

**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 June 30, 2017

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: 001-36769

FRP HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction of
incorporation or organization)

47-2449198

(I.R.S. Employer Identification No.)

**200 W. Forsyth St., 7th Floor,
Jacksonville, FL**

(Address of principal executive offices)

32202

(Zip Code)

904-396-5733

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ [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 the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ []

Accelerated filer ☒ [x]

Non-accelerated filer ☐ []

Smaller reporting company ☐ []

Emerging growth company ☐ []

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at June 30, 2017

Common Stock, \$.10 par value per share

10,002,167 shares

FRP HOLDINGS, INC.
FORM 10-Q
QUARTER ENDED JUNE 30, 2017

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Preliminary Note Regarding Forward-Looking Statements.

This Quarterly Report on Form 10-Q, together with other statements and information publicly disseminated by us, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words or phrases “anticipate,” “estimate,” “believe,” “budget,” “continue,” “could,” “intend,” “may,” “plan,” “potential,” “predict,” “seek,” “should,” “will,” “would,” “expect,” “objective,” “projection,” “forecast,” “goal,” “guidance,” “outlook,” “effort,” “target” and similar expressions identify forward-looking statements. Such statements reflect management’s current views with respect to financial results related to future events and are based on assumptions and expectations that may not be realized and are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial or otherwise, may differ, perhaps materially, from the results discussed in the forward-looking statements. Risk factors discussed in Item 1A of this Form 10-Q and other factors that might cause differences, some of which could be material, include, but are not limited to, levels of construction activity in the markets served by our mining properties, demand for flexible warehouse/office facilities in the Baltimore-Washington-Northern Virginia area, our ability to obtain zoning and entitlements necessary for property development, the impact of lending and capital market conditions on our liquidity, our ability to finance projects or repay our debt, general real estate investment and development risks, vacancies in our properties, risks associated with developing and managing properties in partnership with others, competition, our ability to renew leases or re-lease spaces as leases expire, illiquidity of real estate investments, bankruptcy or defaults of tenants, the impact of restrictions imposed by our credit facility, the level and volatility of interest rates, environmental liabilities, inflation risks, cybersecurity risks, as well as other risks listed from time to time in our SEC filings, including but not limited to, our annual and quarterly reports. In addition, if we elect REIT status these risk factors also would include our ability to qualify or to remain qualified as a REIT, our ability to satisfy REIT distribution requirements, the impact of issuing equity, debt or both, and selling assets to satisfy our future distributions required as a REIT or to fund capital expenditures, future growth and expansion initiatives, the impact of the amount and timing of any future distributions, the impact from complying with REIT qualification requirements limiting our flexibility or causing us to forego otherwise attractive opportunities, our lack of experience operating as a REIT, legislative, administrative, regulatory or other actions affecting REITs, including positions taken by the Internal Revenue Service, the possibility that our Board of Directors will unilaterally revoke our REIT election, the possibility that the anticipated benefits of qualifying as a REIT will not be realized, or will not be realized within the expected time period. We have no obligation to revise or update any forward-looking statements, other than as imposed by law, as a result of future events or new information. Readers are cautioned not to place undue reliance on such forward-looking statements.

These forward-looking statements are made as of the date hereof based on management’s current expectations, and the Company does not undertake an obligation to update such statements, whether as a result of new information, future events or otherwise. Additional information regarding these and other risk factors may be found in the Company’s other filings made from time to time with the Securities and Exchange Commission.

PART I. FINANCIAL INFORMATION, ITEM 1. FINANCIAL STATEMENTS
FRP HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	June 30 2017	December 31 2016
Assets:		
Real estate investments at cost:		
Land	\$ 99,417	99,417
Buildings and improvements	208,375	195,443
Projects under construction	6,917	11,779
Total investments in properties	314,709	306,639
Less accumulated depreciation and depletion	85,935	82,392
Net investments in properties	228,774	224,247
 Real estate held for investment, at cost	 7,176	 7,176
Investments in joint ventures	21,557	22,901
Net real estate investments	257,507	254,324
 Accounts receivable	 789	 710
Federal and state income taxes receivable	2,926	—
Unrealized rents	4,370	4,562
Deferred costs	5,436	6,786
Other assets	182	178
Total assets	\$ 271,210	266,560
 Liabilities:		
Lines of credit payable	\$ 6,355	6,665
Secured notes payable, current portion	4,673	4,526
Secured notes payable, less current portion	27,234	29,554
Accounts payable and accrued liabilities	3,213	3,747
Environmental remediation liability	2,037	2,037
Bank overdraft	171	254
Federal and state income taxes payable	—	887
Deferred revenue	200	1,126
Deferred income taxes	20,447	16,455
Deferred compensation	1,484	1,475
Deferred lease intangible, net	4	9
Tenant security deposits	906	1,005
Total liabilities	66,724	67,740
 Commitments and contingencies (Note 8)		
 Equity:		
Common stock, \$.10 par value		
25,000,000 shares authorized,		
10,002,167 and 9,914,054 shares issued		
and outstanding, respectively	1,000	991
Capital in excess of par value	55,211	52,647
Retained earnings	148,261	145,168
Accumulated other comprehensive income, net	14	14
Total shareholders' equity	204,486	198,820
Total liabilities and shareholders' equity	\$ 271,210	266,560

See accompanying notes.

FRP HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands except per share amounts)
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2017	2016	2017	2016
Revenues:				
Rental revenue	\$ 6,222	6,082	12,505	12,171
Mining Royalty and rents	1,809	2,033	3,548	3,789
Revenue – reimbursements	1,329	1,128	2,629	2,898
Total Revenues	9,360	9,243	18,682	18,858
Cost of operations:				
Depreciation, depletion and amortization	2,202	2,066	4,261	3,995
Operating expenses	1,002	974	2,003	2,505
Environmental remediation expense	—	2,000	—	2,000
Property taxes	1,129	1,128	2,191	2,270
Management company indirect	475	425	944	921
Corporate expenses (Note 4 Related Party)	566	684	1,893	1,692
Total cost of operations	5,374	7,277	11,292	13,383
Total operating profit	3,986	1,966	7,390	5,475
Interest income	—	—	—	1
Interest expense	(371)	(392)	(619)	(807)
Equity in loss of joint ventures	(806)	(186)	(1,577)	(272)
Gain (Loss) on investment land sold	—	(109)	—	(109)
Income before income taxes	2,809	1,279	5,194	4,288
Provision for income taxes	1,096	505	2,038	1,694
Net income	<u>\$ 1,713</u>	<u>774</u>	<u>3,156</u>	<u>2,594</u>
Comprehensive income	<u>\$ 1,713</u>	<u>774</u>	<u>3,156</u>	<u>2,594</u>
Earnings per common share:				
Basic	\$ 0.17	0.08	0.32	0.26
Diluted	\$ 0.17	0.08	0.32	0.26
Number of shares (in thousands) used in computing:				
-basic earnings per common share	9,965	9,864	9,948	9,858
-diluted earnings per common share	10,038	9,907	10,019	9,900

See accompanying notes.

FRP HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(In thousands) (Unaudited)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net income	\$ 3,156	2,594
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	4,398	4,109
Deferred income taxes	3,992	(1,581)
Equity in loss of joint ventures	1,577	272
Loss on sale of equipment and property	17	89
Stock-based compensation	555	475
Net changes in operating assets and liabilities:		
Accounts receivable	(79)	(317)
Deferred costs and other assets	738	280
Accounts payable and accrued liabilities	(1,460)	2,681
Income taxes payable and receivable	(3,813)	(764)
Other long-term liabilities	(95)	14
Net cash provided by operating activities	<u>8,986</u>	<u>7,852</u>
Cash flows from investing activities:		
Investments in properties	(8,139)	(2,430)
Investments in joint ventures	(236)	(347)
Proceeds from sale of assets	—	2,166
Cash held in escrow	—	1,174
Net cash (used in) provided by investing activities	<u>(8,375)</u>	<u>563</u>
Cash flows from financing activities:		
Decrease in bank overdrafts	(83)	(69)
Repayment of long-term debt	(2,173)	(2,090)
Proceeds from borrowing on revolving credit facility	10,783	3,893
Payment on revolving credit facility	(11,093)	(6,821)
Repurchase of company stock	(74)	(43)
Exercise of employee stock options	2,029	184
Net cash used in financing activities	<u>(611)</u>	<u>(4,946)</u>
Net increase in cash and cash equivalents	—	3,469
Cash and cash equivalents at beginning of period	—	—
Cash and cash equivalents at end of the period	<u>\$ —</u>	<u>3,469</u>

See accompanying notes.

FRP HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(Unaudited)

(1) Description of Business and Basis of Presentation.

FRP Holdings, Inc. (“FRP” or the “Company”) is a holding company engaged in the real estate business, namely (i) warehouse/office building ownership, leasing and management, (ii) mining royalty land ownership and leasing and (iii) land acquisition, entitlement and development primarily for future warehouse/office or residential building construction.

The accompanying consolidated financial statements include the accounts of FRP Holdings, Inc. (the “Company” or “FRP”) inclusive of our operating real estate subsidiaries, FRP Development Corp. (“Development”) and Florida Rock Properties, Inc. (“Properties”). Our investment in the Brooksville joint venture, BC FRP Realty joint venture and Riverfront Investment Partners I, LLC are accounted for under the equity method of accounting (See Note 11). These statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (primarily consisting of normal recurring accruals) considered necessary for a fair statement of the results for the interim periods have been included. Operating results for the six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The accompanying consolidated financial statements and the information included under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” should be read in conjunction with the Company’s consolidated financial statements and related notes included in the Company’s Form 10-K for the year ended September 30, 2016.

On December 19, 2016, the Company changed its fiscal year end from September 30 to December 31. The quarter ended December 31, 2016 was a transition period.

