

AGREE REALTY CORP  
Form 10-Q  
November 05, 2010

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

FORM 10-Q

Mark One

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2010

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-12928

Agree Realty Corporation  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction  
of incorporation or organization)

38-3148187  
(I.R.S. Employer  
Identification No.)

31850 Northwestern Highway, Farmington Hills, Michigan  
(Address of principal executive offices)

48334  
(Zip code)

Registrant's telephone number, including area code: (248) 737-4190

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer  Smaller reporting company

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(Do not check if a smaller reporting  
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 5, 2010, the Registrant had 9,756,764 shares of common stock, \$0.0001 par value, outstanding.

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Agree Realty Corporation

Form 10-Q

Index

Page

Part I:	Financial Information	
Item 1.	Interim Consolidated Financial Statements	
	Consolidated Balance Sheets as of September 30, 2010 (Unaudited) and December 31, 2009	1-2
	Consolidated Statements of Income (Unaudited) for the three months ended September 30, 2010 and 2009	3
	Consolidated Statements of Income (Unaudited) for the nine months ended September 30, 2010 and 2009	4
	Consolidated Statements of Stockholders' Equity (Unaudited) for the nine months ended September 30, 2010	5
	Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2010 and 2009	6-7
	Notes to Consolidated Financial Statements (Unaudited)	8-13
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14-21
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	21-22
Item 4.	Controls and Procedures	22
Part II:	Other Information	
Item 1.	Legal Proceedings	23
Item 1A.	Risk Factors	23
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 3.	Defaults Upon Senior Securities	23
Item 4.	{Removed and Reserved}	23
Item 5.	Other Information	23
Item 6.	Exhibits	23-24



Part I – Financial Information  
Item 1 – Interim Consolidated Financial Statements

Agree Realty Corporation		
Consolidated Balance Sheets		
	September 30, 2010 (Unaudited)	December 31, 2009
<b>Assets</b>		
<b>Real Estate Investments</b>		
Land	\$ 95,440,787	\$ 95,047,459
Buildings	227,913,460	220,604,734
Less accumulated depreciation	(67,076,208)	(64,076,469)
	256,278,039	251,575,724
Property under development	10,371,295	4,791,975
Property held for sale, net	3,016,295	-
<b>Net Real Estate Investments</b>	<b>269,665,629</b>	<b>256,367,699</b>
Cash and Cash Equivalents	336,934	88,675
Accounts Receivable - Tenants, net of allowance of \$35,000 at September 30, 2010 and December 31, 2009	795,537	1,986,836
<b>Unamortized Deferred Expenses</b>		
Financing costs, net of accumulated amortization of \$5,326,153 and \$5,126,333 at September 30, 2010 and December 31, 2009	1,161,343	1,360,514
Leasing costs, net of accumulated amortization of \$900,476 and \$841,427 at September 30, 2010 and December 31, 2009	565,848	537,100
<b>Other Assets</b>	<b>1,531,539</b>	<b>847,894</b>
	<b>\$ 274,056,830</b>	<b>\$ 261,788,718</b>

See accompanying notes to consolidated financial statements.

## Agree Realty Corporation

## Consolidated Balance Sheets

September 30,    December 31,  
2010                    2009  
(Unaudited)

Liabilities and Stockholders' Equity		
Mortgages Payable	\$ 72,559,375	\$ 75,552,802
Notes Payable	7,897,397	29,000,000
Dividends and Distributions Payable	5,143,682	4,354,163
Deferred Revenue	9,518,142	10,035,304
Accrued Interest Payable	261,797	261,012
Accounts Payable		
Capital expenditures	975,803	352,430
Operating	823,943	1,529,085
Interest Rate Swap	1,016,915	74,753
Deferred Income Taxes	705,000	705,000
Tenant Deposits	83,802	97,285
Total Liabilities	98,985,856	121,961,834
Stockholders' Equity		
Common stock, \$0.0001 par value; 13,350,000 shares authorized, 9,756,764 and 8,196,074 shares issued and outstanding	976	820
Excess stock, \$0.0001 par value, 6,500,000 shares authorized, 0 shares issued and outstanding	—	—
Series A junior participating preferred stock, \$0.0001 par value, 150,000 shares authorized, 0 shares issued and outstanding	—	—
Additional paid-in capital	179,402,697	147,466,101
Deficit	(6,542,854)	(10,632,798)
Accumulated other comprehensive income (loss)	(979,422)	(70,806)
Total stockholders' equity—Agree Realty Corporation	171,881,397	136,763,317
Non-controlling interest	3,189,577	3,063,567
Total Stockholders' Equity	175,070,974	139,826,884
	\$ 274,056,830	\$ 261,788,718

See accompanying notes to consolidated financial statements.



## Consolidated Statements of Income (Unaudited)

	Three Months Ended		Three Months Ended	
	September 30, 2010		September 30, 2009	
<b>Revenues</b>				
Minimum rents	\$	8,614,742	\$	8,344,991
Percentage rents		7,843		-
Operating cost reimbursements		590,089		597,632
Development fee income		47,000		158,430
Other income		28,093		7,703
<b>Total Revenues</b>		<b>9,287,767</b>		<b>9,108,756</b>
<b>Operating Expenses</b>				
Real estate taxes		455,382		472,083
Property operating expenses		396,900		410,088
Land lease payments		226,575		214,800
General and administrative		1,150,538		1,083,163
Depreciation and amortization		1,477,165		1,392,621
<b>Total Operating Expenses</b>		<b>3,706,560</b>		<b>3,572,755</b>
<b>Income From Operations</b>		<b>5,581,207</b>		<b>5,536,001</b>
<b>Other Expense</b>				
Interest expense, net		(1,097,823)		(1,145,605)
<b>Income Before Discontinued Operations</b>		<b>4,483,384</b>		<b>4,390,396</b>
Gain (loss) on sale of asset from discontinued operations		-		-
<b>Income from discontinued operations</b>		<b>57,184</b>		<b>216,211</b>
<b>Net Income</b>		<b>4,540,568</b>		<b>4,606,607</b>
<b>Less Net Income Attributable to Non-Controlling Interest</b>		<b>(148,960)</b>		<b>(189,412)</b>
<b>Net Income Attributable to Agree Realty Corporation</b>	\$	<b>4,391,608</b>	\$	<b>4,417,195</b>
<b>Earnings Per Share – Basic</b>	\$	<b>0.46</b>	\$	<b>0.55</b>
<b>Earnings Per Share – Dilutive</b>	\$	<b>0.46</b>	\$	<b>0.55</b>
<b>Dividend Declared Per Share</b>	\$	<b>0.51</b>	\$	<b>0.51</b>
<b>Weighted Average Number of Common Shares Outstanding – Basic</b>		<b>9,580,928</b>		<b>8,040,461</b>
<b>Weighted Average Number of Common Shares Outstanding – Dilutive</b>		<b>9,618,240</b>		<b>8,063,717</b>

See accompanying notes to consolidated financial statements.





