98,754	78,813	50,103
Depreciation and amortization	17,569	14,898	12,909
General and administrative expenses	7,711	6,937	3,232
Acquisition, development and other pursuit costs	229		
Impairment charges	15	580	
Total expenses	146,688	120,377	83,791
Operating income	21,379	19,659	24,691
Interest expense	(10,648)	(12,303)	(16,561)
Loss on extinguishment of debt		(2,387)	
Gain on real estate dispositions and acquisitions	2,211	9,460	
Other (expense) income	(113)	297	777
Income before taxes	12,829	14,726	8,907
Income tax provision	(70)	(273)	
Income from continuing operations	12,759	14,453	8,907
Discontinued operations:			
Loss from discontinued operations			(35)
Gain on sale of real estate			25
Results from discontinued operations			(10)
Net income	12,759	14,453	$ 8,897
Net income attributable to predecessor		(2,020)	
Net income attributable to noncontrolling interests	(5,068)	(5,097)	

Net income attributable to stockholders	$ 7,691	$ 7,336
Net income per share:		
Basic and diluted	$ 0.37	$ 0.39
Net income per unit:		
Basic and diluted	$ 0.36	$ 0.39
Weighted-average outstanding:		
Common shares	20,946	19,046
Common units	14,125	13,059
Basic and diluted	35,071	32,105

See Notes to Consolidated and Combined Financial Statements.

Table of Contents

ARMADA HOFFLER PROPERTIES, INC. AND PREDECESSOR

Consolidated and Combined Statements of Equity

(In thousands, except share data)

	Shares of common stock	Common stock	Additional paid-in capital	Distributions in excess of earnings	Predecessor deficit	Total stockholders and predecessor deficit	Noncontrolling interests	Total Equity
Predecessor								
Balance, January 1, 2012		$	$	$	$ (37,399)	$ (37,399)	$	$ (37,399)
Net income					8,897	8,897		8,897
Contributions					1,655	1,655		1,655
Distributions					(14,494)	(14,494)		(14,494)
Balance, December 31, 2012		$	$	$	$ (41,341)	$ (41,341)	$	$ (41,341)
Net income					2,020	2,020		2,020
Contributions					2,218	2,218		2,218
Distributions					(12,399)	(12,399)		(12,399)
Balance, May 12, 2013		$	$	$	$ (49,502)	$ (49,502)	$	$ (49,502)
Armada Hoffler Properties, Inc.								
Net proceeds from sale of common stock	19,003,750	190	191,993			192,183		192,183
Formation transactions			(191,993)	(47,605)	49,502	(190,096)	152,142	(37,954)
Restricted stock award grants	160,540	2	(2)					
Vesting of restricted stock awards			1,249			1,249		1,249
Restricted stock award forfeitures	(877)							
Net income				7,336		7,336	5,097	12,433
Dividends and distributions declared				(7,665)		(7,665)	(5,223)	(12,888)

Balance, December 31, 2013	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	110,642	1	(1)					
Vesting of restricted stock awards			1,285			1,285		1,285
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				7,691		7,691	5,068	12,759
Dividends and distributions declared				(14,170)		(14,170)	(9,139)	(23,309)
Balance, December 31, 2014	25,022,701	$ 250	$ 51,472	$ (54,413)	$	$ (2,691)	$ 164,597	$ 161,906

See Notes to Consolidated and Combined Financial Statements.

Table of Contents

ARMADA HOFFLER PROPERTIES, INC. AND PREDECESSOR

Consolidated and Combined Statements of Cash Flows

(In thousands)

	YEARS ENDED DECEMBER 31, 2014	2013	2012
OPERATING ACTIVITIES			
Net income	$ 12,759	$ 14,453	$ 8,897
Results from discontinued operations			10
Income from continuing operations	12,759	14,453	8,907
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of buildings and tenant improvements	14,984	12,806	11,601
Amortization of leasing costs and in-place lease intangibles	2,585	2,092	1,308
Accrued straight-line rental revenue	(2,203)	(1,055)	(2,158)
Amortization of leasing incentives and above or below-market rents	632	683	755
Accrued straight-line ground rent expense	315	364	333
Bad debt expense	79	162	305
Noncash stock compensation	917	1,249	
Impairment charges	15	580	
Noncash interest expense	517	636	615
Noncash loss on extinguishment of debt		644	
Gain on real estate dispositions and acquisitions	(2,211)	(9,460)	
Change in the fair value of derivatives	233	12	(408)
Other noncash gain	(42)		
Income from real estate joint ventures		(210)	(261)
Changes in operating assets and liabilities, net of acquisitions:			
Property assets	(1,420)	7,761	(991)
Property liabilities	(1,069)	(2,836)	2,404
Construction assets	(5,893)	(2,115)	2,170
Construction liabilities	11,164	(3,591)	(2,220)
Net cash provided by continuing operations	31,362	22,175	22,360
Net cash used for discontinued operations			(34)
Net cash provided by operating activities	31,362	22,175	22,326
INVESTING ACTIVITIES			
Development of real estate investments	(98,467)	(41,298)	(2,665)
Tenant and building improvements	(6,362)	(3,920)	(2,307)
Acquisitions of real estate investments, net of cash acquired	(2,754)	(2,106)	
Dispositions of real estate investments	7,387		
Government development grants	300	300	400

(Increase) decrease in restricted cash	(1,824)	93	184
Leasing costs	(2,835)	(1,180)	(741)
Leasing incentives	(751)	(266)	(475)
Contributions to real estate joint ventures		(81)	
Return of capital from real estate joint ventures		511	405
Net cash used for continuing operations	(105,306)	(47,947)	(5,199)
Net cash provided by discontinued operations			497
Net cash used for investing activities	(105,306)	(47,947)	(4,702)
FINANCING ACTIVITIES			
Proceeds from sale of common stock	49,566	203,245	
Offering costs	(416)	(7,937)	(3,125)
Formation transactions		(47,450)	
Debt issuances, credit facility and construction loan borrowings	117,645	106,054	30,612

F-6

Table of Contents

	YEARS ENDED DECEMBER 31, 2014	2013	2012
Debt and credit facility repayments, including principal amortization	(63,306)	(197,478)	(35,093)
Debt issuance costs	(448)	(2,738)	(931)
Dividends and distributions	(22,096)	(7,733)	
Predecessor contributions		2,218	1,655
Predecessor distributions		(12,927)	(14,791)
Net cash provided by (used for) continuing operations	80,945	35,254	(21,673)
Net cash used for discontinued operations			
Net cash provided by (used for) financing activities	80,945	35,254	(21,673)
Net increase (decrease) in cash and cash equivalents	7,001	9,482	(4,049)
Cash and cash equivalents, beginning of period	18,882	9,400	13,449
Cash and cash equivalents, end of period	$ 25,883	$ 18,882	$ 9,400
Supplemental cash flow information:			
Cash paid for interest	$ 12,132	$ 12,617	$ 16,161
Cash paid for income taxes	$ 821	$	$

See Notes to Consolidated and Combined Financial Statements.

F-7

Table of Contents

ARMADA HOFFLER PROPERTIES, INC. AND PREDECESSOR

Notes to Consolidated and Combined Financial Statements

1. Business and Organization

Armada Hoffler Properties, Inc. (the Company) is a full service real estate company with extensive experience developing, building, owning and managing high-quality, institutional-grade office, retail and multifamily properties in attractive markets throughout the Mid-Atlantic United States.

As of December 31, 2014, the Company s operating property portfolio comprised the following:

Property	Segment	Location
4525 Main Street	Office	Virginia Beach, Virginia
Armada Hoffler Tower	Office	Virginia Beach, Virginia
One Columbus	Office	Virginia Beach, Virginia
Oyster Point	Office	Newport News, Virginia
Richmond Tower	Office	Richmond, Virginia
Sentara Williamsburg	Office	Williamsburg, Virginia
Two Columbus	Office	Virginia Beach, Virginia
249 Central Park Retail	Retail	Virginia Beach, Virginia
Bermuda Crossroads	Retail	Chester, Virginia
Broad Creek Shopping Center	Retail	Norfolk, Virginia
Commerce Street Retail	Retail	Virginia Beach, Virginia
Courthouse 7-Eleven	Retail	Virginia Beach, Virginia
Dick s at Town Center	Retail	Virginia Beach, Virginia
Dimmock Square	Retail	Colonial Heights, Virginia
Fountain Plaza Retail	Retail	Virginia Beach, Virginia
Gainsborough Square	Retail	Chesapeake, Virginia
Greentree Shopping Center	Retail	Chesapeake, Virginia
Hanbury Village	Retail	Chesapeake, Virginia
Harrisonburg Regal	Retail	Harrisonburg, Virginia
North Point Center	Retail	Durham, North Carolina
Parkway Marketplace	Retail	Virginia Beach, Virginia
South Retail	Retail	Virginia Beach, Virginia
Studio 56 Retail	Retail	Virginia Beach, Virginia
Tyre Neck Harris Teeter	Retail	Portsmouth, Virginia
Encore Apartments	Multifamily	Virginia Beach, Virginia
Liberty Apartments	Multifamily	Newport News, Virginia
Smith s Landing	Multifamily	Blacksburg, Virginia
The Cosmopolitan	Multifamily	Virginia Beach, Virginia
Whetstone Apartments	Multifamily	Durham, North Carolina

As of December 31, 2014, the following properties were either under development or construction:

Property	**Segment**	**Location**
Commonwealth of Virginia Chesapeake	Office	Chesapeake, Virginia
Commonwealth of Virginia Virginia Beach	Office	Virginia Beach, Virginia
Oceaneering	Office	Chesapeake, Virginia
Lightfoot Marketplace	Retail	Williamsburg, Virginia
Sandbridge Commons	Retail	Virginia Beach, Virginia
Johns Hopkins Village	Multifamily	Baltimore, Maryland

The Company is the sole general partner of Armada Hoffler, L.P. (the Operating Partnership). The operations of the Company are carried on primarily through the Operating Partnership and the wholly owned subsidiaries of the Operating Partnership. Both the Company and the Operating Partnership were formed on October 12, 2012 and commenced operations upon completion of the underwritten initial public offering of shares of the Company s common stock (the IPO) and certain related formation transactions (the Formation Transactions) on May 13, 2013.

Armada Hoffler Properties, Inc. Predecessor (the Predecessor) was not a single legal entity, but rather a combination of real estate and construction entities under common ownership by their individual partners, members and stockholders and under common control or significant influence of Daniel A. Hoffler prior to the IPO and the Formation Transactions. The financial position and results of operations of the entities under common control of Mr. Hoffler have been combined in the Predecessor financial statements for the periods prior to the completion of the IPO and the Formation Transactions. The Predecessor accounted for its investments in the entities under significant influence of Mr. Hoffler using the equity method of accounting.

On May 13, 2013, the Company completed the IPO of 16,525,000 shares of common stock and on May 22, 2013, the underwriters of the IPO exercised their overallotment option in full to purchase an additional 2,478,750 shares. Net proceeds from the IPO to the Company after deducting the underwriting discount and related offering costs were $192.2 million. The Company contributed the net proceeds from the IPO to the Operating Partnership in exchange for common units in the Operating Partnership. With the net proceeds from the IPO, the Operating Partnership repaid $150.0 million of outstanding indebtedness and paid $47.6 million as partial consideration to prior investors in connection with the Formation Transactions.