(2) Recently Issued Accounting Standards. In February 2016, the FASB issued ASU No. 2016-02, “Leases”, which requires lessees to recognize a right-to-use asset and a lease obligation for all leases. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. Additional qualitative and quantitative disclosures, including significant judgments made by management, will be required. Lessors will account for leases using an approach that is substantially equivalent to existing accounting standards. The new standard will become effective for the Company beginning with the first quarter 2020 and requires a modified retrospective transition approach and includes a number of practical expedients. Early adoption of the standard is permitted. As the Company is primarily a lessor the adoption of this guidance is not expected to have a material impact on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. Excess tax benefits for share-based payments are recorded as a reduction of income taxes and reflected in operating cash flows upon the adoption of this ASU. Excess tax benefits were recorded in equity and as financing activity prior to adoption of this ASU. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2016 with early adoption permitted. The Company adopted this guidance prospectively as of October 1, 2016. As a result of this adoption in the first six months of 2017 we recorded a \$14,000 reduction of income tax expense from excess tax benefits on stock option exercises.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business”, to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions of assets or businesses. To be considered a

business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present. To be a business without outputs, there will now need to be an organized workforce. ASU 2017-01 further states that when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. The amendments in the update are effective for the Company's financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted. The Company is currently evaluating the amendments from this Update, but expects it to change the treatment of building acquisitions from being considered a business to being considered an asset. This change will result in acquisition costs being capitalized as part of the asset acquisition, whereas current treatment has them recognized in earnings in the period incurred.

(3) Business Segments. The Company is reporting its financial performance based on three reportable segments, Asset Management, Mining Royalty Lands and Land Development and Construction, as described below.

The Asset Management segment owns, leases and manages warehouse/office buildings located predominately in the Baltimore/Northern Virginia/Washington, DC market area.

Our Mining Royalty Lands segment owns several properties comprising approximately 15,000 acres currently under lease for mining rents or royalties (this does not include the 4,280 acres owned in our Brooksville joint venture with Vulcan Materials). Other than one location in Virginia, all of these properties are located in Florida and Georgia.

Through our Land Development and Construction segment, we own and are continuously monitoring for their "highest and best use" several parcels of land that are in various stages of development. Our overall strategy in this segment is to convert all of our non-income producing lands into income production through (i) an orderly process of constructing new warehouse/office buildings for us to own and operate or (ii) a sale to, or joint venture with, third parties.

Operating results and certain other financial data for the Company's business segments are as follows (in thousands):

	Three Months ended June 30,		Six Months ended June 30,	
	2017	2016	2017	2016
Revenues:				
Asset management	\$ 7,194	6,927	14,479	14,501
Mining royalty lands	1,833	2,059	3,595	3,837
Land development and construction	333	257	608	520
	<u>9,360</u>	<u>9,243</u>	<u>18,682</u>	<u>18,858</u>
Operating profit:				
Before corporate expenses:				
Asset management	\$ 3,234	3,318	6,735	6,741
Mining royalty lands	1,701	1,940	3,326	3,589
Land development and construction	(383)	(2,608)	(778)	(3,163)
Corporate expenses:				
Allocated to asset management	(321)	(354)	(1,074)	(874)
Allocated to mining royalty	(28)	(52)	(94)	(127)
Allocated to land development and construction	(217)	(278)	(725)	(691)
	<u>(566)</u>	<u>(684)</u>	<u>(1,893)</u>	<u>(1,692)</u>
	<u>\$ 3,986</u>	<u>1,966</u>	<u>7,390</u>	<u>5,475</u>
Interest expense:				
Asset management	\$ 371	392	619	807

Depreciation, depletion and amortization:				
Asset management	\$ 2,057	1,985	4,022	3,820
Mining royalty lands	35	15	74	46
Land development and construction	110	66	165	129
	<u>\$ 2,202</u>	<u>2,066</u>	<u>4,261</u>	<u>3,995</u>

Capital expenditures:				
Asset management	\$ 3,532	761	4,788	1,234
Mining royalty lands	—	102	—	106
Land development and construction	878	611	3,351	1,090
	<u>\$ 4,410</u>	<u>1,474</u>	<u>8,139</u>	<u>2,430</u>

	June 30, 2017	December 31, 2016
Identifiable net assets		
Asset management	\$ 179,350	169,736
Mining royalty lands	38,990	39,259
Land development and construction	49,527	57,126
Cash items	—	—
Unallocated corporate assets	3,343	439
	<u>\$ 271,210</u>	<u>266,560</u>

(4) Related Party Transactions. The Company is a party to a Transition Services Agreement which resulted from our January 30, 2015 spin-off of Patriot Transportation Holding, Inc. (Patriot). The Transition Services Agreement sets forth the terms on which Patriot will provide to FRP certain services that were shared prior to the Spin-off, including the services of certain shared executive officers. The boards of the respective companies amended and extended this agreement for one year effective April 1, 2017.

The consolidated statements of income reflect charges and/or allocation from Patriot for these services of \$320,000 and \$388,000 for the three months ended June 30, 2017 and 2016, and \$877,000 and \$794,000 for the six months ended June 30, 2017 and 2016, respectively. Included in the charges above are amounts recognized for corporate executive stock-based compensation expense. These charges are reflected as part of corporate expenses.

To determine these allocations between FRP and Patriot as set forth in the Transition Services Agreement, we generally employed the same methodology historically used by the Company pre Spin-off to allocate said expenses and thus we believe that the allocations to FRP are a reasonable approximation of the costs related to FRP's operations but any such related-party transactions cannot be presumed to be carried out on an arm's-length basis as the terms were negotiated while Patriot was still a subsidiary of FRP.

(5) Long-Term Debt. Long-term debt is summarized as follows (in thousands):

	June 30, 2017	December 31, 2016
Revolving credit (uncollateralized)	\$ 6,355	6,665
5.6% to 7.9% mortgage notes		
due in installments through 2027	31,907	34,080
	<u>38,262</u>	<u>40,745</u>
Less portion due within one year	4,673	4,526
	<u>\$ 33,589</u>	<u>36,219</u>

On January 30, 2015, the Company entered into a five year credit agreement with Wells Fargo with a maximum facility amount of \$20 million (the "Credit Agreement"). The Credit Agreement provides a revolving credit facility

(the “Revolver”) with a \$10 million sublimit available for standby letters of credit. As of June 30, 2017, there was \$5,733,000 outstanding on the revolver, \$2,266,000 outstanding under letters of credit and \$12,001,000 available for borrowing. The letters of credit were issued to guarantee certain obligations to state agencies related to real estate development. Most of the letters of credit are irrevocable for a period of one year and typically are automatically extended for additional one-year periods. The Revolver bears interest at a rate of 1.4% over the selected LIBOR, which may change quarterly based on the Company’s ratio of Consolidated Total Debt to Consolidated Total Capital, as defined. A commitment fee of 0.15% per annum is payable quarterly on the unused portion of the commitment. The commitment fee may also change quarterly based upon the ratio described above. The credit agreement contains certain conditions and financial covenants, including a minimum \$110 million tangible net worth. As of June 30, 2017, the tangible net worth covenant would have limited our ability to pay dividends or repurchase stock with borrowed funds to a maximum of \$76.6 million combined. The Company was in compliance with all covenants as of June 30, 2017.

On July 24, 2015 the Company closed on a five year, \$20 million secured revolver with First Tennessee Bank with a twenty-four month window to convert up to the full amount of the facility into a ten year term loan. Interest accrues at 1.90% over one month LIBOR plus an annual commitment fee of 0.10%. As of June 30, 2017, there was \$622,000 outstanding on the revolver and \$19,378,000 available for borrowing. The Company expects to close on a second facility with First Tennessee Bank with a \$20 million ten year term loan secured by to-be-determined collateral. The purpose of these loans is to facilitate growth through new construction in the Land Development and Construction segment and/or acquisition of existing, operating buildings to be added to the Asset Management segment.

During the three months ended June 30, 2017 and June 30, 2016 the Company capitalized interest costs of \$232,000 and \$240,000, respectively. During the six months ended June 30, 2017 and June 30, 2016 the Company capitalized interest costs of \$602,000 and \$482,000, respectively.

(6) Earnings per Share. The following details the computations of the basic and diluted earnings per common share (in thousands, except per share amounts):

	Three Months ended June 30,		Six Months ended June 30,	
	2017	2016	2017	2016
Weighted average common shares outstanding during the period - shares used for basic earnings per common share	9,965	9,864	9,948	9,858
Common shares issuable under share based payment plans which are potentially dilutive	73	43	71	42
Common shares used for diluted earnings per common share	10,038	9,907	10,019	9,900
Net income	\$ 1,713	774	3,156	2,594
Basic earnings per common share:				
Basic	\$ 0.17	0.08	0.32	0.26
Diluted	\$ 0.17	0.08	0.32	0.26

For the three and six months ended June 30, 2017, 13,610 and 22,422 shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. For the three and six months ended June 30, 2016, 72,090 shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

(7) Stock-Based Compensation Plans. The Company has two Stock Option Plans (the 2006 Stock Incentive Plan and the 2016 Equity Incentive Option Plan) under which options for shares of common stock were granted to directors, officers and key employees. The 2016 plan permits the grant of stock options, stock appreciation rights, restricted stock awards, restricted stock units, or stock awards. The options awarded under the plans have similar characteristics. All stock options are non-qualified and expire ten years from the date of grant. Stock based compensation awarded to directors, officers and employees are exercisable immediately or become exercisable in cumulative installments of 20% or 25% at the end of each year following the date of grant. When stock options are exercised the Company issues new shares after receipt of exercise proceeds and taxes due, if any, from the grantee. The number of common shares available for future issuance was 569,917 at June 30, 2017.

The Company utilizes the Black-Scholes valuation model for estimating fair value of stock compensation for options awarded to officers and employees. Each grant is evaluated based upon assumptions at the time of grant. The assumptions were no dividend yield, expected volatility between 35% and 46%, risk-free interest rate of .3% to 4.2% and expected life of .25 to 7.0 years.

The dividend yield of zero is based on the fact that the Company does not pay cash dividends and has no present intention to pay cash dividends. Expected volatility is estimated based on the Company's historical experience over a period equivalent to the expected life in years. The risk-free interest rate is based on the U.S. Treasury constant maturity interest rate at the date of grant with a term consistent with the expected life of the options granted. The expected life calculation is based on the observed and expected time to exercise options by the employees.

As previously disclosed, Thompson S. Baker II resigned from his position as CEO and from the board of directors on March 13, 2017. In recognition of his outstanding service to the Company, the Board approved the vesting of all of Mr. Baker's outstanding FRP stock options, which expired 90 days following the termination of his employment. The vesting of Mr. Baker's outstanding FRP options that were issued prior to the spin-off required Patriot to record modification stock compensation expense of \$150,000. FRP reimbursed Patriot for this cost under the transition services agreement. The vesting of Mr. Baker's outstanding FRP options that were issued subsequent to the spin-off required modified stock compensation expense of \$41,000.