## Consolidated Statements of Income (Unaudited)

	Nine Months Ended		September 30, 2010		September 30, 2009	
<b>Revenues</b>						
Minimum rents	\$	25,401,095	\$	24,794,527		
Percentage rents		20,842		7,777		
Operating cost reimbursements		1,900,483		1,998,217		
Development fee income		582,904		158,430		
Other income		62,696		20,236		
<b>Total Revenues</b>		<b>27,968,020</b>		<b>26,979,187</b>		
<b>Operating Expenses</b>						
Real estate taxes		1,452,046		1,439,544		
Property operating expenses		1,122,616		1,200,343		
Land lease payments		679,725		644,400		
General and administrative		3,604,296		3,332,881		
Depreciation and amortization		4,336,036		4,137,293		
<b>Total Operating Expenses</b>		<b>11,194,719</b>		<b>10,754,461</b>		
<b>Income From Operations</b>		<b>16,773,301</b>		<b>16,224,726</b>		
<b>Other Expense</b>						
Interest expense, net		(3,491,709)		(3,432,020)		
<b>Income Before Discontinued Operations</b>		<b>13,281,592</b>		<b>12,792,706</b>		
Gain on sale of asset from discontinued operations		5,328,333		-		
<b>Income from discontinued operations</b>		<b>330,583</b>		<b>638,656</b>		
<b>Net Income</b>		<b>18,940,508</b>		<b>13,431,362</b>		
<b>Less Net Income Attributable to Non-Controlling Interest</b>		<b>(691,413)</b>		<b>(763,944)</b>		
<b>Net Income Attributable to Agree Realty Corporation</b>	\$	<b>18,249,095</b>	\$	<b>12,667,418</b>		
<b>Earnings Per Share – Basic</b>	\$	<b>2.03</b>	\$	<b>1.60</b>		
<b>Earnings Per Share – Dilutive</b>	\$	<b>2.02</b>	\$	<b>1.60</b>		
<b>Dividend Declared Per Share</b>	\$	<b>1.53</b>	\$	<b>1.51</b>		
<b>Weighted Average Number of Common Shares Outstanding – Basic</b>		<b>9,000,649</b>		<b>7,897,899</b>		
<b>Weighted Average Number of Common Shares Outstanding – Dilutive</b>		<b>9,034,629</b>		<b>7,909,132</b>		

See accompanying notes to consolidated financial statements.



Agree Realty Corporation

## Consolidated Statement of Stockholders' Equity (Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Non-Controlling Interest	Deficit	Accumulated Other Comprehensive Income (loss)
Balance, January 1, 2010	8,196,074	\$ 820	\$ 147,466,101	\$ 3,063,567	\$ (10,632,798)	\$ (70,806)
Issuance of common stock, net of issuance costs	1,495,000	150	31,072,596	—	—	—
Issuance of shares under the Equity Incentive Plan	86,300	9	—	—	—	—
Forfeiture of shares	(20,610)	(3)	—	—	—	—
Vesting of restricted stock	—	—	864,000	—	—	—
Dividends and distributions declared for the period January 1, 2010 to September 30, 2010	—	—	—	(531,857)	(14,159,151)	—
Other comprehensive (loss)	—	—	—	(33,546)	—	(908,616)
Net income for the period January 1, 2010 to September 30, 2010	—	—	—	691,413	18,249,095	—
Balance, September 30, 2010	9,756,764	\$ 976	\$ 179,402,697	\$ 3,189,577	\$ (6,542,854)	\$ (979,422)

See accompanying notes to consolidated financial statements.

Agree Realty Corporation

## Consolidated Statements of Cash Flows (Unaudited)

Nine Months Ended    Nine Months Ended  
September 30, 2010    September 30, 2009

<b>Cash Flows From Operating Activities</b>			
Net income	\$	18,940,508	\$ 13,431,362
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation		4,333,591	4,192,607
Amortization		266,258	257,474
Stock-based compensation		864,000	882,000
Gain on sale of asset		(5,328,333)	-
(Increase) decrease in accounts receivable		1,191,299	(64,311)
(Increase) Decrease in other assets		(728,226)	78,826
Decrease in accounts payable		(705,142)	(621,677)
Decrease in deferred revenue		(517,162)	(517,163)
Increase (Decrease) in accrued interest		785	(268,743)
Increase (Decrease) in tenant deposits		(13,483)	16,448
<b>Net Cash Provided By Operating Activities</b>		<b>18,304,095</b>	<b>17,386,823</b>
<b>Cash Flows From Investing Activities</b>			
Acquisition of real estate investments (including capitalized interest of \$288,477 in 2010 and \$171,079 in 2009)		(21,051,638)	(8,223,409)
Proceeds from sale of asset		9,761,445	-
Increase in cash - restricted		-	-
<b>Net Cash Used In Investing Activities</b>		<b>(11,290,193)</b>	<b>(8,223,409)</b>
<b>Cash Flows From Financing Activities</b>			
Proceeds from common stock offering		31,072,752	-
Payments of mortgages payable		(2,993,427)	(2,525,225)
Dividends and limited partners' distributions paid		(13,901,489)	(12,779,126)
Line-of-credit net borrowings (repayments)		(21,102,603)	7,005,000
Repayments of capital expenditure payables		(352,430)	(850,225)
Payments of financing costs		(649)	(205,720)
Payments of leasing costs		(87,797)	(115,359)
<b>Net Cash Used In Financing Activities</b>		<b>(7,365,643)</b>	<b>(9,470,655)</b>
<b>Net Decrease In Cash and Cash Equivalents</b>		<b>(351,741)</b>	<b>(307,241)</b>
Cash and Cash Equivalents, beginning of period		688,675	668,677
<b>Cash and Cash Equivalents, end of period</b>	<b>\$</b>	<b>336,934</b>	<b>\$ 361,436</b>

Agree Realty Corporation

## Consolidated Statements of Cash Flows (Unaudited)

Nine Months Ended    Nine Months Ended  
September 30, 2010    September 30, 2009

## Supplemental Disclosure of Cash Flow Information

Cash paid for interest (net of amounts capitalized)	\$	3,293,412	\$	3,486,260
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## Supplemental Disclosure of Non-Cash Transactions

Dividends and limited partners' distributions declared and unpaid	\$	5,143,682	\$	4,348,153
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Conversion of OP Units	\$	-	\$	2,398,186
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Real estate investments financed with accounts payable	\$	975,803	\$	270,100
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See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

1. **Basis of Presentation** The accompanying unaudited consolidated financial statements of Agree Realty Corporation (the “Company”) for the three and nine months ended September 30, 2010 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The consolidated balance sheet at December 31, 2009 has been derived from the audited consolidated financial statements at that date. Operating results for the nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010 or for any other interim period. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

The Company has evaluated subsequent events since September 30, 2010 for events requiring recording or disclosure in this quarterly report on Form 10-Q.