Pursuant to the Formation Transactions, the Operating Partnership: (i) acquired 100% of the interests in the entities comprising the Predecessor, (ii) succeeded to the ongoing construction and development businesses of the Predecessor, (iii) assumed asset management of certain of the properties acquired from the Predecessor, (iv) succeeded to the third-party asset management business of the Predecessor, (v) succeeded to the projects under development by the Predecessor, (vi) received options to acquire nine parcels of developable land from the Predecessor and (vii) entered into a contribution agreement to acquire Liberty Apartments upon satisfaction of certain conditions and transferability restrictions including completion of the project s construction by the Company. The Operating Partnership completed the acquisition of Liberty Apartments on January 17, 2014.

The Company accounted for the contribution or acquisition of interests in the combined entities of the Predecessor as transactions among entities under common control. As a result, the contribution or acquisition of interests in each of the combined entities was accounted for at the Predecessor s historical cost. The acquisitions of interests in the equity method investments of the Predecessor were accounted for as purchases at fair value under the acquisition method of accounting.

References to Armada Hoffler in these notes to consolidated and combined financial statements signify the Company for the period after the completion of the IPO and the Formation Transactions on May 13, 2013 and the Predecessor for all prior periods. Because of the timing of the IPO and the Formation Transactions, the results of operations for the year ended December 31, 2012 reflect only those of the Predecessor. The results of operations for the year ended December 31, 2013 reflect those of the Predecessor together with the Company, while the results of operations for the year ended December 31, 2014 as well as the financial condition as of December 31, 2014 and 2013 reflect only those of the Company.

2. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated and combined financial statements were prepared in accordance with accounting principles generally accepted in the United States (GAAP).

The consolidated financial statements include the financial position and results of operations of the Company, the Operating Partnership and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The financial position and results of operations of the entities comprising the Predecessor have been combined because they were under common ownership by their individual partners, members and stockholders and under common control of Mr. Hoffler. All significant intercompany transactions and balances have been eliminated in combination.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed. Such estimates are based on management s historical experience and best judgment after considering past, current and expected events and economic conditions. Actual results could differ from management s estimates.

Segments

Segment information is prepared on the same basis that management reviews information for operational decision-making purposes. Management evaluates the performance of each of Armada Hoffler s properties individually and aggregates such properties into segments based on their economic characteristics and classes of tenants. Armada Hoffler operates in four business segments: (i) office real estate, (ii) retail real estate, (iii) multifamily residential real estate and (iv) general contracting and real estate services. Armada Hoffler s general contracting and real estate services business develops and builds properties for its own account and also provides construction and development services to both related and third parties.

Table of Contents

Revenue Recognition

Rental Revenues

Armada Hoffler leases its properties under operating leases and recognizes base rents when earned on a straight-line basis over the lease term. Armada Hoffler begins recognizing rental revenue when the tenant has the right to take possession of or controls the physical use of the property under lease. The extended collection period for accrued straight-line rental revenue along with Armada Hoffler s evaluation of tenant credit risk may result in the nonrecognition of all or a portion of straight-line rental revenue until the collection of such revenue is reasonably assured. Armada Hoffler recognizes contingent rental revenue (e.g., percentage rents based on tenant sales) when changes in the factors on which the contingent lease payments are based actually occur. Armada Hoffler recognizes leasing incentives as reductions to rental revenue on a straight-line basis over the lease term. Armada Hoffler recognizes cost reimbursement revenue for real estate taxes, operating expenses and common area maintenance costs on an accrual basis during the periods in which the expenses are incurred. Armada Hoffler recognizes lease termination fees either upon termination or evenly over any remaining lease term.

General Contracting and Real Estate Services Revenues

Armada Hoffler recognizes general contracting revenue on construction contracts using the percentage-of-completion method. Under this method, Armada Hoffler recognizes revenue and an estimated profit as construction contract costs are incurred based on the proportion of incurred costs to total estimated construction contract costs at completion. Construction contract costs include all direct material, labor and subcontract costs as well as any indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are recognized immediately in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which they are determined. Profit incentives are included in revenues when their realization is probable and when they can be reasonably estimated.

Armada Hoffler recognizes real estate services revenues from property development and management when realized and earned, generally as such services are provided.

Real Estate Investments

Income producing property primarily includes land, buildings and tenant improvements and is stated at cost. Real estate investments held for development include land and capitalized development costs. Armada Hoffler reclassifies real estate investments held for development to construction in progress upon commencement of construction. Construction in progress is stated at cost. Direct and certain indirect costs clearly associated with the development, redevelopment, construction, leasing or expansion of real estate assets are capitalized as a cost of the property. Repairs and maintenance costs are expensed as incurred.

Armada Hoffler capitalizes direct and indirect project costs associated with the initial construction of a property until the property is substantially complete and ready for its intended use. Capitalized project costs include preacquisition development and preconstruction costs including overhead, salaries and related costs of personnel directly involved, real estate taxes, insurance, utilities, ground rent and interest. Interest capitalized during the years ended December 31, 2014 and 2013 was $3.1 million and $0.6 million, respectively. Interest capitalized during the year ended December 31, 2012 was not significant. Overhead, salaries and related personnel costs capitalized during each of the three years ended December 31, 2014 were $2.4 million, $1.6 million and $0.4 million, respectively.

Armada Hoffler capitalizes preacquisition development costs directly identifiable with specific properties when the acquisition of such properties is probable. Capitalized preacquisition development costs are presented within other assets in the consolidated balance sheets. Capitalized preacquisition development costs as of December 31, 2014 and 2013 were $4.6 million and $2.0 million, respectively. Capitalized preacquisition development costs attributable to the Johns Hopkins Village project were $2.1 million and $0.5 million as of December 31, 2014 and 2013, respectively. Costs attributable to unsuccessful projects are expensed.

Armada Hoffler recognizes real estate development grants from state and local governments as reductions to the carrying amounts of the related real estate investments when any attached conditions are satisfied and when there is reasonable assurance that the grant will be received.

Income producing property is depreciated on a straight-line basis over the following estimated useful lives:

Buildings	39 years
Capital improvements	15 20 years
Equipment	5 15 years
Tenant improvements	Term of the related lease (or estimated useful life, if shorter)

Real Estate Investments Held for Sale

Real estate assets classified as held for sale are reported at the lower of their carrying value or their fair value, less estimated costs to sell. Once a property is classified as held for sale, it is no longer depreciated. A property is classified as held for sale when: (i) senior management commits to a plan to sell the property, (ii) the property is available for immediate sale in its present condition, subject only to conditions usual and customary for such sales, (iii) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated, (iv) the sale is expected to be completed within one year, (v) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value and (vi) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The Company classified the Sentara Williamsburg office property as held for sale as of December 31, 2014.

Impairment of Long Lived Assets

Armada Hoffler evaluates its real estate assets for impairment on a property by property basis whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If such an evaluation is necessary, Armada Hoffler compares the carrying amount of any such real estate asset with the undiscounted expected future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition. If the carrying amount of a real estate asset exceeds the associated estimate of undiscounted expected future cash flows, an impairment loss is recognized to reduce the real estate asset s carrying value to its fair value.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, investments in money market funds and investments with an original maturity of three months or less.

Restricted Cash

Restricted cash represents amounts held by lenders for real estate taxes, insurance and reserves for capital improvements. Armada Hoffler presents changes in cash restricted for real estate taxes and insurance as operating activities in the consolidated and combined statements of cash flows. Armada Hoffler presents changes in cash restricted for capital improvements as investing activities in the consolidated and combined statements of cash flows.

Accounts Receivable, net

Accounts receivable include amounts from tenants for base rents, contingent rents and cost reimbursements as well as accrued straight-line rental revenue. As of December 31, 2014 and 2013, accrued straight-line rental revenue presented within accounts receivable in the consolidated balance sheets was $19.4 million and $17.5 million, respectively.

Armada Hoffler s evaluation of the collectability of accounts receivable and the adequacy of the allowance for doubtful accounts is based primarily upon evaluations of individual receivables, current economic conditions, historical experience and other relevant factors. Armada Hoffler establishes reserves for tenant receivables outstanding over 90 days. For all such tenants, Armada Hoffler also reserves any related accrued straight-line rental revenue. Additional reserves are recorded for more current amounts, as applicable, when Armada Hoffler has determined collectability to be doubtful. As of December 31, 2014 and 2013, the allowance for doubtful accounts was not significant. Armada Hoffler presents bad debt expense within rental expenses in the consolidated and combined statements of income.

Table of Contents

Leasing Costs

Commissions paid by Armada Hoffler to third parties to originate a lease are deferred and amortized as depreciation and amortization expense on a straight-line basis over the term of the related lease. Leasing costs are presented within other assets in the consolidated balance sheets.

Leasing Incentives

Incentives paid by Armada Hoffler to tenants are deferred and amortized as reductions to rental revenues on a straight-line basis over the term of the related lease. Leasing incentives are presented within other assets in the consolidated balance sheets.

Acquired Lease Intangibles

Acquired lease intangibles are presented within other assets and other liabilities in the consolidated balance sheets. The Company amortizes in-place lease assets as depreciation and amortization expense on a straight-line basis over the remaining term of the related leases. The Company amortizes above-market lease assets as reductions to rental revenues on a straight-line basis over the remaining term of the related leases. The Company amortizes below-market lease liabilities as increases to rental revenues on a straight-line basis over the remaining term of the related leases. The Company amortizes below-market ground lease assets as increases to rental expenses on a straight-line basis over the remaining term of the related leases.

Debt Issuance Costs

Financing costs are deferred and amortized as interest expense using the effective interest method over the term of the related debt. Debt issuance costs are presented within other assets in the consolidated balance sheets.

Derivative Financial Instruments

Armada Hoffler may enter into interest rate derivatives to manage exposure to interest rate risks. Armada Hoffler does not use derivative financial instruments for trading or speculative purposes. Armada Hoffler recognizes derivative financial instruments at fair value and presents them within other assets and liabilities in the consolidated balance sheets. Presentation of gains (losses) resulting from changes in the fair value of derivatives depend on their designation and qualification for hedge accounting. As of December 31, 2014, Armada Hoffler had not designated any of its derivative instruments as hedges for accounting purposes. As a result, changes in the fair value of derivatives have been recognized within other income (expense) in the consolidated and combined statements of income.

Stock-Based Compensation

The Company measures the compensation cost of restricted stock awards based on the grant date fair value. The Company recognizes compensation cost for the vesting of restricted stock awards using the accelerated attribution method. Compensation cost associated with the vesting of restricted stock awards is presented within either general and administrative expenses or general contracting and real estate services expenses in the consolidated and combined statements of income. Total stock-based compensation expense recognized during the years ended December 31, 2014 and 2013 was $0.9 million and $1.2 million, respectively. Stock-based compensation for personnel directly involved in the development and initial construction of a property is capitalized. During the year ended December 31, 2014, the Company capitalized $0.4 million of stock-based compensation. Stock-based compensation capitalized during the year ended December 31, 2013 was not significant.