The Company recorded the following stock compensation expense in its consolidated statements of income (in thousands):

	Three Months ended June 30,		Six Months ended June 30,	
	2017	2016	2017	2016
Stock option grants	\$ 33	32	110	63
Annual director stock award	—	—	445	412
	<u>\$ 33</u>	<u>32</u>	<u>555</u>	<u>475</u>

A summary of changes in outstanding options is presented below (in thousands, except share and per share amounts):

Options	Number Of Shares	Weighted Average Exercise Price	Weighted Average Remaining Term (yrs)	Weighted Average Grant Date Fair Value(000's)
Outstanding at January 1, 2017	236,385	\$ 25.35	6.1	\$ 2,440
Granted	4,555	\$ 37.55		\$ 75
Modification	—	\$ 30.21		\$ (137)
Exercised	<u>(79,630)</u>	<u>\$ 25.48</u>		<u>\$ (756)</u>
Outstanding at				

June 30, 2017	161,310	\$	25.63	5.7	\$	1,622
Exercisable at						
June 30, 2017	119,020	\$	23.66	4.9	\$	1,038
Vested during						
six months ended						
June 30, 2017	26,839			\$		223

The aggregate intrinsic value of exercisable in-the-money options was \$2,677,000 and the aggregate intrinsic value of outstanding in-the-money options was \$3,310,000 based on the market closing price of \$46.15 on June 30, 2017 less exercise prices.

The unrecognized compensation cost of options granted to FRP employees but not yet vested as of June 30, 2017 was \$376,000, which is expected to be recognized over a weighted-average period of 3.7 years.

Gains of \$1,347,000 were realized by option holders during the six months ended June 30, 2017. Patriot realized the tax benefits of \$1,238,000 of these gains because these options were exercised by Patriot employees for options granted prior to the spin-off.

(8) Contingent Liabilities. Certain of the Company's subsidiaries are involved in litigation on a number of matters and are subject to certain claims which arise in the normal course of business. The Company has retained certain self-insurance risks with respect to losses for third party liability and property damage. The liability at any point in time depends upon the relative ages and amounts of the individual open claims. In the opinion of management, none of these matters are expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

Preliminary testing on the site of the Company's four phase master development known as RiverFront on the Anacostia in Washington, D.C. indicated the presence of contaminated material that will have to be specially handled upon excavation in conjunction with construction. The Company has agreed with our joint venture partner to bear the cost of handling the contaminated materials on the first phase of this development up to a cap of \$1.871 million. As of September 30, 2016, the excavation and foundation work for Phase 1 were substantially complete; thus, the bulk of the remediation expenses have been incurred. Management believes the total cost for remediation on Phase 1 will end up at approximately \$1.9 million. During the quarter ending December 31, 2015, management successfully completed negotiations and entered into a \$3,000,000 settlement of environmental claims on all four phases against our former tenant at the Riverfront on the Anacostia property and continues to pursue settlement negotiations with other potentially responsible parties. The Company executed a letter of intent with MRP Realty in May 2016 to develop Phase II of the Riverfront on the Anacostia project and recorded an estimated environmental remediation expense of \$2.0 million for the Company's estimated liability under the proposed agreement. The Company has no obligation to remediate this contamination on Phases III and IV of the development until such time as it makes a commitment to commence construction on each phase. The Company's actual expense to address this issue may be materially higher or lower than the expense previously recorded depending upon the actual costs incurred.

(9) Concentrations. With the completion and occupancy of the 3rd build to suit for the same tenant at Patriot Business Park in the first quarter of fiscal 2015 this particular tenant accounted for 11% of the Company's consolidated revenues during the quarter ended June 30, 2017. The mining royalty lands segment has a total of four tenants currently leasing mining locations and one lessee that accounted for 15.7% of the Company's consolidated revenues during the six months ended June 30, 2017 and \$199,908 of accounts receivable at June 30, 2017. The termination of these lessees' underlying leases could have a material adverse effect on the Company. The Company places its cash and cash equivalents with Tennessee Bank. At times, such amounts may exceed FDIC limits.

(10) Fair Value Measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1

means the use of quoted prices in active markets for identical assets or liabilities. Level 2 means the use of values that are derived principally from or corroborated by observable market data. Level 3 means the use of inputs are those that are unobservable and significant to the overall fair value measurement.

As of June 30, 2017 the Company had no assets or liabilities measured at fair value on a recurring or non-recurring basis. At June 30, 2017 and 2016, the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, short-term notes payable and revolving credit approximate their fair value based upon the short-term nature of these items.

The fair values of the Company's other mortgage notes payable were estimated based on current rates available to the Company for debt of the same remaining maturities. At June 30, 2017, the carrying amount and fair value of such other long-term debt was \$38,262,000 and \$41,165,000, respectively. At December 31, 2016, the carrying amount and fair value of such other long-term debt was \$40,745,000 and \$43,747,000, respectively.

(11) Investments in Joint Ventures.

RiverFront. On March 30, 2012 the Company entered into a Contribution Agreement with MRP SE Waterfront Residential, LLC. ("MRP") to form a joint venture to develop the first phase only of the four phase master development known as RiverFront on the Anacostia in Washington, D.C. The purpose of the Joint Venture is to develop, own, lease and ultimately sell an approximately 300,000 square foot residential apartment building (including approximately 18,000 square feet of retail) on approximately 2 acres of the roughly 5.82 acre site. The joint venture, RiverFront Investment Partners I, LLC ("RiverFront I") was formed in June 2013 as contemplated. The Company contributed land with an agreed to value of \$13,500,000 (cost basis of \$6,165,000) and contributed cash of \$4,866,000 to the Joint Venture for a 77.14% stake in the venture. MRP contributed capital of \$5,553,000 to the joint venture including development costs paid prior to formation of the joint venture. The Joint Venture closed on \$17,000,000 of EB5 secondary financing and a nonrecourse construction loan for \$65,000,000 on August 8, 2014. Both these financing sources are non-recourse to FRP. At the time of these financings, RiverFront Holdings I, LLC. was formed as a parent to RiverFront Investment Partners I, LLC with EB5 as an equity partner in Riverfront Holdings I, LLC. Construction commenced in October 2014, first occupancy was in August 2016 and the Company anticipates lease up to occur during all of 2017. The joint venture intends to refinance the construction loan before the initial maturity date of August 7, 2018. The Company's equity interest in the joint venture is accounted for under the equity method of accounting as MRP acts as the administrative agent of the joint venture and oversees and controls the day to day operations of the project. Other income for the six months ended June 30, 2017 includes a loss of \$1,558,000 representing the Company's portion of the loss of this joint venture. The company and MRP Realty executed a letter of intent in May 2016 and a Contribution Agreement in February 2017 to develop Phase II but the joint venture is not yet formed.

Brooksville. In 2006, the Company entered into a Joint Venture Agreement with Vulcan Materials Company to jointly own and develop approximately 4,300 acres of land near Brooksville, Florida. Under the terms of the joint venture, FRP contributed its fee interest in approximately 3,443 acres formerly leased to Vulcan under a long-term mining lease which had a net book value of \$2,548,000. Vulcan is entitled to mine a portion of the property until 2032 and pay royalties to the Company. FRP also contributed \$3,018,000 for one-half of the acquisition costs of a 288-acre contiguous parcel. Vulcan contributed 553 acres that it owned as well as its leasehold interest in the 3,443 acres that it leased from FRP and \$3,018,000 for one-half of the acquisition costs of the 288-acre contiguous parcel. The joint venture is jointly controlled by Vulcan and FRP. Distributions will be made on a 50-50 basis except for royalties and depletion specifically allocated to the Company. Other income for the six months ended June 30, 2017 includes a loss of \$19,000 representing the Company's portion of the loss of this joint venture.

BC FRP Realty (Windlass Run). During the quarter ending March 2016, we entered into an agreement with a Baltimore development company (St. John Properties, Inc.) to jointly develop the remaining lands of our Windlass Run Business Park. The 50/50 partnership initially calls for FRP to combine its 25 acres (valued at \$7,500,000) with St. John Properties' adjacent 10 acres fronting on a major state highway (valued at \$3,239,536) which resulted in an initial cash distribution of \$2,130,232 to FRP in May, 2016. Thereafter, the venture will jointly develop the combined properties into a multi-building business park to consist of approximately 329,000 square feet of single story office

space.

Investments in Joint Ventures (in thousands):

	Ownership	Total Investment	Total Assets of the Partnership	Net Loss of the Partnership	The Company's Share of Net Loss of the Partnership
As of June 30, 2017					
RiverFront Holdings I, LLC	77.14%	\$8,583	\$91,641	\$ (2,019)	\$ (1,558)
Brooksville Quarry, LLC	50.00%	7,500	14,343	(38)	(19)
BC FRP Realty, LLC	50.00%	5,474	11,113	—	—
Total		\$ 21,557	\$ 117,097	\$ (2,057)	\$ (1,577)

As of December 31, 2016					
RiverFront Holdings I, LLC	77.14%	\$10,151	\$90,420	\$ (1,446)	\$ (1,115)
Brooksville Quarry, LLC	50.00%	7,522	14,341	(8)	(4)
BC FRP Realty, LLC	50.00%	5,228	10,784	—	—
Total		\$ 22,901	\$ 115,545	\$ (1,454)	\$ (1,119)

As of June 30, 2017				
	Riverfront Holdings I, LLC	Brooksville Quarry, LLC	BC FRP Realty, LLC	Total
Investments in real estate, net	\$ 88,993	\$ 14,309	\$ 11,069	\$ 114,371
Cash	2,295	26	44	2,365
Cash held in escrow	171	—	—	171
Accounts receivable	40	6	—	46
Prepaid expenses	142	2	—	144
Total Assets	<u>\$ 91,641</u>	<u>\$ 14,343</u>	<u>\$ 11,113</u>	<u>\$ 117,097</u>
Long-term Debt	\$ 78,587	\$ —	\$ —	\$ 78,587
Amortizable debt costs	(852)	—	—	(852)
Other liabilities	905	45	—	950
Capital – FRP	8,583	7,500	5,474	21,557
Capital - Third Parties	4,418	6,798	5,639	16,855
Total Liabilities and Capital	<u>\$ 91,641</u>	<u>\$ 14,343</u>	<u>\$ 11,113</u>	<u>\$ 117,097</u>