2. **Stock-Based Compensation** The Company estimates the fair value of restricted stock and stock option grants at the date of grant and amortizes those amounts into expense on a straight line basis or amount vested, if greater, over the appropriate vesting period.

As of September 30, 2010, there was \$3,094,081 unrecognized compensation costs related to the outstanding restricted shares, which is expected to be recognized over a weighted average period of 3.47 years. The Company used a 0% discount factor and forfeiture rate for determining the fair value of restricted stock. The forfeiture rate was based on historical results and trends.

The holder of a restricted share award is generally entitled at all times on and after the date of issuance of the restricted shares to exercise the rights of a stockholder of the Company, including the right to vote the shares and the right to receive dividends on the shares.

	Shares Outstanding	Weighted Average Grant Date Fair Value
Unvested restricted shares at January 1, 2010	140,980	\$ 22.40
Restricted shares granted	86,300	23.23
Restricted shares vested	(31,350)	23.70
Restricted shares forfeited	(20,610)	16.47
Unvested restricted shares at September 30, 2010	175,320	\$ 22.51

## Agree Realty Corporation

3. Earnings Per Share Earnings per share has been computed by dividing the net income attributable to Agree Realty Corporation by the weighted average number of common shares outstanding.

The following is a reconciliation of the denominator of the basic net earnings per common share computation to the denominator of the diluted net earnings per common share computation for each of the periods presented:

	Three Months Ended September 30,	
	2010	2009
Weighted average number of common shares outstanding	9,756,248	8,193,161
Unvested restricted stock	(175,320)	(152,700)
Weighted average number of common shares outstanding used in basic earnings per share	9,580,928	8,040,461
Weighted average number of common shares outstanding used in basic earnings per share	9,580,928	8,040,461
Effect of dilutive securities:		
Restricted stock	37,312	23,256
Common stock options	—	—
Weighted average number of common shares outstanding used in diluted earnings per share	9,618,240	8,063,717
	Nine Months Ended September 30,	
	2010	2009
Weighted average number of common shares outstanding	9,175,969	8,050,599
Unvested restricted stock	(175,320)	(152,700)
Weighted average number of common shares outstanding used in basic earnings per share	9,000,649	7,897,899
Weighted average number of common shares outstanding used in basic earnings per share	9,000,649	7,897,899
Effect of dilutive securities:		
Restricted stock	33,980	11,233
Common stock options	—	—
Weighted average number of common shares outstanding used in diluted earnings per share	9,034,629	7,909,132

4. Recent Accounting Pronouncements Effective January 1, 2010, companies are required to separately disclose the amounts of significant transfers of assets and liabilities into and out of Level 1, Level 2 and Level 3 of the fair value hierarchy and the reasons for those transfers. Companies must also develop and disclose their policy for determining when transfers between levels are recognized. In addition companies are required to provide fair value disclosures of each class rather than each major category of assets and liabilities. For fair value measurements using significant



other observable inputs (Level 2) or significant unobservable inputs (Level 3), companies are required to disclose the valuation technique and the inputs used in determining fair value for each class of assets and valuation technique and the inputs used in determining fair value for each class of assets and liabilities. Adoption of this standard did not have a material effect on the Company's consolidated results of operations or financial position.

Effective January 1, 2010, companies are required to separately disclose purchases, sales, issuances and settlements on a gross basis in the reconciliation of recurring Level 3 fair value measurements. Adoption of this standard did not have a material effect on the Company's consolidated results of operations or financial position.

Agree Realty Corporation

5. **Derivative Instruments and Hedging Activity** On January 2, 2009, the Company entered into an interest rate swap agreement for a notional amount of \$24,501,280, effective on January 2, 2009 and ending on July 1, 2013. The notional amount decreases over the term to match the outstanding balance of the hedged borrowing. The Company entered into this derivative instrument to hedge against the risk of changes in future cash flows related to changes in interest rates on \$24,501,280 of the total variable-rate borrowings outstanding. Under the terms of the interest rate swap agreement, the Company will receive from the counterparty interest on the notional amount based on 1.5% plus one-month LIBOR and will pay to the counterparty a fixed rate of 3.744%. This swap effectively converted \$24,501,280 of variable-rate borrowings to fixed-rate borrowings beginning on January 2, 2009 and through July 1, 2013.

Companies are required to recognize all derivative instruments as either assets or liabilities at fair value on the balance sheet. The Company has designated this derivative instrument as a cash flow hedge. As such, changes in the fair value of the derivative instrument are recorded as a component of other comprehensive income (loss) (“OCI”) for the nine months ended September 30, 2010 to the extent of effectiveness. The ineffective portion of the change in fair value of the derivative instrument is recognized in interest expense. For the nine months ended September 30, 2010, the Company has determined this derivative instrument to be an effective hedge.

The Company does not use derivative instruments for trading or other speculative purposes and did not have any other derivative instruments or hedging activities as of September 30, 2010.

6. **Fair Value of Financial Instruments** Certain of the Company’s assets and liabilities are disclosed at fair value. Fair value is 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. In determining fair value, the Company uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Company attempts to utilize valuation methods that maximize the uses of observable inputs and minimizes the use of unobservable inputs. Based on the operability of the inputs used in the valuation methods, the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

The table below sets forth the Company’s fair value hierarchy for liabilities measured or disclosed at fair value as of September 30, 2010.

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	Level 1	Level 2	Level 3
<b>Liability:</b>			
Interest rate swap	\$	—\$ 1,016,915	\$ —
Fixed rate mortgage	\$	—\$	—\$ 49,183,000
Variable rate mortgage	\$	—\$	—\$ 22,278,000
Variable rate debt	\$	—\$ 7,897,397	\$ —

## Agree Realty Corporation

The carrying amounts of the Company's short-term financial instruments, which consist of cash, cash equivalents, receivables, and accounts payable, approximate their fair values. The fair value of the interest rate swap was derived using estimates to settle the interest rate swap agreement, which is based on the net present value of expected future cash flows on each leg of the swap utilizing market-based inputs and discount rates reflecting the risks involved. The fair value of fixed and variable rate mortgages was derived using the present value of future mortgage payments based on estimated current market interest rates. The fair value of variable rate debt is estimated to be equal to the face value of the debt because the interest rates are floating and is considered to approximate fair value.

7. Total Comprehensive Income (Loss) The following is a reconciliation of net income to comprehensive income attributable to Agree Realty Corporation for the three and nine months ended September 30, 2010 and 2009.

