AGREE REALTY CORP
Form 10-Q
November 05, 2010

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 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	38-3148187
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

31850 Northwestern Highway, Farmington Hills, Michigan	48334
(Address of principal executive offices)	(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 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 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 o Accelerated Filer x Non-accelerated Filer o Smaller reporting company o

(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 x

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

Agree Realty Corporation

Form 10-Q

Index

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

Agree Realty Corporation

Consolidated Balance Sheets

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Real Estate Investments		
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	-
Net Real Estate Investments	269,665,629	256,367,699
Cash and Cash Equivalents	336,934	88,675
Accounts Receivable - Tenants, net of allowance of $35,000at September 30, 2010 and December 31, 2009	795,537	1,986,836
Unamortized Deferred Expenses		
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
Other Assets	1,531,539	847,894
	$ 274,056,830	$ 261,788,718

See accompanying notes to consolidated financial statements.

1

Agree Realty Corporation

Consolidated Balance Sheets

	September 30, 2010 (Unaudited)	December 31, 2009
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.

2

Agree Realty Corporation

Consolidated Statements of Income (Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
Revenues		
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
Total Revenues	9,287,767	9,108,756
Operating Expenses		
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
Total Operating Expenses	3,706,560	3,572,755
Income From Operations	5,581,207	5,536,001
Other Expense		
Interest expense, net	(1,097,823)	(1,145,605)
Income Before Discontinued Operations	4,483,384	4,390,396
Gain (loss) on sale of asset from discontinued operations	-	-
Income from discontinued operations	57,184	216,211
Net Income	4,540,568	4,606,607
Less Net Income Attributable to Non-Controlling Interest	(148,960)	(189,412)
Net Income Attributable to Agree Realty Corporation	$ 4,391,608	$ 4,417,195
Earnings Per Share – Basic	$ 0.46	$ 0.55
Earnings Per Share – Dilutive	$ 0.46	$ 0.55
Dividend Declared Per Share	$ 0.51	$ 0.51
Weighted Average Number of Common Shares Outstanding – Basic	9,580,928	8,040,461
Weighted Average Number of Common Shares Outstanding – Dilutive	9,618,240	8,063,717

See accompanying notes to consolidated financial statements.

3

Agree Realty Corporation

Consolidated Statements of Income (Unaudited)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenues		
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
Total Revenues	27,968,020	26,979,187
Operating Expenses		
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
Total Operating Expenses	11,194,719	10,754,461
Income From Operations	16,773,301	16,224,726
Other Expense		
Interest expense, net	(3,491,709)	(3,432,020)
Income Before Discontinued Operations	13,281,592	12,792,706
Gain on sale of asset from discontinued operations	5,328,333	-
Income from discontinued operations	330,583	638,656
Net Income	18,940,508	13,431,362
Less Net Income Attributable to Non-Controlling Interest	(691,413)	(763,944)
Net Income Attributable to Agree Realty Corporation	$ 18,249,095	$ 12,667,418
Earnings Per Share – Basic	$ 2.03	$ 1.60
Earnings Per Share – Dilutive	$ 2.02	$ 1.60
Dividend Declared Per Share	$ 1.53	$ 1.51
Weighted Average Number of Common Shares Outstanding – Basic	9,000,649	7,897,899
Weighted Average Number of Common Shares Outstanding – Dilutive	9,034,629	7,909,132

See accompanying notes to consolidated financial statements.

4

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 September 30, 2010	Nine Months Ended September 30, 2009
Cash Flows From Operating Activities		
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
Net Cash Provided By Operating Activities	18,304,095	17,386,823
Cash Flows From Investing Activities		
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	-	-
Net Cash Used In Investing Activities	(11,290,193)	(8,223,409)
Cash Flows From Financing Activities		
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)
Net Cash Used In Financing Activities	(7,365,643)	(9,470,655)
Net Decrease In Cash and Cash Equivalents	(351,741)	(307,241)
Cash and Cash Equivalents, beginning of period	688,675	668,677
Cash and Cash Equivalents, end of period	$ 336,934	$ 361,436

Agree Realty Corporation

Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest (net of amounts capitalized)	$ 3,293,412	$ 3,486,260
Supplemental Disclosure of Non-Cash Transactions		
Dividends and limited partners' distributions declared and unpaid	$ 5,143,682	$ 4,348,153
Conversion of OP Units	$ -	$ 2,398,186
Real estate investments financed with accounts payable	$ 975,803	$ 270,100

See accompanying notes to consolidated financial statements.

Agree Realty Corporation

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	Three Months Ended September 30, 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	Nine Months Ended September 30, 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.

	Level 1	Level 2	Level 3
Liability:			
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

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. Subsequent 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 express 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 prop