As of December 31, 2016				
	Riverfront Holdings I, LLC	Brooksville Quarry, LLC	BC FRP Realty, LLC	Total
Cash	\$ 1,023	\$ 18	\$ 21	\$ 1,062
Cash held in escrow	88	—	—	88
Investments in real estate, net	89,309	14,323	10,763	114,395
Total Assets	<u>\$ 90,420</u>	<u>\$ 14,341</u>	<u>\$ 10,784</u>	<u>\$ 115,545</u>
Other Liabilities	\$ 6,348	\$ 1	\$ 47	\$ 6,396
Long-term Debt	69,042	—	—	69,042
Capital – FRP	10,151	7,522	5,228	22,901
Capital - Third Parties	4,879	6,818	5,509	17,206

Total Liabilities and Capital	\$ 90,420	\$ 14,341	\$ 10,784	\$ 115,545
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Income statements for the RiverFront Holdings I, LLC (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Rental Revenue	\$ 1,742	—	\$ 3,053	—
Revenue – Reimbursements	18	—	33	—
Total Revenues	1,760	—	3,086	—
Cost of operations:				
Depreciation and amortization	1,095	75	1,958	97
Operating expenses	621	148	1,096	216
Property taxes	240	—	459	—
Total cost of operations	1,956	223	3,513	313
Total operating profit	(196)	(223)	(427)	(313)
Interest expense	(836)	—	(1,592)	—
Net loss of the Partnership	\$ (1,032)	(223)	\$ (2,019)	(313)

The amount of consolidated accumulated deficit for these joint ventures was \$(2,626,000) and \$(1,667,000) as of June 30, 2017 and December 31, 2016 respectively.

(12) Subsequent Event. In our recent month ending July 31, 2017, Phase I (Dock 79) of the development known as RiverFront on the Anacostia in Washington, D.C., a 300,000 square foot residential apartment building developed by a joint venture between the Company and MRP SE Waterfront Residential, LLC (“MRP”), reached stabilization, meaning 90% of the individual apartments have been leased and are occupied by third party tenants. Upon reaching stabilization, the Company has, for a period of one year, the exclusive right to (i) cause the joint venture to sell the property or (ii) cause the Company’s and MRP’s percentage interests in the joint venture to be adjusted so as to take into account the value of the development at the time of stabilization.

The attainment of stabilization also results in a change of control for accounting purposes as the veto rights of the minority shareholder lapsed and the Company became the primary beneficiary. As such, beginning July 1, 2017, the Company will consolidate the assets (at current fair value), liabilities and operating results of the joint venture. This consolidation will have a material impact on the Company’s balance sheet as the Company is required to recognize the fair value of the assets and record the related debt of the joint venture.

The company is in process of obtaining an opinion of fair value of the assets of the joint venture and finalizing the accounting entries to effect the consolidation, including an anticipated increase in net assets of \$139 million, increase in liabilities of approximately \$93 million and increase in net equity of approximately \$46 million including an estimated gain upon the consolidation which may range from \$20 million to \$25 million depending upon the ultimate fair value determination.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion includes certain non-GAAP financial measures (“adjusted”) within the meaning of Regulation G promulgated by the Securities and Exchange Commission (“Regulation G”) to supplement the financial results as reported in accordance with GAAP. Post Spin-off we are reporting any net gain/(loss) from the transportation business as “discontinued operations” and we currently have no other discontinued operations being reported. GAAP accounting rules do not allow corporate overhead expenses to be allocated to a discontinued operation of the Company; thus, those corporate expenses attributable to the transportation business prior to the spin-off are charged to the Company as part of continuing operations. The non-GAAP financial measures discussed below are adjusted income from continuing operations and adjusted consolidated operating profit. These non-GAAP financial measures exclude the corporate management fees attributable to the transportation business prior to the spin-off that are not allocable to the transportation business due to it being a discontinued operation. The Company uses these metrics to analyze its continuing operations and to monitor, assess, and identify meaningful trends in its operating and financial performance. These measures are not, and should not be viewed as, substitutes for GAAP financial measures. Refer to “Non-GAAP Financial Measures” below in this quarterly report for a more detailed discussion, including reconciliations of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

Overview - FRP Holdings, Inc. (“FRP” or the “Company”) is a holding company engaged in the real estate business, namely (i) warehouse/office building ownership, leasing and management, (ii) mining royalty land ownership and leasing and (iii) land acquisition, entitlement and development primarily for future warehouse/office or residential building construction.

The Company’s operations are influenced by a number of external and internal factors. External factors include levels of economic and industrial activity in the United States and the Southeast, construction activity and costs, aggregates sales by lessees from the Company’s mining properties, interest rates, market conditions in the Baltimore/Northern Virginia/Washington DC area, and our ability to obtain zoning and entitlements necessary for property development. Internal factors include administrative costs and group health claims experience.

Potential REIT Conversion.

Whether through strategic acquisitions, organic growth, joint ventures, or putting our non-income producing land to work, our constant aim is to create and grow shareholder value. To that end, we have for some time explored the possibility of converting this company into a Real Estate Investment Trust (REIT), with the idea that this may be a more efficient structure given the nature of our business. Though no final decision has been made, in order to have the option to convert to a REIT in 2017, the Company has already elected to change from our previous fiscal year (ending September 30), to a fiscal year that follows the calendar year as is required of a REIT. This change went into effect January 1, 2017 and will require one-time additional auditing expenses of \$120,000 which will be reflected in fiscal year 2017. Thus, this past quarter, and every quarter ended June 30 will now be the second quarter of our fiscal year. Finally, consistent with having the option to elect REIT status, we have contributed our mining reserves into a wholly owned subsidiary. Because the parent company still retains control of the land itself, the portion of the mining royalties’ income that is not attributable to the reserves, but instead more closely resembles ground rents, will be retained by the parent company and will qualify as “REIT-able” income. The subsidiary will receive only the income attributable to the reserves it now controls. This structure is intended to assure that we will meet the asset and income tests applicable to REITs. These preliminary steps will not have a material impact on our operations if the Company does not elect REIT status.

Asset Management Segment.

The Asset Management segment owns, leases and manages warehouse/office buildings located predominately in the

Baltimore/Northern Virginia/Washington, DC market area. We focus primarily on owning flexible type facilities that cater to the maximum number of tenant types. As most of our buildings are less than 150,000 square feet, we focus on local and regional vs. national tenants. Hands-on service provided by our in-house construction and property management teams keeps us close to our tenant base. These practices are the cornerstone of our mission to provide the highest quality product and services at competitive rates resulting in tenant satisfaction and ultimately, retention.

These assets create revenue and cash flows through tenant rental payments, lease management fees and reimbursements for building operating costs. The major cash outlays incurred in this segment are for operating expenses, real estate taxes, building repairs, lease commissions and other lease closing costs, construction of tenant improvements, capital to acquire existing operating buildings and closing costs related thereto and personnel costs of our property management team. Of the 43 buildings we own today, 28 were constructed by the Company through what is now known as our Land Development and Construction segment. Additionally, over the years, we have opportunistically acquired 15 existing operating buildings, typically in connection with a deferred like-kind (Section 1031) exchange opportunity. Today, this segment consists of 4 million square feet.

Management focuses on several factors to measure our success on a comparative basis in this segment. The major factors we focus on are (1) revenue growth, (2) net operating income, (3) growth in occupied square feet, (4) actual occupancy rate, (5) average annual occupied square feet, (6) average annual occupancy rate (defined as the occupied sf at the end of each month during a fiscal year divided by the number of months to date in that fiscal year as a percentage of the average number of square feet in the portfolio over that same time period), (7) growth of our portfolio (in square feet), and (8) tenant retention success rate (as a percentage of total square feet to be renewed).

<u>Asset Management segment – six months ended</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Revenues	\$14,479,000	14,501,000
Net Operating Income (Cash Basis)	\$11,101,000	10,927,000
Occupied square feet	3,459,473	3,319,891
Overall occupancy rate	86.8%	88.0%
Average annual occupied square feet	3,498,614	3,337,745
Average annual occupancy rate	89.0%	89.4%
Portfolio square feet	3,983,813	3,772,927
Retention Success rate	71%	64%

Mining Royalty Lands Segment.

Our Mining Royalty Lands segment owns several properties comprising approximately 15,000 acres currently under lease for mining rents or royalties (this does not include the 4,280 acres owned in our Brooksville joint venture with Vulcan Materials). Other than one location in Virginia, all of these properties are located in Florida and Georgia. The typical lease in this segment requires the tenant to pay us a royalty based on the number of tons of mined materials sold from our property during a given fiscal year multiplied by a percentage of the average annual sales price per ton sold. As a result of this royalty payment structure, we do not bear the cost risks associated with the mining operations, however, we are subject to the cyclical nature of the construction markets in these States as both volumes and prices tend to fluctuate through those cycles. In certain locations, typically where the reserves on our property have been depleted but the tenant still has a need for the leased land, we collect a fixed annual rental amount. We believe that the number of tons and the price per ton will rise on the aggregates under lease as construction continues to grow in Florida, Georgia, and Virginia which would positively benefit our profitability in this segment. Our mining properties had estimated remaining reserves of 415 million tons as of September 30, 2016 after a total of 6.9 million tons were consumed in fiscal 2016.

The major expenses in this segment are comprised of collection and accounting for royalties, management's oversight of the mining leases, land entitlement for post-mining uses and property taxes at our non-leased locations and at our Grandin location which, unlike our other leased mining locations, are not paid by the tenant. As such, our costs in this business are very low as a percentage of revenue, are relatively stable and are not affected by increases in production

at our locations. Our current mining tenants include Vulcan Materials, Martin Marietta and Cemex, among others.

Additionally, these locations provide us with excellent opportunities for valuable “second lives” for these assets through proper land planning and entitlement.

Significant “2nd life” Mining Lands:

<u>Location</u>	<u>Acreage</u>	<u>Status</u>
Brooksville, FL	4,280 +/-	Development of Regional of Impact and County Land Use and Master Zoning in place for 5,800 residential unit, mixed-use development
Ft. Myers, FL	1,993 +/-	Approval in place for 105, 1 acre, waterfront residential lots after mining completed.
Gulf Hammock, FL	1,600 +/-	Currently on the market for \$4.5 million
Total	7,873 +/-	

Land Development and Construction Segment.