	Three months ended September 30, 2010	Three months ended September 30, 2009
Net income	\$ 4,540,568	\$ 4,606,607
Other comprehensive income (loss)	(256,062)	121,914
Total comprehensive income before non-controlling interest	4,284,506	4,728,521
Less: non-controlling interest	148,960	189,412
Total comprehensive income after non-controlling interest	4,135,546	4,539,109
Non-controlling interest of comprehensive income (loss)	(8,809)	(8,797)
Comprehensive income attributable to Agree Realty Corporation	\$ 4,144,355	\$ 4,547,906
	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net income	\$ 18,940,508	\$ 13,431,362
Other comprehensive income (loss)	(942,162)	(104,868)
Total comprehensive income before non-controlling interest	17,998,346	13,326,494
Less: non-controlling interest	691,413	763,944
Total comprehensive income after non-controlling interest	17,306,933	12,562,550
Non-controlling interest of comprehensive income (loss)	(33,546)	(5,967)
Comprehensive income attributable to Agree Realty Corporation	\$ 17,340,479	\$ 12,568,517

8. Notes Payable Agree Limited Partnership (the "Operating Partnership") has in place a \$55 million Credit Facility with Bank of America, as the agent, which is guaranteed by the Company. The Credit Facility was extended in January 2009 and now matures in November 2011. Advances under the Credit Facility bear interest within a range of one-month to 12-month LIBOR plus 100 basis points to 150 basis points or the lender's prime rate, at the Company's option, based on certain factors such as the ratio of the Company's indebtedness to the capital value of the Company's properties. The Credit Facility generally is used to fund property acquisitions and development activities. As of September 30, 2010, \$3,672,397 was outstanding under the Credit Facility bearing a weighted average interest rate of 1.26%.

The Company also has in place a \$5 million Line of Credit that was extended in October 2009 and now matures in November 2011. The Line of Credit bears interest at the lender's prime rate less 75 basis points or 150 basis points in excess of the one-month to 12-month LIBOR rate, at the Company's option. The purpose of the Line of Credit is generally to provide working capital and fund land options and start-up costs associated with new projects. As of September 30, 2010, \$4,225,000 was outstanding under the Line of Credit bearing a weighted average interest rate of 2.50%.

## Agree Realty Corporation

## 9. Mortgages Payable      Mortgages payable consisted of the following:

	September 30, 2010	December 31, 2009
Note payable in monthly installments of \$39,591 plus interest at 150 basis points over LIBOR (1.76% and 1.73% at September 30, 2010 and December 31, 2009, respectively). A final balloon payment in the amount of \$22,318,478 is due on July 14, 2013 unless extended for a two year period at the option of the Company	\$ 23,792,828	\$ 24,153,965
Note payable in monthly installments of \$153,838 including interest at 6.90% per annum, with the final monthly payment due January 2020; collateralized by related real estate and tenants' leases	12,677,361	13,385,336
Note payable in monthly installments of \$91,675 including interest at 6.27% per annum, with the final monthly payment due July 2026; collateralized by related real estate and tenants' leases	11,027,001	11,325,671
Note payable in monthly installments of \$128,205 including interest at 6.20% per annum, with a final monthly payment due November 2018; collateralized by related real estate and tenants' leases	9,839,008	10,517,686
Note payable in monthly installments of \$99,598 including interest at 6.63% per annum, with the final monthly payment due February 2017; collateralized by related real estate and tenants' leases	6,232,630	6,803,218
Note payable in monthly installments of \$57,423 including interest at 6.50% per annum, with the final monthly payment due February 2023; collateralized by related real estate and tenant lease	5,859,004	6,083,869
Note payable in monthly installments of \$25,631 including interest at 7.50% per annum, with the final monthly payment due May 2022; collateralized by related real estate and tenant lease	2,386,793	2,480,272
Note payable in monthly installments of \$12,453 including interest at 6.85% per annum, with the final monthly payment due December 2017; collateralized by related real estate and tenant lease	744,750	802,785

Total	\$	72,559,375	\$	75,552,802
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Future scheduled annual maturities of mortgages payable for years ending September 30 are as follows: 2011 - \$4,226,399; 2012 - \$4,509,291; 2013 - \$26,982,140; 2014 - \$4,525,828; 2015 - \$4,832,786 and \$27,482,931 thereafter. The weighted average interest rate at September 30, 2010 and December 31, 2009 was 5.64% and 5.66%, respectively.

10. Discontinued Operations
- In March 2010, the Company completed the sale of a single tenant property for approximately \$9.8 million and recognized a gain of approximately \$5,328,000. The property was leased to Borders Group, Inc. and was located in Santa Barbara, California. In addition, the Company has classified a single tenant property located in Ocala, Florida as held for sale as of September 30, 2010. The results of operations for these properties are presented as discontinued operations in the Company's Consolidated Statements of Income. The revenues for the properties were \$251,054 and \$743,908 for the three and nine months ended September 30, 2009, respectively, and \$71,761 and \$394,576 for the three and nine months ended September 30, 2010, respectively. The expenses for the properties were \$34,843 and \$105,252 for the three and nine months ended September 30, 2009, respectively, and \$14,577 and \$63,993 for the three and nine months ended September 30, 2010, respectively.

Agree Realty Corporation

11. Purchase Accounting for Acquisitions of Real Estate Acquired real estate assets have been accounted for using the purchase method of accounting and accordingly, the results of operations are included in the consolidated statements of income from the respective dates of acquisition. The Company allocates the purchase price to (i) land and buildings based on management's internally prepared estimates and (ii) identifiable intangible assets or liabilities generally consisting of above-market and below-market in-place leases and in-place leases. The Company uses estimates of fair value based on estimated cash flows, using appropriate discount rates, and other valuation techniques, including management's analysis of comparable properties in the existing portfolio, to allocate the purchase price to acquired tangible and intangible assets.

The estimated fair value of above-market and below-market in-place leases for acquired properties is recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. During 2010, all acquisitions had contractual amounts to be paid pursuant to in-place leases that were consistent with management's estimate of fair market lease rates, and therefore no intangible assets were recorded related to these allocations.

The aggregate fair value of other intangible assets consisting of in-place, at market leases, is estimated based on internally developed methods to determine the respective property values and are included in Buildings in the consolidated balance sheets. Factors considered by management in their analysis include an estimate of costs to execute similar leases and operating costs saved.

The fair value of intangible assets acquired are amortized to depreciation and amortization on the consolidated statements of income over the remaining term of the respective leases.

12. S u b s e q u e n t Event The Company completed two transactions subsequent to September 30, 2010. In one transaction the Company disposed of a single tenant property located in Ocala, Florida. In the other transaction, the Company terminated a lease agreement by delivering a building to the ground lessor in Aventura, Florida and was relieved of the obligation to pay future ground lease rentals. The aggregate net loss will be approximately \$600,000.



