

AGREE REALTY CORP
Form 10-Q
November 07, 2006

Table of Contents

**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, 2006**

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, included 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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

As of November 7, 2006 the Registrant had 7,716,646 shares of common stock, \$.0001 par value outstanding.

Agree Realty Corporation
Form 10-Q
Index

		Page
Part I:	Financial Information	
Item 1.	Interim Consolidated Financial Statements	
	<u>Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005</u>	3-4
	<u>Consolidated Statements of Income for the nine months ended September 30, 2006 and 2005</u>	5
	<u>Consolidated Statements of Income for the three months ended September 30, 2006 and 2005</u>	6
	<u>Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2006</u>	7
	<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2006 and 2005</u>	8-9
	<u>Notes to Consolidated Financial Statements</u>	10-12
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13-20
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	20-21
<u>Item 4.</u>	<u>Controls and Procedures</u>	21
Part II:	Other Information	
<u>Item 1.</u>	<u>Legal Proceedings</u>	22
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	22
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	22
<u>Item 5.</u>	<u>Other Information</u>	22
<u>Item 6.</u>	<u>Exhibits</u>	23
	Signatures	24
	<u>Section 302 Certification of Chief Executive Officer</u>	
	<u>Section 302 Certification of Chief Financial Officer</u>	

Section 906 Certification of Chief Executive Officer

Section 906 Certification of Chief Financial Officer

Table of Contents**Agree Realty Corporation
Consolidated Balance Sheets (Unaudited)**

	<i>September 30, 2006</i>	<i>December 31, 2005</i>
Assets		
Real Estate Investments		
Land	\$ 74,033,627	\$ 73,035,167
Buildings	186,408,296	185,032,185
Property under development	2,767,460	264,913
	263,209,383	258,332,265
Less accumulated depreciation	(47,149,548)	(43,771,581)
Net Real Estate Investments	216,059,835	214,560,684
Cash and Cash Equivalents	164,292	5,714,540
Accounts Receivable - Tenants , net of allowance of \$20,000 for possible losses for 2006 and 2005	405,447	730,606
Unamortized Deferred Expenses		
Financing costs, net of accumulated amortization of \$4,437,244 and \$4,344,244	759,036	852,036
Leasing costs, net of accumulated amortization of \$653,629 and \$621,388	420,820	389,354
Other Assets	802,745	1,212,387
	\$ 218,612,175	\$ 223,459,607

See accompanying notes to consolidated financial statements.

Table of Contents

Agree Realty Corporation
Consolidated Balance Sheets (Unaudited)

	<i>September 30,</i> <i>2006</i>	<i>December 31,</i> <i>2005</i>
Liabilities and Stockholders Equity		
Mortgage Payable	\$ 48,914,021	\$ 50,721,920
Notes Payable	15,650,000	17,500,000
Dividends and Distributions Payable	4,110,764	4,089,243
Deferred Revenue	12,276,342	12,793,504
Accrued Interest Payable	302,184	282,080
Accounts Payable		
Capital expenditures	864,778	112,687
Operating	278,137	1,300,416
Tenant Deposits	60,140	54,062
Total Liabilities	82,456,366	86,853,912
Minority Interest	5,885,109	5,978,635
Stockholders Equity		
Common stock, \$.0001 par value; 20,000,000 shares authorized, 7,716,646 and 7,706,846 shares issued and outstanding	772	772
Additional paid-in capital	141,066,309	140,343,759
Deficit	(10,796,381)	(9,717,471)
Total Stockholders Equity	130,270,700	130,627,060
	\$ 218,612,175	\$ 223,459,607

See accompanying notes to consolidated financial statements.

Table of Contents

Agree Realty Corporation
Consolidated Statements of Income (Unaudited)

	<i>Nine Months Ended September 30, 2006</i>	<i>Nine Months Ended September 30, 2005</i>
Revenues		
Minimum rents	\$ 22,415,582	\$ 21,096,534
Percentage rents	40,891	39,299
Operating cost reimbursements	2,060,329	2,097,318
Other income	37,026	24,033
Total Revenues	24,553,828	23,257,184
Operating Expenses		
Real estate taxes	1,351,988	1,315,800
Property operating expenses	1,317,509	1,434,459
Land lease payments	586,395	586,395
General and administrative	3,078,733	2,665,207
Depreciation and amortization	3,618,495	3,461,429
Total Operating Expenses	9,953,120	9,463,290
Income From Continuing Operations	14,600,708	13,793,894
Other (Expense)		
Interest expense, net	(3,449,164)	(3,056,760)
Income Before Minority Interest and Discontinued Operations	11,151,544	10,737,134
Minority Interest	(896,588)	(878,644)
Income Before Discontinued Operations	10,254,956	9,858,490
Income From Discontinued Operations, net of minority interest of \$37,060		415,997
Net Income	\$ 10,254,956	\$ 10,274,487
Basic Earnings Per Share		

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Income before discontinued operations	\$	1.35	\$	1.30
Discontinued operations				.06
Earnings Per Share Basic	\$	1.35	\$	1.36
Earnings Per Share Dilutive	\$	1.34	\$	1.36
Cash Dividends Declared Per Common Share	\$	1.47	\$	1.47
Weighted Average Number of Common Shares Outstanding Basic		7,603,837		7,559,973
Weighted Average Number of Common Shares Outstanding Dilutive		7,666,366		7,560,318

See accompanying notes to consolidated financial statements.