Through our Land Development and Construction segment, we own and are continuously monitoring for their “highest and best use” several parcels of land that are in various stages of development. Our overall strategy in this segment is to convert all of our non-income producing lands into income production through (i) an orderly process of constructing new warehouse/office buildings for us to own and operate or (ii) a sale to, or joint venture with, third parties.

Revenues in this segment are generated predominately from land sales and interim property rents. The significant cash outlays incurred in this segment are for land acquisition costs, entitlement costs, property taxes, design and permitting, the personnel costs of our in-house management team and horizontal and vertical construction costs.

Since 1990, one of our primary strategies in this segment has been to acquire, entitle and ultimately develop commercial/industrial business parks providing 5–15 building pads which we typically convert into warehouse/office buildings. To date, our management team has converted 28 of these pads into developed buildings that we continue to own and manage through the Asset Management segment. Our typical practice has been to transfer these assets to the Asset Management segment on the earlier to occur of (i) commencement of rental revenue or (ii) issuance of the certificate of occupancy. We have also opportunistically sold several of these pad sites over time to third party “users”.

The remaining pad sites in our inventory today are fully entitled, located in business parks in four different submarkets in the DC/Baltimore/Northern Virginia area, and can support an additional +/- 867,000 sf. of warehouse/office buildings.

Summary of Our Remaining Lot Inventory:

<u>Location</u>	<u>Acreage</u>	<u>SF +/-</u>	<u>Status</u>
Lakeside, MD	20	286,500	Horizontal development completed. Ready for vertical permitting.
Windlass Run Business Park, MD	17.5 (50% Interest)	164,500 (50% Interest)	Company owns a 50% in a joint venture formed in April 2016 with St. John Properties. The joint venture owns the 35 acres and plans to develop the land into 12 office buildings for a total of 329,000 sq. ft.
Patriot Business Center, Manassas, VA	18	96,047	Building permit process ongoing for the remaining 96,047 s.f. Includes 12 acres SWM.
Hollander 95 Business Park, MD	33	328,740	Horizontal development completed. Building permit process ongoing for 94,290 sf.

Total	88.5	875,787	
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Having sites ready for vertical construction has rewarded us in the past. It is the main reason why we were able to convert 3 of our finished pads at Patriot Business Park into build-to-suit opportunities in 2012, 2013 and 2014. We completed construction on a 103,448 square foot building at Patriot Business Park that was put into service in April 2017. We completed construction on a 79,550 square foot spec building at Hollander Business Park that was put into service in the third quarter of fiscal 2016. In April, 2016 we entered into a joint venture agreement to develop 12 office buildings on our remaining lots at Windlass Run and on adjacent frontage property owned by St. John Properties. We will continue to actively monitor these submarkets where we have lots ready for construction and take advantage of the opportunities presented to us.

In addition to the inventory of finished building lots, we have several other properties that were either spun-off to us from Florida Rock Industries in 1986 or acquired by us from unrelated 3rd parties. These properties, as a result of our “highest and best use” studies, are being prepared for income generation through sale or joint venture with third parties, and in certain cases we are leasing these properties on an interim basis for an income stream while we wait for the development market to mature.

Our strategy when selling parcels outright is to attempt to convert the proceeds into income producing real estate for our Asset Management segment through a Section 1031 tax-deferred exchange. An example of this is the Windlass Run 179 acre tract purchased for \$5.2 million in 2002. When purchased, the entire parcel was zoned for commercial/industrial uses. Today, some 70 acres of this original tract makes up our Windlass Run Business Park. We successfully rezoned the remaining acreage for medium density residential development and on April 17, 2013, we entered into a contract to sell the residential portion of the property for \$19 million. The first phase of the Windlass Run residential land was sold for \$8 million and the proceeds were used in a Section 1031 exchange to acquire our Transit Business Park in 2013. Phase 2 was sold in November, 2015 for \$11.1 million and we used \$9.9 million of the proceeds to acquire the fully leased Port Capital Building.

An example of property in this segment being developed through joint venture is Phase I of our RiverFront on the Anacostia project which was contributed to a joint venture with MRP in 2014 to construct a 305 unit apartment building including 18,000 sf of ground floor retail.

Significant Investment Lands Inventory:

<u>Location</u>	<u>Approx. Acreage</u>	<u>Status</u>	<u>NBV</u>
RiverFront on the Anacostia Phase I	2.1	Phase I (as of 6/30/17) residential is 88.2% occupied and 92.5% leased.	\$8,583,000
RiverFront on the Anacostia Phases II-IV	3.7	Phase II final design approval hearings ongoing.	\$10,337,000
Hampstead Trade Center, MD	118	Residential conceptual design program ongoing.	\$7,130,000
Square 664E, on the Anacostia River in DC	2	Under lease to Vulcan Materials as a concrete batch plant through 2021 with one 5 year renewal option.	\$8,374,000
Total	126		\$34,424,000

RIVERFRONT ON THE ANACOSTIA:

This property consists of 5.8 acres on the Anacostia River and is immediately adjacent to the Washington National’s baseball park in the SE Central Business District of Washington, DC. Once zoned for industrial use and under a ground lease, this property is no longer under lease and has been rezoned for the construction of approximately 1.1M square feet of “mixed-use” development in four phases. In 2014, approximately 2.1 acres (Phase I) of the total 5.8 acres was contributed to a joint venture owned by the Company (77%) and our partner, MRP Realty (23%), and construction commenced in October 2014 on a 305 unit residential apartment building with approximately 18,000 sq.

ft. of first floor retail space. Lease up commenced in May 2016 and rent stabilization was achieved in the third quarter of 2017. Pre-leasing activity for the 305 residential units commenced in late May of 2016 and as of June 30, the residential units were 88.2% occupied and 92.5% leased, while retail units remain 80.0% leased with just one space remaining. Phases II, III and IV are slated for residential, office, and hotel/residential buildings, respectively, all with permitted first floor retail uses. The company and MRP Realty executed a letter of intent in May 2016 and a Contribution Agreement in February 2017 to develop Phase II but the joint venture is not yet formed. In February, the D.C. Zoning Commission voted 5-0 in favor of the Planned Unit Development (PUD) of Phase II of our RiverFront on the Anacostia project. After formal publishing of the record and a 35 day appeal period we anticipate formal approval in the third quarter of this calendar year.

On August 24, 2015, in anticipation of commencing construction of the new Frederick Douglass bridge at a location immediately to the West of the existing bridge, the District of Columbia filed a Declaration of Taking for a total of 7,390 square feet of permanent easement and a 5,022 square foot temporary construction easement on land along the western boundary of the land that will ultimately hold Phase III and IV. Previously, the Company and the District had conceptually agreed to a land swap with no compensation that would have permitted the proposed new bridge, including construction easements, to be on property wholly owned by the District. As a result, the Planned Unit Development was designed and ultimately approved by the Zoning Commission as if the land swap would occur once the District was ready to move forward with the new bridge construction. In September 2016 the Company received \$1,115,400 as settlement for the easement. The Company will continue to seek an agreement from the District that the existing bridge easement will terminate when the new bridge has been placed in service and the existing bridge has been removed. The Company's position is that otherwise Phase IV will be adversely impacted and additional compensation or other relief will be due the Company.

HAMPSTEAD TRADE CENTER: We purchased this 118 acre tract in 2005 for \$4.3 million in a Section 1031 exchange with plans of developing it as a commercial business park. The "great recession" caused us to reassess our plans for this property. As a result, Management has determined that the prudent course of action is to attempt to rezone the property for residential uses and sell the entire tract to another developer such that we can redeploy this capital into assets with more near-term income producing potential. In the fourth quarter of fiscal 2016, the Company received approval from the Town of Hampstead and has rezoned the property for residential use.

SQUARE 664E, WASHINGTON, DC

This property sits on the Anacostia River at the base of South Capitol Street in an area named Buzzard Point, approximately 1 mile down river from our RiverFront on the Anacostia property. The Square 664E property consists of approximately 2 acres and is currently under lease to Vulcan Materials for use as a concrete batch plant. The lease terminates on August 31, 2021 and Vulcan has the option to renew for one additional period of five (5) years. In the quarter ending December 31, 2014, the District of Columbia announced that it had selected Buzzard Point for the future site of the new DC United major league soccer stadium. The selected stadium location is separated from our property by just one small industrial lot. In March 2017 reconstruction of the bulkhead was completed at a cost of \$4 million in anticipation of future high rise development.

Comparative Results of Operations for the Three months ended June 30, 2017 and 2016

Consolidated Results

	Three months ended June 30,			
	2017	2016	Change	%
(dollars in thousands)				
Revenues:				
Rental Revenue	\$ 6,222	\$ 6,082	\$ 140	2.3%
Mining Royalty and rents	1,809	2,033	(224)	-11.0%
Revenue-Reimbursements	1,329	1,128	201	17.8%
Total Revenues	9,360	9,243	117	1.3%

Cost of operations:

Depreciation/Depletion/Amortization	2,202	2,066	136	6.6%
Operating Expenses	1,002	974	28	2.9%
Environmental remediation expense	—	2,000	(2,000)	-100.0%
Property Taxes	1,129	1,128	1	0.1%
Mgmt Co Allocation-In	475	425	50	11.8%
Corporate Expense	566	684	(118)	-17.3%
Total cost of operations	5,374	7,277	(1,903)	-26.2%

Total operating profit	3,986	1,966	2,020	102.7%
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Interest Expense	(371)	(392)	21	-5.4%
Equity in loss of joint ventures	(806)	(186)	(620)	333.3%
Loss on investment land sold	—	(109)	109	-100.0%

Income before income taxes	2,809	1,279	1,530	119.6%
Provision for income taxes	1,096	505	591	117.0%

Net income	<u>\$ 1,713</u>	<u>\$ 774</u>	<u>\$ 939</u>	<u>121.3%</u>
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Net income for the second quarter of 2017 was \$1,713,000 or \$.17 per share versus \$774,000 or \$.08 per share in the same period last year. The increase is a result of a \$2,000,000 environmental remediation expense during the same quarter last year offset by a \$620,000 increase this year in equity in loss of joint ventures, primarily as a result of expenses and depreciation during the lease up of Phase I (Dock 79) of RiverFront. Total revenues were \$9,360,000, up 1.3%, versus the same period last year. Consolidated total operating profit was up 102.7% as a result of the prior year's \$2,000,000 environmental remediation expense.