Income Taxes

The Company has elected to be taxed as a real estate investment trust (REIT) for U.S. federal income tax purposes. For continued qualification as a REIT for federal income tax purposes, the Company must meet certain organizational and operational requirements, including a requirement to pay distributions to stockholders of at least 90% of annual taxable income, excluding net capital gains. As a REIT, the Company generally is not subject to income tax on net income distributed as dividends to stockholders. The Company is subject to state and local income taxes in some jurisdictions and, in certain circumstances, may also be subject to federal excise taxes on undistributed income. In addition, certain of the Company s activities must be conducted by subsidiaries that have elected to be treated as a taxable REIT subsidiary (TRS) subject to both federal and state income taxes. The Operating Partnership conducts its development and construction businesses through the TRS. The related income tax provision or benefit attributable to the profits or losses of the TRS and any taxable income of the Company is reflected in the consolidated and combined financial statements.

The Company uses the liability method of accounting for deferred income tax in accordance with GAAP. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying value of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the statutory rates expected to be applied in the periods in which those temporary differences are settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period of the change. A valuation allowance is recorded on the Company s deferred tax assets when it is more likely than not that such assets will not be realized. When evaluating the realizability of the Company s deferred tax assets, all evidence, both positive and negative is evaluated. Items considered in this analysis include the ability to carryback losses, the reversal of temporary differences, tax planning strategies and expectations of future earnings.

Under GAAP, the amount of tax benefit to be recognized is the amount of benefit that is more likely than not to be sustained upon examination. Management analyzes its tax filing positions in the U.S. federal, state and local jurisdictions where it is required to file income tax returns for all open tax years. If, based on this analysis, management determines that uncertainties in tax positions exist, a liability is established. The Company recognizes accrued interest and penalties related to unrecognized tax positions in the provision for income taxes. If recognized, the entire amount of unrecognized tax positions would be recorded as a reduction to the provision for income taxes.

The Predecessor was comprised primarily of limited partnerships, limited liability companies and S-corporations. Under applicable federal and state income tax rules, the allocated share of net income or loss from limited partnerships, limited liability companies and S-corporations flows through to the respective partners, members and shareholders. For periods prior to the completion of the IPO and the Formation Transactions on May 13, 2013, no provision was made for U.S. federal, state or local income taxes because profits and losses of the Predecessor flowed through to its respective partners, members and shareholders that were individually responsible for reporting such amounts.

Discontinued Operations

For periods prior to January 1, 2014, Armada Hoffler presented properties held for sale as discontinued operations only when it would not have any significant continuing involvement in the properties operations after their disposition and when the properties operations and cash flows: (i) could be clearly distinguished and (ii) would be eliminated from Armada Hoffler s ongoing operations upon disposition.

Beginning January 1, 2014, only disposals representing a strategic shift that has or will have a major effect on the Company s operations and financial results are reported as discontinued operations.

Net Income Per Share and Unit

The Company calculates net income per share and unit based upon the weighted average shares and units outstanding for periods after the completion of the IPO and Formation Transactions on May 13, 2013. Diluted net income per share and unit is calculated after giving effect to all significant potential dilutive shares outstanding during the period. There were no significant potential dilutive shares or units outstanding during the period May 13, 2013 through December 31, 2013 or for the year ended December 31, 2014. As a result, basic and diluted outstanding shares and units were the same.

Other Comprehensive Income

Armada Hoffler had no items of other comprehensive income during any of the three years ended December 31, 2014.

Emerging Growth Company Status

The Company qualifies as an emerging growth company (EGC) pursuant to the Jumpstart Our Business Startups Act. An EGC may choose to take advantage of the extended private company transition period provided for complying with new or revised accounting standards that may be issued by the Financial Accounting Standards Board (the FASB) or the U.S. Securities and Exchange Commission (the SEC). The Company has elected to opt out of such extended transition period. This election is irrevocable.

Recent Accounting Pronouncements

In April 2014, the FASB revised the reporting and disclosure guidance for discontinued operations. Under the revised guidance, only disposals representing a strategic shift that has or will have a major effect on the Company s operations and financial results will be reported as discontinued operations. The revised guidance also expands the disclosure requirements for discontinued operations and other disposals of significant business components. The revised guidance is not effective for the Company until January 1, 2015; however, early adoption is permitted. The Company early adopted the revised guidance effective January 1, 2014.

Table of Contents

In May 2014, the FASB issued a new standard that provides a single, comprehensive model for recognizing revenue from contracts with customers. While the new standard does not supersede the guidance on accounting for leases, it could change the way the Company recognizes revenue from construction and development contracts with third-party customers. The new standard will be effective for the Company beginning on January 1, 2017. Early adoption is not permitted. Management is currently evaluating the potential impact of the new revenue recognition standard on the Company s consolidated financial statements.

3. Segments

Net operating income (segment revenues minus segment expenses) is the measure used by Armada Hoffler s chief operating decision-maker to assess segment performance. Net operating income is not a measure of operating income or cash flows from operating activities as measured by GAAP and is not indicative of cash available to fund cash needs. As a result, net operating income should not be considered an alternative to cash flows as a measure of liquidity. Not all companies calculate net operating income in the same manner. Armada Hoffler considers net operating income to be an appropriate supplemental measure to net income because it assists both investors and management in understanding the core operations of Armada Hoffler s real estate and construction businesses.

Net operating income of Armada Hoffler s reportable segments for each of the three years ended December 31, 2014 was as follows (in thousands):

	Years Ended December 31,		
	2014	**2013**	**2012**
Office real estate			
Rental revenues	$ 27,827	$ 25,794	$ 25,815
Property expenses	8,710	7,892	7,668
Segment net operating income	19,117	17,902	18,147
Retail real estate			
Rental revenues	23,956	21,755	21,164
Property expenses	7,108	6,779	6,629
Segment net operating income	16,848	14,976	14,535
Multifamily residential real estate			
Rental revenues	12,963	9,971	7,457
Property expenses	6,592	4,478	3,176
Segment net operating income	6,371	5,493	4,281
General contracting and real estate services			
Segment revenues	103,321	82,516	54,046
Segment expenses	98,754	78,813	50,103
Segment net operating income	4,567	3,703	3,943

Other			(74)
Net operating income	$ 46,903	$ 42,074	$ 40,832

General contracting and real estate services revenues for each of the three years ended December 31, 2014 exclude revenue related to intercompany construction contracts of $85.4 million, $35.7 million and $1.4 million, respectively. General contracting and real estate services expenses for each of the three years ended December 31, 2014 exclude expenses related to intercompany construction contracts of $84.6 million, $35.4 million and $1.3 million, respectively. General contracting and real estate services expenses for the year ended December 31, 2014 include noncash stock compensation of $0.2 million.

Table of Contents

The following table reconciles net operating income to net income for each of the three years ended December 31, 2014 (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Net operating income	$ 46,903	$ 42,074	$ 40,832
Depreciation and amortization	(17,569)	(14,898)	(12,909)
General and administrative expenses	(7,711)	(6,937)	(3,232)
Acquisition, development and other pursuit costs	(229)		
Impairment charges	(15)	(580)	
Interest expense	(10,648)	(12,303)	(16,561)
Loss on extinguishment of debt		(2,387)	
Gain on real estate dispositions and acquisitions	2,211	9,460	
Other (expense) income	(113)	297	777
Income tax provision	(70)	(273)	
Results from discontinued operations			(10)
Net income	$ 12,759	$ 14,453	$ 8,897

General and administrative expenses represent costs not directly associated with the operation and management of Armada Hoffler s real estate properties and general contracting and real estate services businesses. General and administrative expenses include office personnel salaries and benefits, bank fees, accounting fees, legal fees and other corporate office expenses. General and administrative expenses for the years ended December 31, 2014 and 2013 include noncash stock compensation of $0.7 million and $1.2 million, respectively.

Impairment charges recognized during the years ended December 31, 2014 and 2013 represent unamortized leasing assets related to vacated tenants.

Rental revenues for each of the three years ended December 31, 2014 comprised the following (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Minimum rents			
Office	$ 26,394	$ 24,415	$ 24,101
Retail	20,198	18,473	17,753
Multifamily	11,076	8,364	6,259
Percentage rents			
Office	69	104	109
Retail	216	121	121
Multifamily	100	105	103
Other			
Office	1,364	1,275	1,605
Retail	3,542	3,161	3,290
Multifamily	1,787	1,502	1,095

Rental revenues	$ 64,746	$ 57,520	$ 54,436

Minimum rents include $2.2 million, $1.1 million and $2.2 million of straight-line rental revenue for each of the three years ended December 31, 2014, respectively. Minimum rents also include $(0.7) million, $(0.8) million and $(0.8) million of leasing incentive amortization for each of the three years ended December 31, 2014, respectively. Percentage rents are based on tenants   sales. Other rental revenue includes cost reimbursements for real estate taxes, property insurance and common area maintenance as well as termination fees.

Table of Contents

Property expenses for each of the three years ended December 31, 2014 comprised the following (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Rental expenses			
Office	$ 6,395	$ 5,721	$ 5,499
Retail	5,011	4,808	4,791
Multifamily	5,261	3,496	2,383
Other			9
Total	16,667	14,025	12,682
Real estate taxes			
Office	2,315	2,171	2,169
Retail	2,097	1,971	1,838
Multifamily	1,331	982	793
Other			65
Total	5,743	5,124	4,865
Property expenses	$ 22,410	$ 19,149	$ 17,547

Rental expenses represent costs directly associated with the operation and management of Armada Hoffler s real estate properties. Rental expenses include asset management fees, property management fees, repairs and maintenance, insurance and utilities.

4. Operating Leases

The Company s commercial tenant leases generally range from five to 20 years, but certain leases with anchor tenants may be longer. The Company s commercial tenant leases provide for minimum rental payments during each of the next five years and thereafter as follows (in thousands):

2015	$ 51,679
2016	51,726
2017	50,075
2018	46,265
2019	39,056
Thereafter	275,405
Total	$ 514,206

Lease terms on multifamily apartment units generally range from seven to 15 months, with a majority having 12-month lease terms. Apartment leases are not included in the preceding table as the remaining terms as of

December 31, 2014 are generally less than one year.