5

Table of Contents

Agree Realty Corporation
Consolidated Statements of Income (Unaudited)

	<i>Three Months Ended September 30, 2006</i>	<i>Three Months Ended September 30, 2005</i>
Revenues		
Minimum rents	\$ 7,452,909	\$ 7,061,614
Percentage rents	13,606	14,227
Operating cost reimbursements	638,900	613,083
Other income	8,545	7,398
Total Revenues	8,113,960	7,696,322
Operating Expenses		
Real estate taxes	449,823	444,107
Property operating expenses	389,237	341,983
Land lease payments	195,465	195,465
General and administrative	1,005,902	911,515
Depreciation and amortization	1,212,660	1,167,652
Total Operating Expenses	3,253,087	3,060,722
Income From Continuing Operations	4,860,873	4,635,600
Other (Expense)		
Interest expense, net	(1,156,949)	(1,028,876)
Income Before Minority Interest and Discontinued Operations	3,703,924	3,606,724
Minority Interest	(297,797)	(291,063)
Income Before Discontinued Operations	3,406,127	3,315,661
Income From Discontinued Operations, net of minority interest of \$12,146		138,365
Net Income	\$ 3,406,127	\$ 3,454,026
Basic Earnings Per Share		

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Income before discontinued operations	\$.45	\$.43
Discontinued operations				.02
Earnings Per Share Basic	\$.45	\$.45
Earnings Per Share Dilutive	\$.44	\$.45
Cash Dividend Declared Per Common Share	\$.49	\$.49
Weighted Average Number of Common Shares Outstanding Basic		7,607,808		7,670,598
Weighted Average Number of Common Shares Outstanding Dilutive		7,672,549		7,672,290

See accompanying notes to consolidated financial statements.

6

Table of Contents

Agree Realty Corporation
Consolidated Statement of Stockholders Equity (Unaudited)

	<i>Common Stock</i>		<i>Additional Paid-In Capital</i>	<i>Deficit</i>
	<i>Shares</i>	<i>Amount</i>		
Balance, January 1, 2006	7,706,846	\$ 772	\$ 140,343,759	\$ (9,717,471)
Issuance of shares under the Equity Incentive Plan	9,800		95,550	
Vesting of restricted stock			627,000	
Dividends declared for the period January 1, 2006 to September 30, 2006				(11,333,866)
Net income for the period January 1, 2006 to September 30, 2006				10,254,956
Balance, September 30, 2006	7,716,646	\$ 772	\$ 141,066,309	\$ (10,796,381)

See accompanying notes to consolidated financial statements.

Table of Contents

Agree Realty Corporation
Consolidated Statement of Cash Flows (Unaudited)

	<i>Nine Months Ended September 30, 2006</i>	<i>Nine Months Ended September 30, 2005</i>
Cash Flows From Operating Activities		
Net income	\$ 10,254,956	\$ 10,274,487
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	3,580,590	3,560,786
Amortization	130,905	155,931
Stock-based compensation	627,000	490,760
Minority interests	896,588	915,704
Gain on sale of assets		(6,397)
Decrease in accounts receivable	325,159	474,406
Decrease in other assets	357,952	208,995
Decrease in accounts payable	(1,022,279)	(1,081,225)
Decrease in deferred revenue	(517,162)	(517,162)
Increase (decrease) in accrued interest	20,104	(57,146)
Increase (decrease) in tenant deposits	6,078	(4,399)
Net Cash Provided By Operating Activities	14,659,891	14,414,740
Cash Flows From Investing Activities		
Acquisition of real estate investments (including capitalized interest of \$111,000 in 2006 and \$390,000 in 2005)	(4,168,937)	(5,397,651)
Net proceeds from the sale of assets		1,176,263
Net Cash Used In Investing Activities	(4,168,937)	(4,221,388)
Cash Flows From Financing Activities		
Net proceeds from the issuance of common stock	95,550	31,456,414
Payments of mortgages payable	(1,807,899)	(1,657,528)
Dividends and limited partners distributions paid	(12,302,459)	(11,690,002)
Line-of-credit net borrowings (payments)	(1,850,000)	(28,000,000)
Repayments of capital expenditure payables	(112,687)	(393,711)
Redemption of restricted stock		(126,760)
Payment of leasing costs	(63,707)	(179,395)
Net Cash Provided By (Used In) Financing Activities	(16,041,202)	(10,590,982)

Net Decrease In Cash and Cash Equivalents	(5,550,248)		(397,630)
Cash and Cash Equivalents, beginning of period	5,714,540		587,524
Cash and Cash Equivalents, end of period	\$ 164,292	\$	189,894