Asset Management Segment Results**Highlights of the Three Months ended June 30, 2017:**

- Total revenue was up \$267,000, or 3.9%

(dollars in thousands)	Three Months Ended June 30				Change	%
	2017	%	2016	%		
Rental revenue	\$ 6,008	83.5%	\$ 5,952	85.9%	\$ 56	0.9%
Revenue-reimbursements	1,186	16.5%	975	14.1%	211	21.6%
Total revenue	7,194	100.0%	6,927	100.0%	267	3.9%
Depreciation, depletion and amortization	2,057	28.6%	1,985	28.7%	72	3.6%
Operating expenses	923	12.8%	774	11.2%	149	19.3%
Property taxes	788	10.9%	668	9.6%	120	18.0%
Management company indirect	192	2.7%	182	2.6%	10	5.5%
Corporate expense	321	4.5%	354	5.1%	(33)	-9.3%
Cost of operations	4,281	59.5%	3,963	57.2%	318	8.0%
Operating profit	<u>\$ 2,913</u>	<u>40.5%</u>	<u>\$ 2,964</u>	<u>42.8%</u>	<u>\$ (51)</u>	<u>-1.7%</u>

Total revenues in this segment were \$7,194,000, up \$267,000 or 3.9%, over the same period last year. Net Operating Income (NOI) in this segment for the second quarter was \$5,412,000, compared to \$5,485,000 in the same period last year, a decrease of 1.3%. That revenue increased while NOI decreased is primarily the result of an increase in reimbursable and non-reimbursable expenses. The reimbursable expenses increased revenue without increasing NOI, and the non-reimbursable expenses did nothing for revenue and adversely affected NOI. We ended the second quarter with total occupied square feet of 3,459,473 versus 3,319,891 at the end of the same period last year, an increase of 4.2% or 139,582 square feet. Our overall occupancy rate was 86.8%.

Depreciation and amortization expense increased primarily because of the completion of a 79,550 square foot warehouse at Hollander Business Park in April 2016 and a 103,448 square foot warehouse at Patriot Business Center in April of 2017.

Mining Royalty Lands Segment Results

Highlights of the Three Months ended June 30, 2017:

- Mining Royalty and rents revenue were down \$226,000, or 11.1%.

(dollars in thousands)	Three Months Ended June 30			
	2017	%	2016	%
Mining Royalty and rents	\$ 1,809	98.7%	2,035	98.8%
Revenue-reimbursements	24	1.3%	24	1.2%
Total revenue	1,833	100.0%	2,059	100.0%
Depreciation, depletion and amortization	35	1.9%	15	0.7%
Operating expenses	39	2.1%	45	2.2%
Property taxes	58	3.2%	59	2.9%
Corporate expense	28	1.5%	52	2.5%
Cost of operations	160	8.7%	171	8.3%
Operating profit	\$ 1,673	91.3%	\$ 1,888	91.7%

Total revenues in this segment were \$1,833,000, a decrease of 11%, versus \$2,059,000 in the same period last year. This drop is due to \$179,000 decrease in royalties at our Manassas, VA. quarry, a \$74,000 decrease in royalties at our Tyrone, GA. location, as well as a \$67,000 decrease in royalties at our Lake Sand, FL. location. Royalties are down in Manassas because of Vulcan's mining a portion of the quarry not owned by the Company for two months this quarter.

Vulcan should return to our portion for the remainder of the year. Royalties were down in Tyrone compared to last year because of excessive rainfall. As stated last quarter, royalties have fallen off in Lake Sand as a consequence of Vulcan having fully depleted our proven reserves there. Further capital expenditures would be required by our tenant to change their mining plan at Lake Sand and realize more than three million tons of possible reserves, which we do not anticipate any time soon. Total operating profit in this segment was \$1,673,000, a decrease of \$215,000 versus \$1,888,000 in the same period last year.

Land Development and Construction Segment Results

Highlights of the Three Months ended June 30, 2017:

- The Company continues to work with MRP Realty to develop Phase II of the Riverfront on the Anacostia.

(dollars in thousands)	Three Months ended June 30		
	2017	2016	Change
Rental revenue	\$ 214	130	84
Royalty and rents	—	(2)	2
Revenue-reimbursements	<u>119</u>	<u>129</u>	<u>(10)</u>
Total revenue	333	257	76
Depreciation, depletion and amortization	110	66	44
Operating expenses	40	155	(115)
Environmental remediation expense	—	2,000	(2,000)
Property taxes	283	401	(118)
Management company indirect	283	243	40
Corporate expense	<u>217</u>	<u>278</u>	<u>(61)</u>
Cost of operations	<u>933</u>	<u>3,143</u>	<u>(2,210)</u>
Operating loss	<u>\$ (600)</u>	<u>(2,886)</u>	<u>2,286</u>

The Land Development and Construction segment is responsible for (i) seeking out and identifying opportunistic purchases of income producing warehouse/office buildings, and (ii) developing our non-income producing properties into income production.

With respect to ongoing projects:

- Our new spec building at Patriot Business Center was placed in service this quarter in April and is currently 49.9% occupied and 83.0% leased. It will be 100% leased and occupied in the third quarter
- In February, the D.C. Zoning Commission voted 5-0 in favor of the Planned Unit Development (PUD) of Phase II of our RiverFront on the Anacostia project. After formal publishing of the record and a 35 day appeal period we anticipate formal approval in the third quarter of this calendar year
- We are fully engaged in the formal process of seeking PUD entitlements for our 118 acre tract in Hampstead, Md

Finally, it has been nearly a year since we placed Dock 79 and its 305 residential units “in service.” As of June 30, the residential units were 88.20% occupied and 92.46% leased, while retail units remain 80.0% leased with just one space remaining. The project is currently above pro forma in effective rents and leasing absorption with residential stabilization achieved in the third quarter of 2017. However, because of operating losses and depreciation during the lease up of Phase I (Dock 79) of RiverFront on the Anacostia this quarter, equity in loss of joint ventures was \$806,000 (including a loss of \$10,000 in the Brooksville Joint Venture).

Comparative Results of Operations for the Six months ended June 30, 2017 and 2016

Consolidated Results

(dollars in thousands)	Six months ended June 30,			
	2017	2016	Change	%
Revenues:				
Rental Revenue	\$ 12,505	\$ 12,171	\$ 334	2.7%
Mining Royalty and rents	3,548	3,789	(241)	-6.4%
Revenue-Reimbursements	<u>2,629</u>	<u>2,898</u>	<u>(269)</u>	<u>-9.3%</u>
Total Revenues	18,682	18,858	(176)	-0.9%

Cost of operations:

Depreciation/Depletion/Amortization	4,261	3,995	266	6.7%
Operating Expenses	2,003	2,505	(502)	-20.0%
Environmental remediation expense	—	2,000	(2,000)	-100.0%
Property Taxes	2,191	2,270	(79)	-3.5%
Mgmt Co Allocation-In	944	921	23	2.5%
Corporate Expense	1,893	1,692	201	11.9%
Total cost of operations	11,292	13,383	(2,091)	-15.6%

Total operating profit	7,390	5,475	1,915	35.0%
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Interest income and other	—	1	(1)	-100.0%
Interest Expense	(619)	(807)	188	-23.3%
Equity in loss of joint ventures	(1,577)	(272)	(1,305)	479.8%
Loss on investment land sold	—	(109)	109	-100.0%

Income before income taxes	5,194	4,288	906	21.1%
Provision for income taxes	2,038	1,694	344	20.3%

Net income	<u>\$ 3,156</u>	<u>\$ 2,594</u>	<u>\$ 562</u>	<u>21.7%</u>
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Net income for the first six months of 2017 was \$3,156,000 or \$.32 per share versus \$2,594,000 or \$.26 per share in the first six months last year. The increase is a result of a prior year \$2,000,000 remediation expense offset by a \$1,305,000 increase this year in equity in loss of joint ventures, primarily as a result of expenses and depreciation during the lease up of Phase I (Dock 79) of RiverFront. Total revenues were \$18,682,000, down 0.9%, versus the first six months last year. Consolidated total operating profit was up 35%.

Asset Management Segment Results**Highlights of the Six Months ended June 30, 2017:**

- Rental revenue was up \$201,000, or 1.7%

(dollars in thousands)	Six Months Ended June 30				Change	%
	2017	%	2016	%		
Rental revenue	\$ 12,111	83.6%	\$ 11,910	82.1%	\$ 201	1.7%
Revenue-reimbursements	2,368	16.4%	2,591	17.9%	(223)	-8.6%
Total revenue	14,479	100.0%	14,501	100.0%	(22)	-0.2%
Depreciation, depletion and amortization	4,022	27.8%	3,820	26.3%	202	5.3%
Operating expenses	1,818	12.6%	2,204	15.2%	(386)	-17.5%
Property taxes	1,525	10.5%	1,330	9.2%	195	14.7%
Management company indirect	379	2.6%	406	2.8%	(27)	-6.7%
Corporate expense	1,074	7.4%	874	6.0%	200	22.9%
Cost of operations	8,818	60.9%	8,634	59.5%	184	2.1%
Operating profit	<u>\$ 5,661</u>	<u>39.1%</u>	<u>\$ 5,867</u>	<u>40.5%</u>	<u>\$ (206)</u>	<u>-3.5%</u>

Total revenues in this segment were \$14,479,000, down \$22,000 or 0.2%, over the first six months last year. The decrease in revenue is primarily due to lower snow removal reimbursements during the first quarter as a result of a milder 2017 winter. Given its nature as a reimbursement, snow removal is largely a pass through expense, and expenses were down a like amount. Net Operating Income in this segment for the first six months of 2017 was \$11,101,000, compared to \$10,927,000 in the first six months of 2016, an increase of 1.6%.

Depreciation and amortization expense increased primarily because of the purchase of the Gilroy Center in Baltimore County in July of 2016 and the completion of a 79,550 square foot warehouse at Hollander Business Park in April 2016 and a 103,448 square foot warehouse at Patriot Business Center in April of 2017.

Corporate expense increased due to a first quarter stock option modification expense of \$191,000 and increased internal and external audit expense incurred as a result of the conversion from the previous fiscal year (ending September 30) to one that follows the calendar year.

Mining Royalty Lands Segment Results

Highlights of the Six Months ended June 30, 2017:

- Mining Royalty and rents revenue were down \$243,000, or 6.4%.