5. Real Estate Investments

The Company s real estate investments comprised the following as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014			
	Income producing property	Held for development	Construction in progress	Total
Land	$ 40,898	$	$ 15,260	$ 56,158
Land improvements	16,279			16,279
Buildings and improvements	456,741			456,741
Development and construction costs			65,822	65,822
Real estate investments	$ 513,918	$	$ 81,082	$ 595,000

	December 31, 2013			
	Income producing property	Held for development	Construction in progress	Total
Land	$ 27,736	$	$ 13,577	$ 41,313
Land improvements	12,562			12,562
Buildings and improvements	365,941			365,941
Development and construction costs			43,160	43,160
Real estate investments	$ 406,239	$	$ 56,737	$ 462,976

Acquisition of Liberty Apartments

As discussed in Note 1, the Company completed the acquisition of Liberty Apartments from affiliates of the Predecessor on January 17, 2014. The fair value of the total consideration transferred at the acquisition date to acquire Liberty Apartments was $26.7 million, consisting of 695,652 common units of limited partnership interest in the Operating Partnership (OP Units), $3.0 million in cash and the assumption of $17.0 million of debt. The fair value adjustment to the assumed debt of Liberty Apartments was a $1.5 million discount. The outstanding principal balance of the assumed debt of Liberty Apartments at the acquisition date was $18.5 million.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

	Liberty Apartments
Land	$ 3,580
Site improvements	280
Building and improvements	23,214
In-place leases	340
Indebtedness	(16,966)

Net working capital		(679)
Net assets acquired	$	9,769

Liberty Apartments did not have significant operations during the year ended December 31, 2013. Rental revenues and net loss from Liberty Apartments for the period from the acquisition date to December 31, 2014 included in the consolidated statement of income was $1.0 million and $(2.1) million, respectively.

Acquisition of Dimmock Square

On August 15, 2014, the Company completed the acquisition of Dimmock Square, a 106,166 square foot retail center located in Colonial Heights, Virginia. The fair value of the total consideration transferred at the acquisition date to acquire Dimmock Square was $19.7 million, consisting of 990,952 OP Units and $10.1 million of cash that was used to immediately defease the loan secured by Dimmock Square upon its contribution to the Operating Partnership.

Table of Contents

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

	Dimmock Square
Land	$ 5,100
Site improvements	600
Building and improvements	12,526
In-place leases	1,880
Above and below-market leases	(390)
Net assets acquired	$ 19,716

Rental revenues and net loss from Dimmock Square for the period from the acquisition date to December 31, 2014 included in the consolidated statement of income was $0.8 million and less than $(0.1) million, respectively.

During the year ended December 31, 2014, the Company recognized $0.2 million of acquisition, development and other pursuit costs primarily related to the acquisition of Dimmock Square.

Acquisitions of Bermuda Crossroads and Smith s Landing

Substantially concurrent with the completion of the IPO on May 13, 2013 and in connection with the Formation Transactions, the Operating Partnership acquired 100% of the interests in Bermuda Crossroads and Smith s Landing. Prior to the acquisition date, the Predecessor accounted for its 50% interest in Bermuda Crossroads and 40% interest in Smith s Landing as equity method investments.

The acquisitions of controlling interests in Bermuda Crossroads and Smith s Landing were accounted for as purchases at fair value under the acquisition method of accounting. Total consideration in the form of cash and OP Units paid for the 50% interest in Bermuda Crossroads was $3.2 million. Total consideration in the form of cash and OP Units paid for the 60% interest in Smith s Landing was $7.5 million.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

	Bermuda Crossroads	Smith s Landing
Land	$ 5,450	$
Site improvements	540	450
Building and improvements	10,101	34,655
Intangible assets	2,860	2,420
Net working capital	237	14
Indebtedness	(11,053)	(24,995)
Below-market leases	(1,750)	

Net assets acquired	$ 6,385	$ 12,544

The identified intangible assets for Bermuda Crossroads are primarily in-place leases. The identified intangible assets for Smith s Landing include $1.9 million assigned to a below-market ground lease and $0.5 million assigned to in-place leases. The fair value adjustment to the assumed debt of Bermuda Crossroads was a $0.2 million premium. The fair value adjustment to the assumed debt of Smith s Landing was not significant.

The acquisition-date fair values of the previous equity interests in Bermuda Crossroads and Smith s Landing were $3.2 million and $5.0 million, respectively. The Company recognized a gain of $9.5 million as a result of remeasuring the Predecessor s prior equity interests in Bermuda Crossroads and Smith s Landing held before the acquisitions.

Rental revenues and net income of both Bermuda Crossroads and Smith s Landing for the period from the acquisition date to December 31, 2013 included in the consolidated and combined statements of income were $3.8 million and $0.2 million, respectively.

Pro Forma Financial Information (Unaudited)

The following table summarizes the consolidated and combined results of operations of Armada Hoffler on a pro forma basis, as if Dimmock Square had been acquired as of January 1, 2013 and both Bermuda Crossroads and Smith s Landing had been acquired as of January 1, 2012 (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Rental revenues	$ 66,000	$ 61,555	$ 60,075
Net income	13,361	5,676	18,520

The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if these acquisitions had taken place on January 1, 2013 and 2012. The pro forma financial information includes adjustments to rental revenue and rental expenses for above and below-market leases, adjustments to depreciation and amortization expense for acquired property and in-place lease assets and adjustments to interest expense for fair value adjustments to assumed debt.

Pro forma net income for the year ended December 31, 2012 includes the nonrecurring $9.5 million gain as a result of remeasuring the Predecessor s prior equity interests in Bermuda Crossroads and Smith s Landing held before the acquisitions.

Other Real Estate Transactions

On April 16, 2014, the Company purchased land in Williamsburg, Virginia for $7.6 million for the development and construction of Lightfoot Marketplace.

On May 1, 2014, the Company purchased land in Chesapeake, Virginia for $0.3 million for the development and construction of a new administrative building for the Commonwealth of Virginia.

On September 29, 2014, the Company purchased land in Virginia Beach, Virginia for $0.2 million for the development and construction of a new administrative building for the Commonwealth of Virginia.

On November 20, 2014, the Company completed the sale of the Virginia Natural Gas office property for $8.9 million in cash. Net proceeds to the Company after transaction costs and tax protection payments were $7.4 million. The gain on the disposition of the Virginia Natural Gas office property was $2.2 million.

Subsequent to December 31, 2014

On January 5, 2015, the Company completed the sale of the Sentara Williamsburg office property for $15.4 million in cash. Net proceeds to the Company after transaction costs were $15.2 million. The gain on the disposition of the Sentara Williamsburg office property was $6.2 million. The Company intends to use the net proceeds from the Sentara Williamsburg sale in combination with the issuance of common stock to acquire two grocery store anchored retail centers in Maryland for a combined purchase price of $39.1 million. Both transactions are subject to customary closing conditions and are expected to close by the end of the first quarter of 2015.

On January 9, 2015, the Company entered into an agreement to purchase a 57,000 square foot grocery store anchored retail center in Myrtle Beach, South Carolina for $8.7 million, including the assumption of approximately $5.1 million of debt. The transaction is subject to customary closing conditions and is expected to close in the second quarter of 2015.

On February 13, 2015, the Company agreed to the future sale of the Oyster Point office property for $6.5 million in cash. The Company intends to complete the sale on January 15, 2017.

On February 26, 2015, the Company entered into a definitive agreement to sell Whetstone Apartments for $35.6 million. The transaction is subject to customary closing conditions and is expected to close in the second quarter of 2015.

6. Construction Contracts

Construction contract costs and estimated earnings in excess of billings represent reimbursable costs and amounts earned under contracts in progress as of the balance sheet date. Such amounts become billable according to contract terms, which usually consider the passage of time, achievement of certain milestones or completion of the project. Billings of $39.8 million and $16.2 million are netted against construction contract costs and estimated earnings as of December 31, 2014 and 2013, respectively. The Company expects to bill and collect substantially all construction contract costs incurred as of December 31, 2014 during the year ending December 31, 2015.

The Company defers precontract costs when such costs are directly associated with specific anticipated contracts and their recovery is probable. Precontract costs of $0.2 million and $0.8 million were deferred as of December 31, 2014 and 2013, respectively.

Billings in excess of construction contract costs and estimated earnings represent billings or collections on contracts made in advance of revenue recognized.

Construction receivables and payables include retentions amounts that are generally withheld until the completion of the contract or the satisfaction of certain restrictive conditions such as fulfillment guarantees. As of December 31, 2014 and 2013, construction receivables included retentions of $4.7 million and $3.2 million, respectively. The Company expects to collect substantially all construction receivables as of December 31, 2014 during the year ending December 31, 2015. As of December 31, 2014 and 2013, construction payables included retentions of $9.0 million and $2.1 million, respectively. The Company expects to pay substantially all construction payables as of December 31, 2014 during the year ending December 31, 2015.

The Company s net position on uncompleted construction contracts comprised the following as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014	December 31, 2013
Costs incurred on uncompleted construction contracts	$ 195,219	$ 97,372
Estimated earnings	8,501	4,584
Billings	(204,501)	(102,319)
Net position	$ (781)	$ (363)

	December 31, 2014	December 31, 2013
Construction contract costs and estimated earnings in excess of billings	$ 272	$ 1,178
Billings in excess of construction contract costs and estimated earnings	(1,053)	(1,541)
Net position	$ (781)	$ (363)

The Company expects to complete all uncompleted contracts as of December 31, 2014 during the years ending December 31, 2015 and 2016.

Table of Contents

7. *Indebtedness*

The Company s indebtedness comprised the following as of December 31, 2014 and 2013 (dollars in thousands):

Secured Debt	Principal Balance December 31, 2014	Principal Balance December 31, 2013	Stated Interest Rate December 31, 2014	Stated Maturity Date December 31, 2014
Credit facility	$ 59,000	$ 70,000	LIBOR + 1.60% - 2.20%	May 13, 2016
Oyster Point	6,274	6,466	5.41%	December 1, 2015
249 Central Park Retail[1]	15,566	15,834	5.99%	September 8, 2016
South Retail	6,867	6,985	5.99%	September 8, 2016
Studio 56 Retail	2,618	2,690	3.75%	May 7, 2015
Commerce Street Retail	5,549	5,613	LIBOR + 2.25%	October 31, 2018
Fountain Plaza Retail[1]	7,783	7,917	5.99%	September 8, 2016
Dick s at Town Center	8,216	8,318	LIBOR + 2.75%	October 31, 2017
Broad Creek Shopping Center				
Note 1[2]	4,452	4,503	LIBOR + 2.25%	October 31, 2018
Note 2[2]	8,173	8,267	LIBOR + 2.25%	October 31, 2018
Note 3[2]	3,422	3,461	LIBOR + 2.25%	October 31, 2018
North Point Center				
Note 1	10,149	10,319	6.45%	February 5, 2019
Note 2	2,753	2,830	7.25%	September 15, 2025
Note 4		1,030		
Note 5[3]	685	705	LIBOR + 2.00%	February 1, 2017
Hanbury Village				
Note 1	21,218	21,449	6.67%	October 11, 2017
Note 2	4,090	4,159	LIBOR + 2.25%	October 31, 2018
Harrisonburg Regal	3,659	3,842	6.06%	June 8, 2017
Tyre Neck Harris Teeter	2,437	2,482	LIBOR + 2.25%	October 31, 2018
The Cosmopolitan	47,132	47,723	3.75%	July 1, 2051
Smith s Landing[4]	24,470	24,795	LIBOR + 2.15%	January 31, 2017
Liberty Apartments[4]	20,603		5.66%	November 1, 2043
4525 Main Street	30,870	11,313	LIBOR + 1.95%	January 30, 2017
Encore Apartments	22,215	3,585	LIBOR + 1.95%	January 30, 2017
Whetstone Apartments	16,019	284	LIBOR + 1.90%	October 8, 2016
Sandbridge Commons	5,892	3,172	LIBOR + 1.85%	January 17, 2018
Oceaneering	13,490		LIBOR + 1.75%	February 28, 2018
Commonwealth of Virginia				
Chesapeake	3,585		LIBOR + 1.90%	August 28, 2017
Lightfoot Marketplace	3,484		LIBOR + 1.90%	November 14, 2017
Total principal balance	$ 360,671	$ 277,742		
Unamortized fair value adjustments	(1,442)	3		

Indebtedness	$ 359,229	$ 277,745

(1) Cross collateralized.
(2) Cross collateralized.
(3) Subject to an interest rate swap lock at a rate of 3.57%.
(4) Principal balance excluding fair value adjustments.