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

### Forward-Looking Statements

We have included herein certain 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 "Exchange Act"). These forward-looking statements represent our expectations, plans and beliefs concerning future events and may be identified by terminology such as "anticipate," "estimate," "should," "expect," "believe," "intend" and similar expressions. Although the forward-looking statements made in this report are based on good faith beliefs and our reasonable judgment reflecting current information, certain factors could cause actual results to differ materially from such forward-looking statements, including but not limited to: the ongoing U.S. recession, the existing global credit and financial crisis and other changes in general economic, financial and real estate market conditions; risks that our acquisition and development projects will fail to perform as expected; financing risks, such as the inability to obtain debt or equity financing on favorable terms or at all; the level and volatility of interest rates; loss or bankruptcy of one or more of our major retail tenants; a failure of our properties to generate additional income to offset increases in operating expenses; and other factors discussed in Part II, Item 1A. "Risk Factors" and elsewhere in this report and our other reports furnished or filed with the Securities and Exchange Commission ("SEC") including our annual report on Form 10-K for the fiscal year ended December 31, 2009. Given these uncertainties, you should not place undue reliance on our forward-looking statements. Except as required by law, we assume no obligation to update these forward-looking statements, even if new information becomes available in the future.

### Overview

Agree Realty Corporation is a fully-integrated, self-administered and self-managed real estate investment trust ("REIT") focused primarily on the ownership, development, acquisition and management of retail properties net leased to national tenants. In this report, the terms "Company," "we," "our" and "us" and similar terms refer to Agree Realty Corporation and its subsidiaries as the context may require. We were formed in December 1993 to continue and expand the business founded in 1971 by our current Chief Executive Officer and Chairman, Richard Agree. We specialize in developing retail properties for national tenants who have executed long-term net leases prior to the commencement of construction. As of September 30, 2010, approximately 89% of our annualized base rent was derived from national tenants and approximately 67% of our annualized base rent was derived from our top three tenants: Walgreen Co. ("Walgreens") – 29%; Borders Group, Inc. ("Borders") – 27% and Kmart Corporation – 11%. All of our freestanding property tenants and the majority of our community shopping center tenants have triple-net leases, which require the tenant to be responsible for property operating expenses, including property taxes, insurance and maintenance. We believe this strategy provides a generally consistent source of income and cash for distributions.

As of September 30, 2010, our portfolio consisted of 76 properties, located in 15 states containing an aggregate of approximately 3.5 million square feet of gross leasable area ("GLA"). As of September 30, 2010, our portfolio included 64 freestanding net leased properties and 12 community shopping centers that were 99.2% leased in aggregate with a weighted average lease term of approximately 11 years remaining. During the period from October 1, 2010 to December 31, 2011 we have 18 leases that are scheduled to expire assuming that none of the tenants exercise renewal options or terminate their leases prior to the contractual expiration date. These leases represent 188,827 square feet of GLA and \$962,298 of annualized base rent.

We expect to continue to grow our asset base through the development of retail properties that are pre-leased on a long-term basis to national tenants. We have focused on development because we believe, based on the historical

returns we have been able to achieve, it generally has provided us a higher return on investment than the acquisition of similarly located properties. Since our initial public offering in 1994, we have developed 60 of our 76 properties, including 48 of our 64 freestanding properties and all 12 of our community shopping centers. As of September 30, 2010, the properties that we developed accounted for 81.9% of our annualized base rent. We expect to continue to expand our existing tenant relationships and diversify our tenant base to include other quality national tenants through the development and acquisition of net leased properties.

On March 31, 2010, we completed the sale of our Borders superstore located in Santa Barbara, California. The property was sold to an unrelated party for \$9.8 million. The proceeds from the sale were used to acquire three CVS Drug stores located in Atchison, Kansas, Johnstown, Ohio and Lake in the Hills, Illinois.

Our assets are held by, and all operations are conducted through, Agree Limited Partnership (the "Operating Partnership"), of which we are the sole general partner and held a 96.56% and 95.93% interest as of September 30, 2010 and December 31, 2009, respectively. We are operating so as to qualify as a REIT for federal income tax purposes.

The following should be read in conjunction with the Interim Consolidated Financial Statements of Agree Realty Corporation, including the respective notes thereto, which are included in this Form 10-Q.

#### Recent Accounting Pronouncements

Effective January 1, 2010, companies are required to separately disclose the amounts of significant transfers of assets and liabilities into and out of Level 1, Level 2 and Level 3 of the fair value hierarchy and the reasons for those transfers. Companies must also develop and disclose their policy for determining when transfers between levels are recognized. In addition, companies are required to provide fair value disclosures of each class rather than each major category of assets and liabilities. For fair value measurements using significant other observable inputs (Level 2) or significant unobservable inputs (Level 3), companies are required to disclose the valuation technique and the inputs used in determining fair value for each class of assets and valuation technique and the inputs used in determining fair value for each class of assets and liabilities. Adoption of this standard did not have a material effect on the Company's consolidated results of operations or financial position.

Effective January 1, 2010, companies are required to separately disclose purchases, sales, issuances and settlements on a gross basis in the reconciliation of recurring Level 3 fair value measurements. Adoption of this standard did not have a material effect on the Company's consolidated results of operations or financial position.

#### Critical Accounting Policies

Critical accounting policies are those that are both significant to the overall presentation of our financial condition and results of operations and require management to make difficult, complex or subjective judgments. For example, significant estimates and assumptions have been made with respect to revenue recognition, capitalization of costs related to real estate investments, potential impairment of real estate investments, operating cost reimbursements, and taxable income.

Minimum rental income attributable to leases is recorded when due from tenants. Certain leases provide for additional percentage rents based on tenants' sales volumes. These percentage rents are recognized when determinable by us. In addition, leases for certain tenants contain rent escalations and/or free rent during the first several months of the lease term; however, such amounts are not material.

Real estate assets are stated at cost less accumulated depreciation. All costs related to planning, development and construction of buildings prior to the date they become operational, including interest and real estate taxes during the construction period, are capitalized for financial reporting purposes and recorded as property under development until construction has been completed. The viability of all projects under construction or development is regularly evaluated under applicable accounting requirements, including requirements relating to abandonment of assets or changes in use. To the extent a project, or individual components of the project, are no longer considered to have

value, the related capitalized costs are charged against operations. Subsequent to the completion of construction, expenditures for property maintenance are charged to operations as incurred, while significant renovations are capitalized. Depreciation of the buildings is recorded in accordance with the straight-line method using an estimated useful life of 40 years.