(dollars in thousands)	Six Months Ended June 30			
	2017	%	2016	%
Mining Royalty and rents	\$ 3,548	98.7%	3,791	98.8%
Revenue-reimbursements	47	1.3%	46	1.2%
Total revenue	3,595	100.0%	3,837	100.0%
Depreciation, depletion and amortization	74	2.1%	46	1.2%
Operating expenses	78	2.2%	84	2.2%
Property taxes	117	3.2%	118	3.1%
Corporate expense	94	2.6%	127	3.3%
Cost of operations	363	10.1%	375	9.8%
Operating profit	\$ 3,232	89.9%	\$ 3,462	90.2%

Total revenues in this segment were \$3,595,000, a decrease of 6.3%, versus \$3,837,000 in the first six months last year. This drop is largely due to a \$133,000 decrease in royalties at our Manassas, VA. location, a \$130,000 decrease at our Tyrone, GA. location, and a \$156,000 decrease in royalties at our Lake Sand, FL. location. Royalties are down in Manassas because of Vulcan's mining a portion of the quarry not owned by the Company for two months this past quarter. Vulcan should return to our portion for the remainder of the year. Royalties were down in Tyrone compared to last year because of excessive rainfall this past quarter. As stated last quarter, royalties have fallen off in Lake Sand as a consequence of Vulcan having fully depleted our proven reserves there. Further capital expenditures would be required by our tenant to change their mining plan at Lake Sand and realize more than three million tons of possible reserves, which we do not anticipate any time soon. Total operating profit in this segment was \$3,232,000, a decrease of \$230,000 versus \$3,462,000 in the first six months last year.

Land Development and Construction Segment Results

Highlights of the Six Months ended June 30, 2017:

- The Company continues to work with MRP Realty to develop Phase II of the Riverfront on the Anacostia.

(dollars in thousands)	Six Months ended June 30		
	2017	2016	Change
Rental revenue	\$ 394	261	133
Royalty and rents	—	(2)	2
Revenue-reimbursements	214	261	(47)
Total revenue	608	520	88
Depreciation, depletion and amortization	165	129	36
Operating expenses	107	217	(110)
Environmental remediation expense	—	2,000	(2,000)
Property taxes	549	822	(273)
Management company indirect	565	515	50
Corporate expense	725	691	34
Cost of operations	2,111	4,374	(2,263)
Operating loss	\$ (1,503)	(3,854)	2,351

The Land Development and Construction segment is responsible for (i) seeking out and identifying opportunistic purchases of income producing warehouse/office buildings, and (ii) developing our non-income producing properties into income production.

With respect to ongoing projects:

- Our new spec building at Patriot Business Center was placed in service this quarter in April and is currently 49.9% occupied and 83.0% leased. It will be 100% leased and occupied in the third quarter
- In February, the D.C. Zoning Commission voted 5-0 in favor of the Planned Unit Development (PUD) of Phase II of our RiverFront on the Anacostia project. After formal publishing of the record and a 35 day appeal period we anticipate formal approval in the third quarter of this calendar year
- We are fully engaged in the formal process of seeking PUD entitlements for our 118 acre tract in Hampstead, Md
- During the first quarter, we completed construction of the bulkhead at our 664E property on the Anacostia ahead of schedule and under budget.

Finally, it has been nearly a year since we placed Dock 79 and its 305 residential units “in service.” As of June 30, the residential units were 88.20% occupied and 92.46% leased, while retail units remain 80.0% leased with just one space remaining. The project is currently above pro forma in effective rents and leasing absorption with residential stabilization achieved in the third quarter of 2017. However, because of operating losses and depreciation during the lease up of Phase I (Dock 79) of RiverFront on the Anacostia this quarter, equity in loss of joint ventures was \$1,577,000 (including a loss of \$19,000 in the Brooksville Joint Venture).

Liquidity and Capital Resources. The growth of the Company’s businesses requires significant cash needs to acquire and develop land or operating buildings and to construct new buildings and tenant improvements. As of June 30, 2017, we had \$5,733,000 borrowed under our \$20 million Wells Fargo revolver, \$2,266,000 outstanding under letters of credit and \$12,001,000 available to borrow under the revolver. The Company closed on a \$20 million secured revolver with First Tennessee Bank on July 24, 2015 and as of June 30, 2017, we had \$622,000 borrowed and \$19,378,000 available to borrow under the revolver. First Tennessee has also committed to provide an additional \$20 million of secured financing to the Company on a ten year term loan amortizing on a twenty five (25) year basis. We expect to close on this second loan with First Tennessee during 2017.

Cash Flows - The following table summarizes our cash flows from operating, investing and financing activities for each of the periods presented (in thousands of dollars):

	Six months Ended June 30,	
	2017	2016
Total cash provided by (used for):		
Operating activities	\$ 8,986	7,852
Investing activities	(8,375)	563
Financing activities	(611)	(4,946)
Increase in cash and cash equivalents	\$ —	3,469
Outstanding debt at the beginning of the period	\$ 40,745	42,099
Outstanding debt at the end of the period	\$ 38,262	37,081

Operating Activities - Net cash provided by operating activities increased \$1,134,000 to \$8,986,000 for the six months ended June 30, 2017. The total of net income plus depreciation, depletion and amortization less gains on sales of property and equipment increased \$779,000 versus the same period last year. These changes are described above under “Comparative Results of Operations”. Equity in the loss of joint ventures was \$1,577,000 in the first six months of 2017 primarily as a result of expenses and depreciation during the lease up of Dock 79. Deferred income tax liabilities increased by \$3,992,000 primarily due to bonus depreciation on Phase I (Dock 79) of RiverFront. Income tax receivable was \$2,926,000 at June 30, 2017 compared to income tax payable of \$887,000 at December 31, 2016 resulting in a negative impact to net cash provided by operating activities of \$3,813,000 also primarily due to the bonus depreciation on Dock 79.

Investing Activities - For the six months ended June 30, 2017, cash required by investing activities increased \$8,938,000 to \$8,375,000.

Financing Activities – For the six months ended June 30, 2017, cash required by financing activities was \$611,000 versus \$4,946,000 in 2016 primarily due to higher borrowing on the revolver and higher exercises of employee stock options.

Credit Facilities - On January 30, 2015, in connection with the Spin-off, the Company terminated its \$55 million credit facility entered with Wells Fargo Bank, N.A. in 2012 and simultaneously entered into a new five year credit agreement with Wells Fargo with a maximum facility amount of \$20 million (the "Credit Agreement"). The Credit Agreement provides a revolving credit facility (the “Revolver”) with a \$10 million sublimit available for standby letters of credit. At the time of the Spin-off, the Company refinanced \$10,483,000 of borrowings then outstanding on the terminated revolver. As of June 30, 2017, there was \$5,733,000 outstanding on the revolver and \$2,266,000 outstanding under letters of credit and \$12,001,000 available for borrowing. The letters of credit were issued to guarantee certain obligations to state agencies related to real estate development. Most of the letters of credit are irrevocable for a period of one year and typically are automatically extended for additional one-year periods. The Revolver bears interest at a rate of 1.4% over the selected LIBOR, which may change quarterly based on the Company’s ratio of Consolidated Total Debt to Consolidated Total Capital, as defined. A commitment fee of 0.15% per annum is payable quarterly on the unused portion of the commitment. The commitment fee may also change quarterly based upon the ratio described above. The credit agreement contains certain conditions and financial covenants, including a minimum \$110 million tangible net worth. As of June 30, 2017, the tangible net worth covenant would have limited our ability to pay dividends or repurchase stock with borrowed funds to a maximum of \$76.6 million combined. The Company was in compliance with all covenants as of June 30, 2017.

During the first quarter of fiscal 2015, the Company announced the execution of a commitment from First Tennessee Bank to provide up to \$40 million dollars of mortgage backed financing in two separate facilities. On July 24, 2015 the Company closed on a five year, \$20 million secured revolver with a twenty-four month window to convert up to the full amount of the facility into a ten year term loan. Interest accrues at 1.90% over one month LIBOR plus an annual commitment fee of 0.10%. As of June 30, 2017, there was \$622,000 outstanding on the revolver and \$19,378,000 available for borrowing. The second facility is a \$20 million ten year term loan secured by to-be-determined collateral. The purpose of these loans is to facilitate growth through new construction in the Land

Development and Construction segment and/or acquisition of existing, operating buildings to be added to the Asset Management segment.

Cash Requirements – The Board of Directors has authorized Management to repurchase shares of the Company’s common stock from time to time as opportunities arise. During the six months ended June 30, 2017 the Company repurchased 2,000 shares of stock. As of June 30, 2017, \$4,883,000 was authorized for future repurchases of common stock. The Company does not currently pay any cash dividends on common stock.

The Company currently expects its 2017 capital expenditures to include approximately \$19,600,000 for real estate development and acquisitions, of which \$8,139,000 has been expended to date, which will be funded mostly out of cash generation from operations and property sales or partly from borrowings under our credit facilities.

REIT Conversion – If we elect REIT status, we would be required to distribute to our shareholders an amount equal to at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains. If we elect REIT status for the 2017 calendar year, we would expect to commence paying regular distributions in 2018. The amount, timing and frequency of future distributions, however, will be at the sole discretion of our Board of Directors and will be declared based upon various factors, many of which are beyond our control, including, our financial condition and operating cash flows, the amount required to maintain REIT status and reduce any income and excise taxes that we otherwise would be required to pay, limitations on distributions in our existing and future debt instruments, limitations on our ability to fund distributions using cash generated through taxable REIT subsidiaries and other factors that our Board of Directors may deem relevant.

We currently operate as a C corporation. A REIT is not permitted to retain earnings and profits (“E&P”) accumulated during the periods when the company or its predecessor was taxed as a C corporation. If we elect REIT status for the year ending December 31, 2017, we would issue a special distribution to our shareholders of accumulated earnings and profits on or prior to December 31, 2017 (the “E&P Distribution”). The E&P Distribution would be taxable to our shareholders. We have not yet determined the amount of our accumulated earnings and profits. We anticipate that the E&P Distribution would be made in the form of 75% FRP common stock and 25% cash, although no decision has been made as to the composition of any E&P Distribution. The timing of the planned E&P Distribution, which may or may not occur, may be affected by potential changes in tax law, the completion of various phases of the REIT conversion process and other factors beyond our control.