Table of Contents

The Company s indebtedness comprised the following fixed and variable-rate debt as of December 31, 2014 and 2013 (in thousands):

	December 31,	
	2014	2013
Fixed-rate secured debt	$ 144,622	$ 127,085
Variable-rate secured debt	216,049	150,657
Total principal balance	$ 360,671	$ 277,742

Certain loans require the Company to comply with various financial and other covenants, including the maintenance of minimum debt coverage ratios. As of December 31, 2014, the Company was in compliance with all loan covenants.

Scheduled principal repayments and term-loan maturities during each of the next five years and thereafter are as follows (in thousands):

Year	Scheduled Principal Payments	Term-Loan Maturities	Total Payments
2015	$ 3,222	$ 8,681	$ 11,903
2016	3,499	104,300	107,799
2017	2,775	116,141	118,916
2018	1,808	44,674	46,482
2019	1,216	9,333	10,549
Thereafter	63,678	1,344	65,022
Total	$ 76,198	$ 284,473	$ 360,671

Credit Facility

On May 13, 2013, the Operating Partnership, as borrower, and the Company, as parent guarantor, entered into a $100.0 million senior secured revolving credit facility. On October 10, 2013, the Operating Partnership increased the aggregate capacity under the credit facility to $155.0 million. As of December 31, 2013, the Operating Partnership had $70.0 million outstanding under the credit facility. During the year ended December 31, 2014, the Operating Partnership borrowed $38.0 million under the credit facility. On September 15, 2014, the Operating Partnership used the proceeds from the Company s underwritten public offering of common stock to repay $49.0 million of the outstanding balance under the credit facility that had been used to fund the Company s development activities. As of December 31, 2014, the Operating Partnership had $59.0 million outstanding on the credit facility.

As of December 31, 2014, the following properties served as the borrowing base collateral for the credit facility: (i) Armada Hoffler Tower, (ii) Richmond Tower, (iii) One Columbus, (iv) Two Columbus, (v) Sentara Williamsburg, (vi) Bermuda Crossroads, (vii) a portion of North Point Center, (viii) Gainsborough Square, (ix) Parkway Marketplace and (x) Courthouse 7-Eleven.

The credit facility required the Operating Partnership to comply with various financial covenants, including:

- Maximum leverage ratio (as amended on April 22, 2014) of 65% as of the last day of each fiscal quarter through maturity;

- Minimum fixed charge coverage ratio of 1.75 to 1.0;

- Minimum tangible net worth equal to at least the sum of 80% of tangible net worth on the closing date of the credit facility plus 75% of the net proceeds of any additional equity issuances;

- Maximum amount of variable rate indebtedness not exceeding 30% of total asset value; and

- Maximum amount of secured recourse indebtedness of 35% of total asset value.

The credit facility permitted investments in the following types of assets: (i) unimproved land holdings in an aggregate amount not exceeding 5% of total asset value, (ii) construction in progress in an aggregate amount not exceeding 25% of total asset value and (iii) unconsolidated affiliates in aggregate amount not exceeding 5% of total asset value. Investments in these types of assets collectively could not exceed 30% of total asset value. In addition to these financial covenants, the credit facility required the Operating Partnership to comply with various customary affirmative and negative covenants that restricted the ability to, among other things, incur debt and liens, make investments, dispose of properties and make distributions. As of December 31, 2014, the Operating Partnership was in compliance with all covenants under the credit facility.

Table of Contents

The credit facility bore interest between LIBOR plus 1.60% and LIBOR plus 2.20%. The interest rate on the credit facility as of December 31, 2014 was 1.92%.

Subsequent to December 31, 2014

On January 23, 2015, the Operating Partnership borrowed an additional $5.0 million under the credit facility. The credit facility was scheduled to mature on May 13, 2016; however, the Operating Partnership repaid all amounts due under the credit facility with proceeds from a new credit facility and terminated the existing credit facility on February 20, 2015, as discussed below.

New Credit Facility

On February 20, 2015, the Operating Partnership, as borrower, and the Company as parent guarantor, agreed to a new $200.0 million senior unsecured credit facility that includes a $150.0 million senior unsecured revolving credit facility and a $50.0 million senior unsecured term loan facility. The new credit facility replaced the existing $155.0 million senior secured revolving credit facility that was scheduled to mature on May 13, 2016. On February 20, 2015, the Operating Partnership borrowed $54.0 million under the revolving credit facility and $50.0 million under the term loan facility to repay in full all outstanding amounts due under the prior credit facility and to repay approximately $39.0 million of other indebtedness secured by properties in the Company s portfolio for the purpose of unencumbering those properties.

The new credit facility includes an accordion feature that allows the total commitments to be increased to $350.0 million, subject to certain conditions. The amount permitted to be borrowed under the new credit facility, together with all of the Operating Partnership s other unsecured indebtedness is generally limited to the lesser of: (i) 60% of the value of the unencumbered borrowing base properties, (ii) the maximum amount of principal that would result in a debt service coverage ratio of 1.50 to 1.0, and (iii) the maximum aggregate loan commitment, which currently is $200.0 million.

The new revolving credit facility has a scheduled maturity date of February 20, 2019, with a one-year extension option. The term loan facility has a scheduled maturity date of February 20, 2020. The Operating Partnership may, at any time, voluntarily prepay any loan under the new credit facility in whole or in part without premium or penalty.

The new revolving credit facility bears interest at LIBOR plus 1.40% to 2.00%, depending on the Operating Partnership s total leverage. The term loan facility bears interest at LIBOR plus 1.35% to 1.95%, depending on the Operating Partnership s total leverage. The Operating Partnership is also obligated to pay an unused commitment fee of 15 or 25 basis points on the unused portions of the commitments under the new credit facility, depending on the amount of borrowings under the new credit facility. If the Company attains investment grade credit ratings from S&P and Moody s, the Operating Partnership may elect to have borrowings become subject to interest rates based on such credit ratings.

The new credit facility requires the Operating Partnership to comply with various financial covenants, affirmative covenants and other restrictions, including the following:

Total leverage ratio of the Company of not more than 60%;

Ratio of adjusted EBITDA to fixed charges of the Company of not less than 1.50 to 1.0;

Tangible net worth of not less than the sum of $220.0 million and 75% of the net equity proceeds received after December 31, 2014;

Ratio of variable rate indebtedness to total asset value of not more than 30%;

Ratio of secured indebtedness to total asset value of not more than 45%; and

Ratio of secured recourse debt to total asset value of not more than 25%.

The new credit facility limits the Company s ability to pay cash dividends. However, so long as no default or event of default exists, the credit agreement allows the Company to pay cash dividends with respect to any 12-month period in an amount not to exceed the greater of: (i) 95% of adjusted funds from operations (as defined in the credit agreement) or (ii) the amount required for the Company (a) to maintain its status as a REIT and (b) to avoid income or excise tax. If certain defaults or events of default exist, the Company may pay cash dividends with respect to any 12-month period to the extent necessary to maintain its status as a REIT. The new credit facility also restricts the amount of capital that the Operating Partnership can invest in specific categories of assets, such as unimproved land holdings, development properties, notes receivable, mortgages, mezzanine loans and unconsolidated affiliates.

Other Financing Activity

On January 17, 2014, the Company assumed $17.0 million of debt at fair value in connection with the acquisition of Liberty Apartments. The fair value adjustment to the assumed debt of Liberty Apartments was a $1.5 million discount. The outstanding principal balance of the assumed debt of Liberty Apartments at the acquisition date was $18.5 million. On June 13, 2014, the Company borrowed the remaining $2.4 million available under the Liberty Apartments loan. The loan amortizes over 30 years, bears interest at 5.66% and matures on November 1, 2043.

Table of Contents

On February 28, 2014, the Company closed on a $19.5 million loan to fund the development and construction of the Oceaneering International facility. The construction loan bears interest at LIBOR plus 1.75% and matures on February 28, 2018.

On August 15, 2014, the Company defeased the loan secured by Dimmock Square for $10.1 million.

On August 28, 2014, the Company closed on a $5.4 million loan to fund the development and construction of a new administrative building for the Commonwealth of Virginia. The construction loan bears interest at LIBOR plus 1.90% and matures on August 28, 2017.

On November 3, 2014, the Company repaid North Point Center Note 4 for $1.0 million.

On November 14, 2014, the Company closed on a $15.0 million loan to fund the development and construction of Lightfoot Marketplace. The construction loan bears interest at LIBOR plus 1.90% and matures on November 14, 2017.

Subsequent to December 31, 2014

On February 20, 2015, the Company repaid the following loans with borrowings under the Operating Partnership s new credit facility: (i) Studio 56 Retail, (ii) Commerce Street Retail, (iii) Dick s at Town Center, (iv) Broad Creek Shopping Center Note 1, (v) Broad Creek Shopping Center Note 2, (vi) Broad Creek Shopping Center Note 3, (vii) Hanbury Village Note 2 and (viii) Tyre Neck Harris Teeter.

8. Derivative Financial Instruments

On March 14, 2014, the Company executed a LIBOR interest rate cap agreement on a notional amount of $50.0 million and a strike price of 1.25% for a premium of $0.4 million. The interest rate cap agreement expires on March 1, 2017.

The Company s derivatives comprised the following as of December 31, 2014 and 2013 (in thousands):

	December 31,					
	2014			2013		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
Pay fixed interest rate swaps	$ 685	$	$ (11)	$ 705	$	$ (16)
Interest rate caps	180,434	260		130,672	102	
Total	$ 181,119	$ 260	$ (11)	$ 131,377	$ 102	$ (16)

The changes in the fair value of Armada Hoffler s derivatives during each of the three years ended December 31, 2014 was as follows (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Pay fixed interest rate swaps	$ 5	$ 152	$ 445
Interest rate caps	(238)	(164)	(37)
Other (expense) income	$ (233)	$ (12)	$ 408

Subsequent to December 31, 2014

On February 20, 2015, the Operating Partnership entered into a $50.0 million floating-to-fixed interest rate swap attributable to one-month LIBOR indexed interest payments. The $50.0 million interest rate swap has a fixed rate of 2.00%, an effective date of March 1, 2016 and a maturity date of February 20, 2020. The Operating Partnership entered into this interest rate swap agreement in connection with the new $50.0 million senior unsecured term loan facility that bears interest at LIBOR plus 1.35% to 1.95%, depending on the Operating Partnership s total leverage. The Company designated this interest rate swap as a cash flow hedge of the variable interest payments associated with the term loan facility.