We evaluate real estate for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value and such excess carrying value is charged to income. The expected cash flows of a project are dependent on estimates and other factors subject to change, including (1) changes in the national, regional, and/or local economic climates, (2) competition from other shopping centers, stores, clubs, mailings, and the internet, (3) increases in operating costs, (4) bankruptcy and/or other changes in the condition of third parties, including tenants, (5) expected holding period, and (6) availability of credit. These factors could cause our expected future cash flows from a project to change, and, as a result, an impairment could be considered to have occurred.

Substantially all of our leases contain provisions requiring tenants to pay as additional rent a proportionate share of operating expenses (“operating cost reimbursements”) including real estate taxes, repairs and maintenance and insurance. The related revenue from tenant billings is recognized in the same period the expense is recorded.

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with our taxable year ended December 31, 1994. As a result, we are not subject to federal income taxes to the extent that we distribute annually at least 90% of our REIT taxable income to our stockholders and satisfy certain other requirements defined in the Code.

We have established taxable REIT subsidiaries (“TRS”) pursuant to the provisions of the REIT Modernization Act. Our TRS entities are able to engage in activities resulting in income that previously would have been disqualified from being eligible REIT income under the federal income tax regulations. As a result, certain of our activities which occur within our TRS entities are subject to federal and state income taxes. As of September 30, 2010 and December 31, 2009, we had accrued a deferred income tax amount of \$705,000. In addition, we have recognized income tax expense of \$126,000 and \$62,000 for the nine months ended September 30, 2010 and year ended December 31, 2009, respectively.

#### Comparison of Three Months Ended September 30, 2010 to Three Months Ended September 30, 2009

Minimum rental income increased \$270,000, or 3%, to \$8,615,000 in 2010, compared to \$8,345,000 in 2009. The increase was the result of the development of a Walgreens drug store in Lowell, Michigan in September 2009, the development of a Chase bank land lease in Southfield, Michigan in October 2009, the acquisition of a CVS drug store in June 2010 in Atchison, Kansas, the acquisition of a CVS drug store in June 2010 in Johnstown, Ohio and the acquisition of a CVS drug store in August 2010 in Lake in the Hills, Illinois. Our revenue increase from these developments and acquisitions amounted to \$257,000. In addition, rental income increased \$13,000 as a result of other rent adjustments.

Percentage rents increased from \$0 in 2009 to \$8,000 in 2010.

Operating cost reimbursements decreased \$8,000, or 1%, to \$590,000 in 2010, compared to \$598,000 in 2009. Operating cost reimbursements decreased due to the change in real estate taxes and property operating expenses explained below.

We earned development fee income of \$47,000 in 2010 related to a project in Oakland, California. There was \$158,000 of development fee income in 2009.

Other income increased to \$28,000 in 2010, compared to \$8,000 in 2009.

Real estate taxes decreased \$17,000, or 4%, to \$455,000 in 2010, compared to \$472,000 in 2009. The change was the result of a reduction due to real estate property tax appeal refunds offset by general assessment adjustments and an increase of \$31,000 for real estate taxes on our property in Elkhart, Indiana that were previously capitalized as part of the acquisition cost.

Property operating expenses (shopping center maintenance, snow removal, insurance and utilities) decreased \$13,000, or 3%, to \$397,000 in 2010, compared to \$410,000 in 2009. The decrease was the result of: an increase in shopping center maintenance costs of \$9,000; a decrease in utility costs of \$14,000; and a decrease in insurance costs of \$8,000 in 2010 versus 2009.

Land lease payments increased \$12,000, or 5%, to \$227,000 in 2010, compared to \$215,000 for 2009. The increase was the result of a contractual increase in our rent payment at our Aventura, Florida property.

General and administrative expenses increased by \$67,000, or 6%, to \$1,150,000 in 2010, compared to \$1,083,000 in 2009. The increase in general and administrative expenses was the result of increased employee costs of \$42,000, increased income tax expenses in our TRS entities of \$26,000 offset by a decrease in other costs of \$1,000. General and administrative expenses as a percentage of total rental income (minimum and percentage rents) increased from 12.98% for 2009 to 13.34% for 2010.

Depreciation and amortization increased \$84,000, or 6%, to \$1,477,000 in 2010, compared to \$1,393,000 in 2009. The increase was the result of the development of three properties in 2009 and the acquisition of three properties in 2010 offset in part due to the discontinued operations.

Interest expense decreased \$48,000, or 4%, to \$1,098,000 in 2010, compared to \$1,146,000 in 2009. The decrease in interest expense is a result of the completion of a secondary common stock offering and subsequent pay down of amounts outstanding under our credit facilities with the offering proceeds.

Income from discontinued operations was \$57,000 in 2010, and \$216,000 in 2009, as a result of the sale of the Santa Barbara, California Borders store in March 2010 and the classification of a Florida single tenant property as held for sale.

Our net income decreased \$65,000, or 1%, to \$4,541,000 in 2010 from \$4,606,000 in 2009 as a result of the foregoing factors.

#### Comparison of Nine Months Ended September 30, 2010 to Nine Months Ended September 30, 2009

Minimum rental income increased \$606,000, or 2%, to \$25,401,000 in 2010, compared to \$24,795,000 in 2009. The increase was the result of the development of a Walgreens drug store in Brighton, Michigan in February 2009, the development of a Walgreens drug store in Port St John, Florida in June 2009, the development of a Walgreens drug store in Lowell, Michigan in September 2009, the development of a Chase bank land lease in Southfield, Michigan in October 2009, the acquisition of a CVS drug store in June 2010 in Atchison, Kansas, the acquisition of a CVS drug store in June 2010 in Johnstown, Ohio and the acquisition of a CVS drug store in August 2010 in Lake in the Hills, Illinois. Our revenue increase from these developments and acquisitions amounted to \$737,000. In addition, rental income decreased \$131,000 as a result of the closing of a Circuit City store in Boynton Beach, Florida and other rent adjustments.

Percentage rents increased from \$8,000 in 2009 to \$21,000 in 2010.

Operating cost reimbursements decreased \$98,000, or 5%, to \$1,900,000 in 2010, compared to \$1,998,000 in 2009. Operating cost reimbursements decreased due to the change in real estate taxes and property operating expenses explained below.

We earned development fee income of \$583,000 in 2010 related to a project in Oakland, California. There was \$158,000 of development fee income in 2009.



Other income increased to \$63,000 in 2010, compared to \$20,000 in 2009.

Real estate taxes increased \$12,000, or 1%, to \$1,452,000 in 2010, compared to \$1,440,000 in 2009. The change was the result of general assessment adjustments and real estate taxes on our property in Elkhart, Indiana that were previously capitalized as part of the acquisition cost offset by real estate appeal refunds.

Property operating expenses (shopping center maintenance, snow removal, insurance and utilities) decreased \$77,000, or 6%, to \$1,123,000 in 2010, compared to \$1,200,000 in 2009. The decrease was primarily the result of: a decrease in snow removal costs of \$60,000; an increase in shopping center maintenance costs of \$15,000; a decrease in utility costs of \$4,000; and a decrease in insurance costs of \$28,000 in 2010 versus 2009.