Summary and Outlook. As mentioned last quarter, we were informed by Vulcan Materials Company that Lee County issued Vulcan a Mine Operating Permit (MOP) for our section of their operations in Ft. Myers, the last of the permits required to begin mining this property. This action is the culmination of over twenty years of work to get this property fully entitled and allows Vulcan to begin production immediately. Vulcan has now begun mining at this location. While production in our third quarter will be offset by prepaid royalties, going forward, Vulcan’s ability to finally realize the reserves at this site should positively impact revenue and income as it creates an opportunity to collect more than the minimums from this location.

During the remainder of this year, we expect to reach residential stabilization of Phase I (Dock 79) of RiverFront on the Anacostia and continue pre-development activities for Phase II with the expectation that we will break ground in the last quarter of this year or the first quarter of 2018. Our biggest decision this year will be whether or not to convert this company into a Real Estate Investment Trust. As mentioned previously, we have taken steps to ensure that we at least have the option. Any changes in the federal tax code will factor into our analysis of the costs and benefits of REIT status.

Subsequent Event. In our recent month ending July 31, 2017, Phase I (Dock 79) of the development known as RiverFront on the Anacostia in Washington, D.C., a 300,000 square foot residential apartment building developed by a joint venture between the Company and MRP SE Waterfront Residential, LLC (“MRP”), reached stabilization, meaning 90% of the individual apartments have been leased and are occupied by third party tenants. Upon reaching stabilization, the Company has, for a period of one year, the exclusive right to (i) cause the joint venture to sell the property or (ii) cause the Company’s and MRP’s percentage interests in the joint venture to be adjusted so as to take into account the value of the development at the time of stabilization.

The attainment of stabilization also results in a change of control for accounting purposes as the veto rights of the minority shareholder lapsed and the Company became the primary beneficiary. As such, beginning July 1, 2017, the Company will consolidate the assets (at current fair value), liabilities and operating results of the joint venture. This consolidation will have a material impact on the Company's balance sheet as the Company is required to recognize the fair value of the assets and record the related debt of the joint venture.

The company is in process of obtaining an opinion of fair value of the assets of the joint venture and finalizing the accounting entries to effect the consolidation, including an anticipated increase in net assets of \$139 million, increase in liabilities of approximately \$93 million and increase in net equity of approximately \$46 million including an estimated gain upon the consolidation which may range from \$20 million to \$25 million depending upon the ultimate fair value determination.

Non-GAAP Financial Measures.

To supplement the financial results presented in accordance with GAAP, FRP presents certain non-GAAP financial measures within the meaning of Regulation G promulgated by the Securities and Exchange Commission. The non-GAAP financial measure included in this quarterly report are net operating income (NOI). FRP uses these non-GAAP financial measures to analyze its continuing operations and to monitor, assess, and identify meaningful trends in its operating and financial performance. These measures are not, and should not be viewed as, substitutes for GAAP financial measures.

Net Operating Income Reconciliation Three months ended 06/30/17 (in thousands)

	Asset Management Segment	Land Development Segment	Mining Royalties Segment	FRP Holdings Totals
Income (loss) from continuing operations	1,552	(853)	1,014	1,713
Income Tax Allocation	990	(543)	649	1,096
Inc. (loss) from continuing operations before income taxes	2,542	(1,396)	1,663	2,809
Less:				
Lease intangible rents	1	—		
Unrealized rents	70	—		
Plus:				
Equity in loss of Joint Venture	—	796		
Interest Expense	371	—		
Depreciation/Amortization	2,057	110		
Management Co. Indirect	192	283		
Allocated Corporate Expenses	321	217		
Net Operating Income (loss)	5,412	10		

Net Operating Income Reconciliation Three months ended 06/30/16 (in thousands)

	Asset Management Segment	Land Development Segment	Mining Royalties Segment	FRP Holdings Totals
Income (loss) from continuing operations	1,556	(1,927)	1,145	774
Income Tax Allocation	1,016	(1,259)	748	505
Inc. (loss) from continuing operations before income taxes	2,572	(3,186)	1,893	1,279
Less:				
Lease intangible rents	5	—		
Plus:				

Unrealized rents	5	—
Equity in loss of Joint Venture	—	176
Loss on investment land sold	—	124
Interest Expense	392	—
Depreciation/Amortization	1,985	66
Management Co. Indirect	182	243
Allocated Corporate Expenses	<u>354</u>	<u>278</u>
Net Operating Income (loss)	5,485	(2,299)

Net Operating Income Reconciliation
Six months ended 06/30/17 (in thousands)

	Asset Management Segment	Land Development Segment	Mining Royalties Segment	FRP Holdings Totals
Income (loss) from continuing operations	3,064	(1,860)	1,952	3,156
Income Tax Allocation	<u>1,978</u>	<u>(1,201)</u>	<u>1,261</u>	<u>2,038</u>
Inc. (loss) from continuing operations before income taxes	5,042	(3,061)	3,213	5,194
Less:				
Lease intangible rents	4	—		
Unrealized rents	31	—		
Plus:				
Equity in loss of Joint Venture	—	1,558		
Interest Expense	619	—		
Depreciation/Amortization	4,022	165		
Management Co. Indirect	379	565		
Allocated Corporate Expenses	<u>1,074</u>	<u>725</u>		
Net Operating Income (loss)	11,101	(48)		

Net Operating Income Reconciliation
Six months ended 06/30/16 (in thousands)

	Asset Management Segment	Land Development Segment	Mining Royalties Segment	FRP Holdings Totals
Income (loss) from continuing operations	3,061	(2,558)	2,091	2,594
Income Tax Allocation	<u>1,999</u>	<u>(1,669)</u>	<u>1,364</u>	<u>1,694</u>
Inc. (loss) from continuing operations before income taxes	5,060	(4,227)	3,455	4,288
Less:				
Lease intangible rents	9	—		
Other income	—	1		
Unrealized rents	31	—		
Plus:				
Equity in loss of Joint Venture	—	251		
Loss on investment land sold	—	124		
Interest Expense	807	—		
Depreciation/Amortization	3,820	129		
Management Co. Indirect	406	515		
Allocated Corporate Expenses	<u>874</u>	<u>691</u>		

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Interest Rate Risk - We are exposed to the impact of interest rate changes through our variable-rate borrowings under Credit Agreements with Wells Fargo and First Tennessee Bank.

Under the Wells Fargo Credit Agreement, the applicable spread for borrowings at June 30, 2017 was 1.4% over libor. The applicable spread for such borrowings will be increased in the event that our debt to capitalization ratio as calculated under the Wells Fargo Credit Agreement Facility exceeds a target level.

The applicable borrowing spread above libor at June 30, 2017 with First Tennessee Bank was 1.9%.

At June 30, 2017 a 1% increase in the current per annum interest rate would result in \$57,330 of additional interest expense during the next 12 months under the Wells Fargo Credit Agreement. The foregoing calculation assumes an instantaneous 1% increase in the rates under the Credit Agreement and that the principal amount under the Credit Agreement is the amount outstanding as of June 30, 2017. The calculation, therefore, does not account for the differences in the market rates upon which the interest rates of our indebtedness are based or possible actions, such as prepayment, which we may take in response to any rate increase.

ITEM 4. CONTROLS AND PROCEDURES

CONCLUSION REGARDING THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

The Company also maintains a system of internal accounting controls over financial reporting that are designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving the desired control objectives.

As of June 30, 2017, the Company, under the supervision and with the participation of the Company's management, including the CEO, CFO and CAO, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's CEO, CFO and CAO concluded that the Company's disclosure controls and procedures are effective in alerting them in a timely manner to material information required to be included in periodic SEC filings.

There have been no changes in the Company's internal controls over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. RISK FACTORS

In addition to the other information set forth in this report and the Risks related to our potential REIT election, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended September 30, 2016, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. PURCHASES OF EQUITY SECURITIES BY THE ISSUER

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 1 Through April 30	—	\$ —	—	\$ 4,883,000
May 1 Through May 31	—	\$ —	—	\$ 4,883,000
June 1 Through June 30	—	\$ —	—	\$ 4,883,000
Total	—	\$ —	—	

(1) On February 4, 2015, the Board of Directors authorized management to expend up to \$5,000,000 to repurchase shares of the Company’s common stock from time to time as opportunities arise.

Item 6. EXHIBITS

- (a) Exhibits. The response to this item is submitted as a separate Section entitled "Exhibit Index", on page 34.

SIGNATURES

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

FRP Holdings, Inc.

Date: August 8, 2017

By JOHN D. BAKER II
John D. Baker II
Chief Executive Officer
(Principal Executive Officer)

By JOHN D. MILTON, JR.
John D. Milton, Jr.
Executive Vice President, Treasurer,
Secretary and Chief Financial Officer
(Principal Financial Officer)

By JOHN D. KLOPFENSTEIN
John D. Klopfenstein
Controller and Chief Accounting
Officer (Principal Accounting Officer)

FRP HOLDINGS, INC.
FORM 10-Q FOR THE THREE MONTHS ENDED JUNE 30, 2017
EXHIBIT INDEX

(14)	Financial Code of Ethical Conduct between the Company, Chief Executive Officers and Financial Managers, as revised on January 28, 2004, which is available on the Company's website at www.frpholdings.com .
(31)(a)	Certification of John D. Baker II.
(31)(b)	Certification of John D. Milton, Jr.
(31)(c)	Certification of John D. Klopfenstein.
(32)	Certification of Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.XSD	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

I, John D. Baker II, certify that:

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

Date: August 8, 2017

/s/John D. Baker II
Chief Executive Officer

I, John D. Milton, Jr., certify that:

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

Date: August 8, 2017

/s/John D. Milton, Jr.
Executive Vice President, Treasurer,
Secretary and Chief Financial Officer

I, John D. Klopfenstein, certify that:

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

Date: August 8, 2017

Officer

/s/John D. Klopfenstein
Controller and Chief Accounting

Exhibit 32

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of FRP Holdings, Inc.

FRP Holdings, Inc.

Date: August 8, 2017

By /s/JOHN D. BAKER II
John D. Baker II
Chief Executive Officer
(Principal Executive Officer)

By /s/JOHN D. MILTON, JR.
John D. Milton, Jr.
Executive Vice President, Treasurer,
Secretary and Chief Financial Officer
(Principal Financial Officer)

By /s/JOHN D. KLOPFENSTEIN
John D. Klopfenstein
Controller and Chief Accounting
Officer (Principal Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to FRP Holdings, Inc. and will be retained by FRP Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification accompanies the issuer's Quarterly report on Form 10-Q and is not filed as provided in SEC Release Nos. 33-8212, 34-4751 and IC-25967, dated June 30, 2003.