Table of Contents

9. Equity

Stockholders Equity

On September 15, 2014, the Company completed an underwritten public offering of 5,750,000 shares of common stock. The net proceeds to the Company after deducting the underwriting discount and related offering costs were $49.3 million.

As of December 31, 2014, the Company s authorized capital was 500 million shares of common stock and 100 million shares of preferred stock. The Company had 25.0 million and 19.2 million shares of common stock issued and outstanding as of December 31, 2014 and 2013, respectively. No shares of preferred stock were issued and outstanding as of December 31, 2014 or 2013.

Noncontrolling Interests

As of December 31, 2014 and 2013, the Company held a 62.9% and 59.5% interest in the Operating Partnership, respectively. As the sole general partner and the majority interest holder, the Company consolidates the financial position and results of operations of the Operating Partnership. Noncontrolling interests in the Company represent OP Units not held by the Company.

On January 17, 2014, the Operating Partnership issued 695,652 OP Units as partial consideration for the acquisition of Liberty Apartments. On March 31, 2014, the Operating Partnership issued 30,000 OP Units in exchange for all noncontrolling interests in Sandbridge Commons. The Company recognized the difference between the fair value of the OP Units issued and the adjustment to the carrying amount of the noncontrolling interests in Sandbridge Commons directly in equity as additional paid-in capital. On August 15, 2014, the Operating Partnership issued 990,952 OP Units as partial consideration for the acquisition of Dimmock Square.

Holders of OP Units may not transfer their units without the Company s prior consent as general partner of the Operating Partnership. Beginning on the first anniversary of issuance, holders of OP Units may tender their units for redemption by the Operating Partnership in exchange for cash equal to the market price of shares of the Company s common stock at the time of redemption or, at the Company s option and sole discretion, for shares of common stock on a one-for-one basis. Accordingly, the Company presents OP Units of the Operating Partnership not held by the Company as noncontrolling interests within equity in the consolidated balance sheets.

Common Stock Dividends and Common Unit Distributions

During the year ended December 31, 2014, the Company declared the following dividends per share and distributions per unit:

Declaration Date	Record Date	Paid Date	Dividend Per Share/Distribution Per Unit
February 18, 2014	April 1, 2014	April 10, 2014	$ 0.16
May 9, 2014	July 1, 2014	July 10, 2014	0.16
August 4, 2014	October 1, 2014	October 9, 2014	0.16
November 10, 2014	December 30, 2014	January 8, 2015	0.16

Total	$	0.64

During the year ended December 31, 2014, the Company paid cash dividends of $13.2 million to common stockholders and the Operating Partnership paid cash distributions of $8.9 million to holders of OP Units.

The tax treatment of dividends paid to common stockholders during the year ended December 31, 2014 was as follows (unaudited):

Capital gains	5.3%
Ordinary income	52.3%
Return of capital	42.4%
Total	100.0%

Table of Contents

During the year ended December 31, 2013, the Company declared the following dividends per share and distributions per unit:

Declaration Date	Record Date	Paid Date	Dividend Per Share/Distribution Per Unit
June 19, 2013	July 1, 2013	July 11, 2013	$ 0.08
August 9, 2013	October 1, 2013	October 10, 2013	0.16
November 11, 2013	December 30, 2013	January 9, 2014	0.16
		Total	$ 0.40

During the year ended December 31, 2013, the Company paid cash dividends of $4.6 million to common stockholders and the Operating Partnership paid cash distributions of $3.1 million to holders of OP Units.

The tax treatment of dividends paid to common stockholders during the year ended December 31, 2013 was as follows (unaudited):

Ordinary income	17.0%
Return of capital	83.0%
Total	100.0%

Subsequent to December 31, 2014

On January 8, 2015, the Company paid cash dividends of $4.0 million to common stockholders and the Operating Partnership paid cash distributions of $2.4 million to holders of OP Units.

On January 28, 2015, the Board of Directors declared a cash dividend of $0.17 per share to stockholders of record on April 1, 2015.

10. Stock-Based Compensation

The Company s 2013 Equity Incentive Plan permits the grant of restricted stock awards, stock options, stock appreciation rights, performance units and other equity-based awards up to an aggregate of 700,000 shares of common stock over the ten-year term of the plan. As of December 31, 2014, the Company had 431,049 shares of common stock reserved for issuance under the 2013 Equity Incentive Plan.

During the year ended December 31, 2014, the Company granted an aggregate of 132,081 shares of restricted stock to employees and nonemployee directors. Employee restricted stock awards generally vest over a period of two years: one-third immediately on the grant date and the remaining two-thirds in equal amounts on the first two anniversaries following the grant date, subject to continued service to the Company. Nonemployee director restricted stock awards vest either immediately upon grant or over a period of one year, subject to continued service to the Company.

During the year ended December 31, 2014 and 2013, the Company recognized $1.3 million and $1.2 million of stock-based compensation, respectively. As of December 31, 2014, the total unrecognized compensation cost related to nonvested restricted shares was $0.5 million, substantially all of which the Company expects to recognize over the next 15 months.

The following table summarizes the changes in the Company s nonvested restricted stock awards during the year ended December 31, 2014:

	Restricted Stock Awards	**Weighted Average Grant Date Fair Value Per Share**
Nonvested as of January 1, 2014	111,940	$ 11.50
Granted	132,081	9.85
Vested	(98,938)	10.78
Forfeited	(1,354)	11.07
Nonvested as of December 31, 2014	143,729	$ 10.48

Table of Contents

Restricted stock awards granted and vested during the year ended December 31, 2014 include 21,439 shares tendered by employees to satisfy minimum statutory tax withholding obligations.

Subsequent to December 31, 2014

On March 3, 2015, the Company granted 72,282 shares of restricted stock to employees with a grant date fair value of $10.98 per share. On March 11, 2015, the Company granted 646 shares of restricted stock to a nonemployee director with a grant date fair value of $10.36 per share.

11. Fair Value of Financial Instruments

Fair value measurements are based on assumptions that market participants would use in pricing an asset or a liability. The hierarchy for inputs used in measuring fair value is as follows:

Level 1 Inputs quoted prices in active markets for identical assets or liabilities

Level 2 Inputs observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 Inputs unobservable inputs

Except as disclosed below, the carrying amounts of the Company s financial instruments approximate their fair value. Financial assets and liabilities whose fair values are measured on a recurring basis using Level 2 inputs consist of interest rate swaps and interest rate caps. The Company measures the fair values of these assets and liabilities based on prices provided by independent market participants that are based on observable inputs using market-based valuation techniques.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. For disclosure purposes, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

The fair value of the Company s secured debt is sensitive to fluctuations in interest rates. Discounted cash flow analysis based on Level 2 inputs is generally used to estimate the fair value of the Company s secured debt.

Considerable judgment is used to estimate the fair value of financial instruments. The estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments.

The carrying amounts and fair values of the Company s financial instruments, all of which are based on Level 2 inputs, as of December 31, 2014 and 2013 were as follows (in thousands):

	December 31,			
	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Secured debt	$ 359,229	$ 366,095	$ 277,745	$ 273,310

Interest rate swap liabilities	11	11	16	16
Interest rate cap assets	260	260	102	102

Table of Contents

12. Income Taxes

The income tax provision for the years ended December 31, 2014 and 2013 comprised the following (in thousands):

	Years Ended December 31, 2014	2013
Federal income taxes:		
Current	$ 37	$ 356
Deferred	6	(113)
State income taxes:		
Current	26	43
Deferred	1	(13)
Income tax provision	$ 70	$ 273

As of December 31, 2014 and 2013, the Company had $0.5 million of net deferred tax assets representing basis differences in the assets of the TRS and stock-based compensation attributable to the TRS.

Management has evaluated the Company s income tax positions and concluded that the Company has no uncertain income tax positions as of December 31, 2014 or 2013.

The Company had no income tax expense or benefit for the years ended December 31, 2012 and 2011 as the Predecessor consisted of flow-through entities that were not subject to tax.

13. Other Assets

Other assets comprised the following as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014	2013
Leasing costs, net	$ 11,683	$ 7,858
Leasing incentives, net	6,237	4,851
Acquired lease intangibles, net	5,247	4,369
Preacquisition development costs	4,550	2,036
Debt issuance costs, net	2,884	3,072
Prepaid assets and other	2,507	2,223
Other assets	$ 33,108	$ 24,409

Table of Contents

14. Other Liabilities

Other liabilities comprised the following as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014	2013
Deferred ground rent payable	$ 6,790	$ 6,475
Dividends and distributions payable	6,368	5,155
Acquired lease intangibles, net	1,867	1,638
Security deposits	1,014	748
Prepaid rent and other	1,922	1,857
Other liabilities	$ 17,961	$ 15,873

15. Acquired Lease Intangibles

The following table summarizes the Company s acquired lease intangibles as of December 31, 2014 (in thousands):

	December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
In-place lease assets	$ 5,434	$ 2,096	$ 3,338
Above-market lease assets	107	32	75
Below-market lease liabilities	2,169	302	1,867
Below-market ground lease assets	1,920	86	1,834

The following table summarizes the Company s acquired lease intangibles as of December 31, 2013 (in thousands):

	December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
In-place lease assets	$ 3,279	$ 817	$ 2,462
Above-market lease assets	27	7	20
Below-market lease liabilities	1,750	112	1,638
Below-market ground lease assets	1,920	33	1,887

Amortization of in-place lease assets, net below-market lease liabilities and below-market ground lease assets for the year ended December 31, 2014 was $1.3 million, $0.2 million and less than $0.1 million, respectively.

Amortization of in-place lease assets, net below-market lease liabilities and below-market ground lease assets for the year ended December 31, 2013 was $0.8 million, $0.1 million and less than $0.1 million, respectively.

Estimated amortization of acquired lease intangibles for each of the five succeeding years is as follows (in thousands):

	Rental Revenues	Rental Expenses	Depreciation and Amortization
Year ending December 31,			
2015	$ 161	$ 53	$ 1,087
2016	112	53	626
2017	110	53	528
2018	107	53	351
2019	95	53	200

16. Related Party Transactions

Armada Hoffler provides general contracting and real estate services to certain related party entities that are not included in these consolidated and combined financial statements. Revenue from construction contracts with related party entities of Armada Hoffler was \$5.3 million, \$45.0 million and \$17.4 million for each of the three years ended December 31, 2014, respectively. Operating margin from such contracts was \$0.3 million, \$1.5 million and \$1.2 million for each of the three years ended December 31, 2014, respectively. Real estate services fees from affiliated entities of Armada Hoffler was \$0.5 million for the year ended December 31, 2014 and were not significant for either of the years ended December 31, 2013 or 2012. In addition, affiliated entities also reimburse Armada Hoffler for monthly maintenance and facilities management services provided to the properties. Cost reimbursements earned by Armada Hoffler from affiliated entities were not significant for any of the three years ended December 31, 2014.