Table of Contents

Agree Realty Corporation
Consolidated Statement of Cash Flows (Unaudited)

	<i>Nine Months Ended September 30, 2006</i>	<i>Six Months Ended September 30, 2005</i>
Supplemental Disclosure of Cash flow Information		
Cash paid for interest (net of amounts capitalized)	\$ 3,337,297	\$ 2,999,907
Supplemental Disclosure of Non-Cash Transactions		
Dividends and limited partners distributions declared and unpaid	\$ 4,110,764	\$ 4,088,262
Shares issued under Stock Incentive Plan	\$ 149,989	\$ 1,162,070
Real estate investments financed with accounts payable	\$ 864,778	\$ 418,057

See accompanying notes to consolidated financial statements.

Table of Contents

Agree Realty Corporation
Notes to Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited consolidated financial statements for the three months and nine months ended September 30, 2006 and 2005 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 complete 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, 2005 has been derived from the audited consolidated financial statements at that date. Operating results for the nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006, or for any other interim period. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005.

2. Discontinued Operations

During November 2005, we completed the sale of a shopping center for approximately \$8.8 million. The shopping center was anchored by Kmart Corporation and Roundy's Foods and was located in Iron Mountain, Michigan. The results of operations for this property is presented as discontinued operations in our Consolidated Statements of Income.

The aggregate revenues from this property were \$785,308 for the nine months ended September 30, 2005. The expenses for this property were \$369,311, including minority interest charges of \$37,060, for the nine months ended September 30, 2005.

The aggregate revenues from this property were \$256,835 for the three months ended September 30, 2005. The expenses for this property were \$118,470, including minority interest charges of \$12,146 for the three months ended September 30, 2005.

3. Equity Transactions

On January 25, 2005, we completed an offering of 1,000,000 shares of common stock at \$28.28 per share; on February 7, 2005 the underwriter exercised its over allotment option for an additional 150,000 shares at the same per share price (collectively, the 2005 Offering). The net proceeds from the 2005 Offering of approximately \$31.5 million were used to repay amounts outstanding under our credit facility.

4. Stock Based Compensation

On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (R), Share-Based Payments (SFAS 123R), under the modified prospective method. Under the modified prospective method, compensation cost is recognized for all awards granted after the adoption of this standard and for the unvested portion of previously granted awards that are outstanding as of that date. In accordance with SFAS 123R, we will estimate fair value of restricted stock and stock option grants at the date of grant and amortize

those amounts into expense on a straight line basis or amount vested, if greater, over the appropriate vesting period.

10

Table of Contents

Agree Realty Corporation
Notes to Consolidated Financial Statements

4. Stock Based Compensation (continued)

Adoption of SFAS 123R did not have an impact on our earnings from continuing operations, net earnings, cash flow from operations, cash flow from financing activities and basic and diluted earnings per share for the quarter ended September 30, 2006.

As of September 30, 2006, there was \$2,317,724 of total unrecognized compensation costs related to the outstanding restricted shares, which is expected to be recognized over a weighted average period of 3.55 years. We 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 and we do not consider discount rates to be material.

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 shareholder of the Company, including the right to vote the shares and the right to receive dividends on the shares. On July 21, 2006 the Company granted restricted shares to under the 2005 Equity Incentive Plan. The restricted shares vest over a three-year period based on continued service to the Company. Restricted share activity is summarized as follows:

	Shares Outstanding	Weighted Average Grant Date Fair Value
Non-vested restricted shares at December 31, 2005	129,440	\$26.61
Restricted shares granted	4,900	\$30.61
Restricted shares vested	(29,320)	\$23.13
Restricted shares forfeited		
Non-vested restricted shares, at September 30, 2006	105,020	\$27.76

5. Earnings Per Share

Earnings per share has been computed by dividing the net income by the weighted average number of common shares outstanding. The per share amounts reflected in the consolidated statements of income are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 128 Earnings per Share.

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:

Table of Contents

	Agree Realty Corporation	
	Part I	
	Nine Months Ended Sep 30,	
	2006	2005
Weighted average number of common shares outstanding	7,708,857	7,559,973
Unvested restricted stock	(105,020)	
Weighted average number of common shares outstanding used in basic earnings per share	7,603,837	7,559,973
Weighted average number of common shares outstanding used in basic earnings per share	7,603,837	7,559,973
Effect of dilutive securities:		
Restricted stock	61,244	
Common stock options	1,285	345
Weighted average number of common shares outstanding used in diluted earnings per share	7,666,366	7,560,318
	Three Months Ended Sep 30,	
	2006	2005
Weighted average number of common shares outstanding	7,712,828	7,670,598
Unvested restricted stock	(105,020)	
Weighted average number of common shares outstanding used in basic earnings per share	7,607,808	7,670,598
Weighted average number of common shares outstanding used in basic earnings per share	7,607,808	7,670,598
Effect of dilutive securities:		
Restricted stock	63,394	