Land lease payments increased \$36,000, or 6%, to \$680,000 in 2010, compared to \$644,000 for 2009. The increase was the result of a contractual increase in our rent payment at our Aventura, Florida property.

General and administrative expenses increased by \$271,000, or 8%, to \$3,604,000 in 2010, compared to \$3,333,000 in 2009. The increase in general and administrative expenses was the result of increased employee costs of \$153,000, and income tax expenses in our TRS entities of \$126,000, offset by a net decrease of \$8,000 of other expenses. General and administrative expenses as a percentage of total rental income (minimum and percentage rents) increased from 13.44% for 2009 to 14.18% for 2010.

Depreciation and amortization increased \$199,000, or 5%, to \$4,336,000 in 2010, compared to \$4,137,000 in 2009. The increase was the result of the development of five properties in 2009 and the acquisition of three properties in 2010 offset in part due to the discontinued operations.

Interest expense increased \$60,000, or 2%, to \$3,492,000 in 2010, compared to \$3,432,000 in 2009. The increase in interest expense is a result of our funding the development of five properties in 2009.

We recognized a gain of \$5,328,000 on the sale of our Borders Books store located in Santa Barbara, California in 2010. We had no property sales in 2009.

Income from discontinued operations decreased to \$331,000 in 2010, from \$639,000 in 2009, as a result of the sale of the Santa Barbara, California Borders store in March 2010 and the classification of a Florida single tenant property as held for sale.

Our net income increased \$5,510,000, or 41%, to \$18,941,000 in 2010 from \$13,431,000 in 2009 as a result of the foregoing factors.

## Liquidity and Capital Resources

Our principal demands for liquidity are operations, distributions to our stockholders, debt repayment, development of new properties, redevelopment of existing properties and property acquisitions. We intend to meet our short-term liquidity requirements, including capital expenditures related to the leasing and improvement of our properties, through cash flow provided by operations and our \$55 million credit facility (the "Credit Facility") and our \$5 million line of credit (the "Line of Credit"). We believe that adequate cash flow will be available to fund our operations and pay dividends in accordance with REIT requirements for at least the next 12 months. We may obtain additional funds for future developments or acquisitions through other borrowings or the issuance of additional shares of common stock. We believe that these financing sources will enable us to generate funds sufficient to meet both our short-term and long-term capital needs.

We intend to maintain a ratio of total indebtedness (including construction or acquisition financing) to market capitalization of 65% or less. Nevertheless, we may operate with debt levels which are in excess of 65% of market capitalization for extended periods of time. At September 30, 2010, our ratio of indebtedness to market capitalization was approximately 32%.

During the quarter ended September 30, 2010, we declared a quarterly dividend of \$0.51 per share. We paid the dividend on October 13, 2010 to holders of record on September 30, 2010.

Our cash flows from operations increased \$917,000 to \$18,304,000 for the nine months ended September 30, 2010, compared to \$17,387,000 for the nine months ended September 30, 2009. Cash used in investing activities increased \$3,067,000 to \$11,290,000 in 2010, compared to \$8,223,000 in 2009. Cash used in financing activities decreased \$2,105,000 to \$7,366,000 in 2010, compared to \$9,471,000 in 2009.

As of September 30, 2010, we had total mortgage indebtedness of \$72,559,375. Of this total mortgage indebtedness, \$48,766,547 is fixed rate, self-amortizing debt with a weighted average interest rate of 6.56%. The remaining mortgage debt of \$23,792,828 bears interest at 150 basis points over LIBOR or 1.76% as of September 30, 2010 and has a maturity date of July 14, 2013, which can be extended at our option for two additional years. In January 2009, we entered into an interest rate swap agreement that fixes the interest rate during the initial term of the variable-interest mortgage at 3.744%.

In addition, the Operating Partnership has in place the \$55 million Credit Facility with Bank of America, as the agent, which is guaranteed by us. The Credit Facility was extended in January 2009 and now matures in November 2011. Advances under the Credit Facility bear interest within a range of one-month to 12-month LIBOR plus 100 basis points to 150 basis points or the lender's prime rate, at our option, based on certain factors such as the ratio of our indebtedness to the capital value of our properties. The Credit Facility generally is used to fund property acquisitions and development activities. As of September 30, 2010, \$3,672,397 was outstanding under the Credit Facility bearing a weighted average interest rate of 1.26%.

We also have in place the \$5 million Line of Credit that was extended in October 2009 and now matures in November 2011. The Line of Credit bears interest at the lender's prime rate less 75 basis points or 150 basis points in excess of the one-month to 12-month LIBOR rate, at our option. The purpose of the Line of Credit is generally to provide working capital and fund land options and start-up costs associated with new projects. As of September 30, 2010, \$4,225,000 was outstanding under the Line of Credit bearing a weighted average interest rate of 2.50%.

On April 16, 2010, we completed a secondary offering of 1,495,000 shares of common stock. The offering, which included the exercise of the over-allotment option by the underwriter, raised net proceeds of approximately \$31.1 million. The proceeds from the offering were used to pay down amounts outstanding under our credit facilities.

The following table outlines our contractual obligations as of September 30, 2010 for the periods presented below (in thousands).

		October 1, 2010	October 1, 2011	October 1, 2013	
	Total	– September 30, 2011	– September 30, 2013	– September 30, 2015	Thereafter
Mortgages Payable	\$ 72,559	\$ 4,226	\$ 31,491	\$ 9,359	\$ 27,483
Notes Payable	7,897	—	7,897	—	—
Land Lease Obligation	19,708	1,206	2,413	2,067	14,022
Estimated Interest Payments on Mortgages and Notes Payable	21,963	4,121	7,134	4,255	6,453
Other Long-Term Liabilities	—	—	—	—	—
<b>Total</b>	<b>\$ 122,127</b>	<b>\$ 9,553</b>	<b>\$ 48,935</b>	<b>\$ 15,681</b>	<b>\$ 47,958</b>

We plan to begin construction of additional pre-leased developments and may acquire additional properties, which will initially be financed by the Credit Facility and Line of Credit. We will periodically refinance short-term construction and acquisition financing with long-term debt and/or equity to the extent available.

#### Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet arrangements with unconsolidated entities or financial partnerships, such as structured finance or special purpose entities.

#### Inflation

Our leases generally contain provisions designed to mitigate the adverse impact of inflation on net income. These provisions include clauses enabling us to pass through to tenants certain operating costs, including real estate taxes, common area maintenance, utilities and insurance, thereby reducing our exposure to increases in costs and operating expenses resulting from inflation. Certain of our leases contain clauses enabling us to receive percentage rents based on tenants' gross sales, which generally increase as prices rise, and, in certain cases, escalation clauses, which generally increase rental rates during the terms of the leases. In addition, expiring tenant leases permit us to seek increased rents upon re-lease at market rates if rents are below the then existing market rates.