In connection with the Formation Transactions, the Operating Partnership entered into tax protection agreements that indemnify certain directors and executive officers of the Company from their tax liabilities resulting from the potential future sale of certain of the Company s properties within seven (or, in a limited number of cases, ten) years of the completion of the Formation Transactions on May 13, 2013. Upon completing the sale of the Virginia Natural Gas office property on November 20, 2014, the Operating Partnership paid \$1.3 million under such tax protection agreements. The \$1.3 million of tax protection payments made in connection with the Virginia Natural Gas office property sale is presented within gain on real estate dispositions and acquisitions in the consolidated statements of income.

17. Commitments and Contingencies

Legal Proceedings

The Company is from time to time involved in various disputes, lawsuits, warranty claims, environmental and other matters arising in the ordinary course of its business. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters.

The Company currently is a party to various legal proceedings, none of which management expects will have a material adverse effect on the Company s financial position, results of operations or liquidity. Management accrues a liability for litigation if an unfavorable outcome is determined to be probable and the amount of loss can be reasonably estimated. If an unfavorable outcome is determined by management to be probable and a range of loss can be reasonably estimated, management accrues the best estimate within the range; however, if no amount within the range is a better estimate than any other, the minimum amount within the range is accrued. Legal fees related to litigation are expensed as incurred. Management does not believe that the ultimate outcome of these matters, either individually or in the aggregate, could have a material adverse effect on the Company s financial position or results of operations; however, litigation is subject to inherent uncertainties.

Under the Company s leases, tenants are typically obligated to indemnify the Company from and against all liabilities, costs and expenses imposed upon or asserted against it as owner of the properties due to certain matters relating to the operation of the properties by the tenant.

Commitments

The Company has a bonding line of credit for its general contracting construction business and is contingently liable under performance and payment bonds, bonds for cancellation of mechanics liens and defect bonds. Such bonds collectively totaled \$192.2 million and \$35.8 million as of December 31, 2014 and 2013, respectively.

The Operating Partnership has entered into standby letters of credit using the available capacity under the credit facility. The letters of credit relate to the guarantee of future performance on certain of the Company s construction contracts. Letters of credit generally are available for draw down in the event the Company does not perform. As of December 31, 2014 and 2013, the Operating Partnership had total outstanding letters of credit of $8.5 million and $3.0 million, respectively.

The Company has four ground leases on three properties with initial terms that range from twenty to fifty years and options to extend up to an additional 40 years in certain cases. The Company also leases automobiles and equipment.

Future minimum rental payments during each of the next five years and thereafter are as follows (in thousands):

2015	$ 1,546
2016	1,516
2017	1,484
2018	1,488
2019	1,563
Thereafter	60,198
Total	$ 67,795

Ground rent expense for each of the three years ended December 31, 2014 was $1.8 million, $1.5 million and $1.5 million, respectively.

Concentrations of Credit Risk

All of the Company s income producing properties are located in either Virginia or North Carolina. The majority of the Company s properties are located in Hampton Roads, Virginia. For each of the three years ended December 31, 2014, rental revenues from Hampton Roads properties represented 69%, 70% and 75%, respectively, of Armada Hoffler s rental revenues. Many of Armada Hoffler s Hampton Roads properties are located in the Town Center of Virginia Beach. For each of the three years ended December 31, 2014, rental revenues from Town Center properties represented 47%, 48% and 51%, respectively, of Armada Hoffler s rental revenues.

Rental revenues from Richmond Tower individually represented 13%, 15% and 16% of Armada Hoffler s rental revenues for each of the three years ended December 31, 2014, respectively. A single tenant Williams Mullen, a prominent Mid-Atlantic law firm occupies over 80% of Richmond Tower.

A single construction project in Baltimore, Maryland represented 41% of the Company s general contracting and real estate services revenues for the year ended December 31, 2014. The same project represented 27% of the Company s general contracting and real estate services segment profit for the year ended December 31, 2014.

18. Selected Quarterly Financial Data (Unaudited)

The following tables summarize certain selected quarterly financial data for 2014 and 2013 (in thousands, except per share data):

	2014 Quarters			
	First	**Second**	**Third**	**Fourth**
Rental revenues	$ 15,193	$ 15,319	$ 16,713	$ 17,521
General contracting and real estate services revenues	19,234	20,495	31,532	32,060

Net operating income	11,123	11,212	11,883	12,685
Net income	2,506	2,273	2,754	5,226
Net income attributable to stockholders	1,465	1,325	1,615	3,286
Net income per share: basic and diluted	$ 0.08	$ 0.07	$ 0.08	$ 0.13

	2013 Quarters			
	First	Second	Third	Fourth
Rental revenues	$ 13,398	$ 14,231	$ 14,899	$ 14,992
General contracting and real estate services revenues	17,956	23,291	21,896	19,373
Net operating income	9,455	10,372	10,731	11,516
Net income	1,931	8,404	1,252	2,866
Net income attributable to stockholders		4,886	745	1,705
Net income per share: basic and diluted	$	$ 0.26	$ 0.04	$ 0.09

Table of Contents

SCHEDULE III Consolidated Real Estate Investments and Accumulated Depreciation

mber 31, 2014

		Initial Cost			Gross Carrying Amount					
	Encumbrances	Land	Building and Improvements	Cost Capitalized Subsequent to Acquisition	Land	Building and Improvements	Total	Accumulated Depreciation	Net Carrying Amount[1]	Year o Construct Acquisiti
e										
Main Street	$ 30,870	$ 982	$	$ 38,481	$ 982	$ 38,481	$ 39,463	$ 487	$ 38,976	20
da Hoffler Tower	[2]	1,976		55,029	1,976	55,029	57,005	23,748	33,257	20
nonwealth of nia Chesapeake	3,585	328		6,248	328	6,248	6,576	[3]	6,576	
nonwealth of nia Virginia h		208		2,083	208	2,083	2,291	[3]	2,291	
neering	13,490	1,829		19,345	1,829	19,345	21,174	[3]	21,174	
Columbus	[2]	960	10,269	6,795	960	17,064	18,024	8,463	9,561	1984/20
r Point	6,274	57		11,512	57	11,512	11,569	8,637	2,932	19
nond Tower	[2]	3,038		45,473	3,038	45,473	48,511	7,245	41,266	20
Columbus	[2]	53		18,242	53	18,242	18,295	4,264	14,031	20
office	**$ 54,219**	**$ 9,431**	**$ 10,269**	**$ 203,208**	**$ 9,431**	**$ 213,477**	**$ 222,908**	**$ 52,844**	**$ 170,064**	
l										
entral Park	$ 15,566	$ 713	$	$ 13,476	$ 713	$ 13,476	$ 14,189	$ 6,395	$ 7,794	20
uda Crossroads	[2]	5,450	10,641	474	5,450	11,115	16,565	826	15,739	2001/20
Creek Shopping r	16,047			15,619		15,619	15,619	7,355	8,264	1997-20
nerce Street	5,549	118		3,146	118	3,146	3,264	845	2,419	20
house 7-Eleven	[2]	1,007		1,043	1,007	1,043	2,050	83	1,967	20
s at Town Center	8,216	67		10,453	67	10,453	10,520	2,680	7,840	20
nock Square	[2]	5,100	13,126	3	5,100	13,129	18,229	151	18,078	1998/20
ain Plaza Retail	7,783	425		7,018	425	7,018	7,443	2,525	4,918	20
borough Square	[2]	2,229		6,813	2,229	6,813	9,042	2,644	6,398	19
tree Shopping r		1,523		3,520	1,523	3,520	5,043	37	5,006	20
ury Village	25,308	3,792		18,021	3,792	18,021	21,813	4,589	17,224	20
sonburg Regal	3,659	1,554		4,148	1,554	4,148	5,702	1,664	4,038	19
foot Marketplace	3,484	7,628		2,891	7,628	2,891	10,519	[3]	10,519	
Point Center	13,587[2]	1,936		24,797	1,936	24,797	26,733	10,124	16,609	19
vay Marketplace	[2]	1,150		3,500	1,150	3,500	4,650	1,501	3,149	19
bridge Commons	5,892	5,267		4,095	5,267	4,095	9,362	[3]	9,362	
Retail	6,867	190		7,090	190	7,090	7,280	3,214	4,066	20
56 Retail	2,618	76		2,297	76	2,297	2,373	539	1,834	20

Neck Harris r	2,437			3,306		3,306	3,306	424	2,882	20
retail	**$ 117,013**	**$ 38,225**	**$ 23,767**	**$ 131,710**	**$ 38,225**	**$ 155,477**	**$ 193,702**	**$ 45,596**	**$ 148,106**	

Table of Contents

	Initial Cost				Gross Carrying Amount					
	Encumbrances	Land	Building and Improvements	Cost Capitalized Subsequent to Acquisition	Land	Building and Improvements	Total	Accumulated Depreciation	Net Carrying Amount(1)	Year of Construction/ Acquisition
Mutifamily										
Encore Apartments	$ 22,215	$ 1,293	$	$ 28,882	$ 1,293	$ 28,882	$ 30,175	$ 89	$ 30,086	2014
Liberty Apartments	20,603	3,580	23,494	1,049	3,580	24,543	28,123	781	27,342	2013/2014
Smith s Landing	24,470		35,105	659		35,764	35,764	1,859	33,905	2009/2013
The Cosmopolitan	47,132	985		56,419	985	56,419	57,404	14,866	42,538	2006
Whetstone Apartments	16,019	2,644		24,280	2,644	24,280	26,924	64	26,860	2014
Total multifamily	**$ 130,439**	**$ 8,502**	**$ 58,599**	**$ 111,289**	**$ 8,502**	**$ 169,888**	**$ 178,390**	**$ 17,659**	**$ 160,731**	
Real estate investments	**$ 301,671**	**$ 56,158**	**$ 92,635**	**$ 446,207**	**$ 56,158**	**$ 538,842**	**$ 595,000**	**$ 116,099**	**$ 478,901**	

(1) The net carrying amount of real estate for federal income tax purposes was $347.9 million as of December 31, 2014.
(2) Borrowing base collateral for the credit facility as of December 31, 2014.
(3) Construction in progress as of December 31, 2014.

Income producing property is depreciated on a straight-line basis over the following estimated useful lives:

Buildings	39 years
Capital improvements	15 20 years
Equipment	5 15 years
Tenant improvements	Term of the related lease (or estimated useful life, if shorter)

	Real Estate Investments		Accumulated Depreciation	
	December 31,			
	2014	2013	2014	2013
Balance at beginning of the year	$ 462,976	$ 354,740	$ 105,228	$ 92,454
Construction costs and improvements	106,977	45,332		
Acquisitions	45,300	62,936		

Dispositions	(5,471)	(32)	(957)	(32)
Reclassifications	(14,782)		(3,156)	
Depreciation			14,984	12,806
Balance at end of the year	$ 595,000	$ 462,976	$ 116,099	$ 105,228

F-33

Table of Contents

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of Armada Hoffler Properties, Inc. (Incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-3, filed on June 2, 2014)
3.2	Amended and Restated Bylaws of Armada Hoffler Properties, Inc. (Incorporated by reference to Exhibit 3.2 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
4.1	Form of Certificate of Common Stock of Armada Hoffler Properties, Inc. (Incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-11/A, filed on May 2, 2013)
10.1	Amended and Restated Agreement of Limited Partnership of Armada Hoffler, L.P. (Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q, filed on November 12, 2013)
10.2	Armada Hoffler Properties, Inc. 2013 Equity Incentive Plan (Incorporated by reference to Exhibit 10.2 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.3	Form of Restricted Stock Award Agreement (Time Vesting) (Incorporated by reference to Exhibit 10.3 to the Company s Registration Statement on Form S-11/A, filed on May 2, 2013)
10.4	Indemnification Agreement between Armada Hoffler Properties, Inc. and each of the Directors and Officers listed on Schedule A thereto (Incorporated by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q, filed on November 12, 2013)
10.5	Tax Protection Agreement by and among Armada Hoffler Properties, Inc. and the persons listed on the signature page thereto (Incorporated by reference to Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q, filed on November 12, 2013)
10.6	Representation, Warranty and Indemnity Agreement among Armada Hoffler Properties, Inc. Armada Hoffler, L.P. and Daniel A. Hoffler (Incorporated by reference to Exhibit 10.5 to the Company s Quarterly Report on Form 10-Q, filed on November 12, 2013)
10.7	Armada Hoffler, L.P. Executive Severance Benefit Plan with the participants listed on Schedule A thereto (Incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q, filed on November 12, 2013)
10.8	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc. and Daniel A. Hoffler, dated as of February 11, 2013 (Incorporated by reference to Exhibit 10.8 to the Company s Registration Statement on Form S-11, filed on April 26, 2013)
10.9	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc. and A. Russell Kirk, dated February 12, 2013 (Incorporated by reference to Exhibit 10.9 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.10	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc. and Louis S. Haddad, dated as of February 11, 2013 (Incorporated by reference a to Exhibit 10.10 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.11	

Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc. and Anthony P. Nero, dated as of February 12, 2013 (Incorporated by reference to Exhibit 10.11 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)

10.12	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Eric E. Apperson, dated as of February 11, 2013 (Incorporated by reference to Exhibit 10.12 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.13	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Michael P. O Hara, dated as of February 11, 2013 (Incorporated by reference to Exhibit 10.13 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.14	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and John C. Davis, dated as of February 11, 2013 (Incorporated by reference to Exhibit 10.14 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.15	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Alan R. Hunt, dated as of February 11, 2013 (Incorporated by reference to Exhibit 10.15 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.16	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Shelly R. Hampton, dated as of February 11, 2013 (Incorporated by reference to Exhibit 10.16 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.17	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and William Christopher Harvey, dated as of February 11, 2013 (Incorporated by reference to Exhibit 10.17 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.18	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Eric L. Smith, dated as of February 12, 2013 (Incorporated by reference to Exhibit 10.18 to the Company s Registration Statement on Form S-11/A, filed on April 12, 2013)
10.19	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and John E. Babb, dated as of January 31, 2013 (Incorporated by reference to Exhibit 10.19 to the Company s Registration Statement on Form S-11/A, filed on April 12, 2013)
10.20	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Rickard E. Burnell, dated as of February 12, 2013 (Incorporated by reference to Exhibit 10.20 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.21	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and A/H TWA Associates, L.L.C., dated as of February 11, 2013 (Incorporated by reference to Exhibit 10.21 to the Company s Registration Statement on Form S-11/A, filed on April 12, 2013)
10.22	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and RMJ Kirk Fortune Bay, L.L.C., dated as of February 11, 2013 (Incorporated by reference to Exhibit 10.22 to the Company s Registration Statement on Form S-11/A, filed on April 12, 2013)
10.23	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Kirk Gainsborough, L.L.C., dated as of February 11, 2013 (Incorporated by reference to Exhibit 10.23 to the Company s Registration Statement on Form S-11/A, filed on April 12, 2013)
10.24	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Chris A. Sanders, dated as of January 25, 2013 (Incorporated by reference to Exhibit 10.24 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)

Table of Contents

10.25	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Allen O. Keene, dated as of January 21, 2013 (Incorporated by reference to Exhibit 10.25 to the Company s Registration Statement on Form S-11/A, filed on April 12, 2013)
10.26	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Bruce G. Ford, dated as of January 31, 2013 (Incorporated by reference to Exhibit 10.26 to the Company s Registration Statement on Form S-11/A, filed on April 12, 2013)
10.27	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and DIAN, LLC, dated as of January 28, 2013 (Incorporated by reference to Exhibit 10.27 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.28	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Compson of Richmond, L.C., Thomas Comparato and Lindsey Smith Comparato, dated as of January 31, 2013 (Incorporated by reference to Exhibit 10.28 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.29	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Bruce Smith Enterprises, LLC and Bruce B. Smith, dated as of January 31, 2013 (Incorporated by reference to Exhibit 10.29 to the Company s Registration Statement on Form S-11/A, filed on April 12, 2013)
10.30	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Steyn, LLC, dated as of January 31, 2013 (Incorporated by reference to Exhibit 10.30 to the Company s Registration Statement on Form S-11/A, filed on April 12, 2013)
10.31	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and D&F Beach, L.L.C., dated as of February 1, 2013 (Incorporated by reference to Exhibit 10.31 to the Company s Registration Statement on Form S-11/A, filed on April 12, 2013)
10.32	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and DF Smith s Landing, LLC, dated as of January 31, 2013 (Incorporated by reference to Exhibit 10.32 to the Company s Registration Statement on Form S-11/A, filed on April 12, 2013)
10.33	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Spratley Family Holdings, L.L.C., dated as of January 22, 2013 (Incorporated by reference to Exhibit 10.33 to the Company s Registration Statement on Form S-11/A, filed on April 12, 2013)
10.34	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., and Columbus One, LLC, DP Columbus Two, LLC, City Center Associates, LLC, TC Block 7 Partners LLC, TC Block 12 Partners LLC, TC Block 3 Partners LLC, TC Block 6 Partners LLC, TC Block 8 Partners LLC, TC Block 11 Partners LLC and TC Apartment Partners, LLC, dated as of February 1, 2013 (Incorporated by reference to Exhibit 10.34 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.35	Asset Purchase Agreement by and among AHP Construction, LLC and Armada/Hoffler Construction Company and Armada/Hoffler Construction Company of Virginia, dated as of May 1, 2013 (Incorporated by reference to Exhibit 10.35 to the Company s Registration Statement on Form S-11/A, filed on May 2, 2013)
10.36	Asset Purchase Agreement by and among AHP Asset Services, LLC and Armada Hoffler Holding Company, Inc., dated as of May 1, 2013 (Incorporated by reference to Exhibit 10.36 to the Company s Registration Statement on Form S-11/A, filed on May 2, 2013)

10.37	Contribution Agreement for the Apprentice School Apartment property by and among Armada Hoffler, L.P., Washington Avenue Associates, L.L.C. and Washington Avenue Apartments, L.L.C., and dated as of May 1, 2013 (Incorporated by reference to the Company s Registration Statement on Form S-11/A, filed on May 2, 2013)

10.38	Land Option Agreement by and between and Armada Hoffler, L.P. and Courthouse Marketplace Parcel 7, L.L.C., dated as of May 1, 2013 (Incorporated by reference to Exhibit 10.38 to the Company s Registration Statement on Form S-11/A, filed on May 2, 2013)
10.39	Land Option Agreement by and between and Armada Hoffler, L.P. and Courthouse Marketplace Outparcels, L.L.C., dated as of May, 1 2013 (Incorporated by reference to Exhibit 10.39 to the Company s Registration Statement on Form S-11/A, filed on May 2, 2013)
10.40	Land Option Agreement by and between and Armada Hoffler, L.P. and Hanbury Village, LLC, dated as of May 1, 2013 (Incorporated by reference to Exhibit 10.40 to the Company s Registration Statement on Form S-11/A, filed on May 2, 2013)
10.41	Land Option Agreement by and between and Armada Hoffler, L.P. and Lake View AH-VNG, LLC, dated as of May 1, 2013 (Incorporated by to Exhibit 10.41 reference to the Company s Registration Statement on Form S-11/A, filed on May 2, 2013)
10.42	Land Option Agreement by and between and Armada Hoffler, L.P. and Oyster Point Hotel Associates, L.L.C., dated as of May 1, 2013 (Incorporated by reference to Exhibit 10.42 to the Company s Registration Statement on Form S-11/A, filed on May 2, 2013)
10.43	Contribution Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc. and Oyster Point Investors, L.P., dated as of February 11, 2013 (Incorporated by reference to Exhibit 10.43 to the Company s Registration Statement on Form S-11/A, filed on April 26, 2013)
10.44	Form of Restricted Stock Award Agreement for Directors (Incorporated by reference to Exhibit 10.44 to the Company s Registration Statement on Form S-11/A, filed on May 2, 2013)
10.45	Option Agreement dated May 1, 2013 by and between Armada/Hoffler Properties, L.L.C. and Armada Hoffler, L.P. (Incorporated by reference to Exhibit 10.45 to the Company s Registration Statement on Form S-11/A, filed on May 2, 2013)
10.46	Credit Agreement among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., Bank of America, N.A., Regions Bank and Merrill Lynch, Pierce, Fenner & Smith Incorporated, dated as of May 13, 2013 (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K, filed May 17, 2013)
10.47	First Amendment to the Credit Agreement, dated as of May 13, 2013, among Armada Hoffler, L.P., Armada Hoffler Properties, Inc., Bank of America, N.A., Regions Bank and Merrill Lynch, Pierce, Fenner & Smith Incorporated, dated as of April 22, 2014 (Incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q, filed May 15, 2014)
10.48	Option Transfer Agreement by and among Town Center Associates, L.L.C. Armada/Hoffler Properties, L.L.C., City Center Associates, L.L.C. and Armada Hoffler, L.P., dated as of May 10, 2013 (Incorporated by reference to Exhibit 10.14 to the Company s Quarterly Report on Form 10-Q, filed August 14, 2013)
10.49	Construction Loan Agreement among TCA Block 11 Apartments, LLC and TCA Block 11 Office, LLC as Borrower and Bank of America, N.A., as Administrative Agent, dated as of July 30, 2013 (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K, filed August 13, 2013)
10.50	Credit Agreement by and among Armada Hoffler, L.P., Armada Hoffler Properties, Inc. and Bank of America, N.A., dated as of February 20, 2015 (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K, filed February 25, 2015)

Table of Contents

10.51	Unconditional Guaranty Agreement by Armada Hoffler, L.P. and certain subsidiaries of Armada Hoffler, L.P. named therein for the benefit of the Administrative Agent and the lenders named in the Credit Agreement, dated as of February 20, 2015 (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K, filed February 25, 2015)
10.52	Amendment No. 1, dated as of March 19, 2014, to the First Amended and Restated Agreement of Limited Partnership of Armada Hoffler, L.P., dated as of May 13, 2013 (Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q, filed May 15, 2014)
10.53*	Armada Hoffler Properties, Inc. Short-Term Incentive Program
21.1*	List of Subsidiaries of Armada Hoffler Properties, Inc.
23.1*	Consent of Ernst & Young LLP, Independent Public Accounting Firm
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith
** Furnished herewith