#### Funds from Operations

Funds from Operations (“FFO”) is defined by the National Association of Real Estate Investment Trusts, Inc. (“NAREIT”) to mean net income computed in accordance with generally accepted accounting principles (“GAAP”), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Management uses FFO as a supplemental measure to conduct and evaluate our business because there are certain limitations associated with using GAAP net income by itself as the primary measure of our operating performance. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, management believes that the presentation of operating results for real estate companies that use historical cost accounting is insufficient by itself.

FFO should not be considered as an alternative to net income as the primary indicator of our operating performance or as an alternative to cash flow as a measure of liquidity. Further, while we adhere to the NAREIT definition of FFO, our presentation of FFO is not necessarily comparable to similarly titled measures of other REITs due to the fact that not all REITs use the same definition.

## Agree Realty Corporation

The following table provides a reconciliation of FFO and net income for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,	
	2010	2009
Net income	\$ 4,540,568	\$ 4,606,607
Depreciation of real estate assets	1,458,785	1,393,346
Amortization of leasing costs	20,260	16,646
Loss on sale of asset	-	-
Funds from Operations	\$ 6,019,613	\$ 6,016,599
Weighted Average Shares and Operating Partnership Units Outstanding – Dilutive	9,965,859	8,411,336
	Nine Months Ended September 30,	
	2010	2009
Net income	\$ 18,940,508	\$ 13,431,362
Depreciation of real estate assets	4,303,788	4,140,776
Amortization of leasing costs	59,049	49,215
Gain on sale of asset	(5,328,333)	-
Funds from Operations	\$ 17,975,012	\$ 17,621,353
Weighted Average Shares and Operating Partnership Units Outstanding – Dilutive	9,382,248	8,394,619

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate risk primarily through borrowing activities. There is inherent roll-over risk for borrowings as they mature and are renewed at current market rates. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and our future financing requirements. Our interest rate risk is monitored using a variety of techniques. The table below presents the principal payments (in thousands) and the weighted average interest rates on outstanding debt, by year of expected maturity, to evaluate the expected cash flows and sensitivity to interest rate changes.

	Year ended September 30,						
	2011	2012	2013	2014	2015	Thereafter	Total
Fixed rate mortgage	\$ 3,717	\$ 3,969	\$ 4,239	\$ 4,526	\$ 4,833	\$ 27,483	\$ 48,767
Average interest rate	6.56%	6.56%	6.56%	6.56%	6.56%	6.56%	—
Variable rate mortgage	\$ 509	\$ 540	\$ 22,743	—	—	—	\$ 23,792
Average interest rate	3.74%	3.74%	3.74%	—	—	—	—
Other variable rate debt	\$ 7,897	—	—	—	—	—	\$ 7,897
Average interest rate	1.92%	—	—	—	—	—	—

The fair value (in thousands) is estimated at \$49,183, \$22,278 and \$7,897 for fixed rate mortgages, variable rate mortgage and other variable rate debt, respectively, as of September 30, 2010.

The table above incorporates those exposures that exist as of September 30, 2010; it does not consider those exposures or positions, which could arise after that date. As a result, our ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period and interest rates.

We entered into an interest rate swap agreement to hedge interest rates on \$24.5 million in variable-rate borrowings outstanding. Under the terms of the interest rate swap agreement, we will receive from the counterparty interest on the notional amount based on 1.5% plus one-month LIBOR and will pay to the counterparty a fixed rate of 3.744%. This swap effectively converted \$24.5 million of variable-rate borrowings to fixed-rate borrowings. As of September 30, 2010, the interest rate swap was valued at a liability of \$1,016,915. We do not use derivative instruments for trading or other speculative purposes and we did not have any other derivative instruments or hedging activities as of September 30, 2010.

As of September 30, 2010, a 100 basis point increase in interest rates on the portion of our debt bearing interest at variable rates would result in an annual increase in interest expense of approximately \$79,000.

#### ITEM 4.

#### CONTROLS AND PROCEDURES

##### Disclosure Controls and Procedures

At the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures are

effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

#### Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not presently involved in any litigation nor, to our knowledge, is any other litigation threatened against us, except for routine litigation arising in the ordinary course of business which is expected to be covered by our liability insurance.

ITEM 1A. RISK FACTORS

There were no material changes in our risk factors set forth under Item 1A of Part 1 of our most recently filed Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 3.1 Articles of Incorporation and Articles of Amendment of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-11 (Registration Statement No. 33-73858), as amended
- 3.2 Articles Supplementary, establishing the terms of the Series A Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K (No. 001-12928) filed on December 9, 2008)
- 3.3 Articles Supplementary, classifying additional shares of Common Stock and Excess Stock (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K (No. 001-12928) filed on December 9, 2008)
- 3.4 Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Form 10-K (No. 001-12928) for the year ended December 31, 2006)
- 4.1 Rights Agreement, dated as of December 7, 1998, by and between Agree Realty Corporation, a Maryland corporation, and Computershare Trust Company, N.A., f/k/a EquiServe Trust Company, N.A., a national banking association, as successor rights agent to BankBoston, N.A., a national banking association (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 (No. 333-161520) filed on November 13, 2008)



- 4.2 Second Amendment to Rights Agreement, dated as of December 8, 2008, by and between Agree Realty Corporation, a Maryland corporation, and Computershare Trust Company, N.A., f/k/a EquiServe Trust Company, N.A., a national banking association, as successor rights agent to BankBoston, N.A., a national banking association (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K (No. 001-12928) filed on December 9, 2008)
- 4.3 Amended and Restated Registration Rights Agreement, dated July 8, 1994 by and among the Company, Richard Agree, Edward Rosenberg and Joel Weiner (incorporated by reference to Exhibit 10.2 to the Company's Form 10-K (No. 001-12928) for the year ended December 31, 1994)
- 4.4 Form of certificate representing shares of common stock (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 (No. 333-161520) filed on August 24, 2009)
- \*31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Richard Agree, Chief Executive Officer and Chairman of the Board of Directors
- \*31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Kenneth R. Howe, Vice President, Finance and Secretary
- \*32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Richard Agree, Chief Executive Officer and Chairman of the Board of Directors
- \*32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Kenneth R. Howe, Vice President, Finance and Secretary

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\* Filed herewith

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.

Agree Realty Corporation

/s/ RICHARD AGREE

Richard Agree

Chief Executive Officer

and Chairman of the Board of Directors

(Principal Executive Officer)

/s/ KENNETH R. HOWE

Kenneth R. Howe

Vice President, Finance and

Secretary

(Principal Financial and Accounting Officer)

Date: November 5, 2010