

AGREE REALTY CORP  
Form 10-K/A  
December 07, 2007



**The aggregate market value of the Registrant's shares of common stock held by non-affiliates was approximately \$261,801,558 as of June 30, 2006, based on the closing price of \$33.97 on the NYSE on that date. At February 28, 2007, there were 7,750,496 shares of Common Stock, \$.0001 par value per share, outstanding. DOCUMENTS INCORPORATED BY REFERENCE: The information required by Part III, Items 10-13 is to be incorporated by reference from the definitive proxy statement for our May 2007 Annual Meeting of Stockholders and which is to be filed with the Commission not later than 120 days after December 31, 2006.**

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## TABLE OF CONTENTS

### Part I

|                 |  |    |
|-----------------|--|----|
| <u>Item 1.</u>  | <u>Business</u>  | 4  |
| <u>Item 1A.</u> | <u>Risk Factors</u>  | 6  |
| <u>Item 1B.</u> | <u>Unresolved Staff Comments</u>                           | 11 |
| <u>Item 2.</u>  | <u>Properties</u>  | 11 |
| <u>Item 3.</u>  | <u>Legal Proceedings</u>                                   | 17 |
| <u>Item 4.</u>  | <u>Submission of Matters to a Vote of Security Holders</u> | 18 |

### Part II

|                 |  |    |
|-----------------|--|----|
| <u>Item 5.</u>  | <u>Market for Registrant's Common Equity and Related Stockholder Matters</u>                 | 18 |
| <u>Item 6.</u>  | <u>Selected Financial Data</u>   | 18 |
| <u>Item 7.</u>  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 20 |
| <u>Item 7A</u>  | <u>Quantitative and Qualitative Disclosures about Market Risk</u>                            | 26 |
| <u>Item 8</u>   | <u>Financial Statements and Supplementary Data</u>   | 27 |
| <u>Item 9</u>   | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>  | 27 |
| <u>Item 9A</u>  | <u>Controls and Procedures</u>   | 27 |
| <u>Item 9B.</u> | <u>Other Information</u>   | 30 |

### Part III

|                 |   |    |
|-----------------|---|----|
| <u>Item 10.</u> | <u>Directors and Executive Officers of the Registrant</u>             | 30 |
| <u>Item 11.</u> | <u>Executive Compensation</u>   | 30 |
| <u>Item 12.</u> | <u>Security Ownership of Certain Beneficial Owners and Management</u> | 30 |
| <u>Item 13.</u> | <u>Certain Relationships and Related Transactions</u>                 | 31 |
| <u>Item 14.</u> | <u>Principal Accountant Fees and Services</u>                         | 31 |

### Part IV

|                 |  |    |
|-----------------|--|----|
| <u>Item 15.</u> | <u>Exhibits, Financial Statements and Schedule</u> | 31 |
|-----------------|--|----|

Signatures

34

Consent of Vichow, Krause & Company, LLP

Consent of BDO Seidman, LLP

Certification pursuant to Section 302 of Richard Agree, Chief Executive Officer

Certification pursuant to Section 302 of Kenneth R. Howe, Chief Financial Officer

Certification pursuant to Section 906 of Richard Agree, Chief Executive Officer

Certification pursuant to Section 906 of Kenneth R. Howe, Chief Financial Officer

2

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**Table of Contents**

**EXPLANATORY NOTE**

This Amendment No. 1 amends our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (the Form 10-K ) solely for the purpose of filing the certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith as Exhibits 31.1 and 31.2, in conformity with Item 601 (B)(31)(i) of Regulation S-K. We have also filed Exhibits 23.1, 23.2, 32.1 and 32.2 because we are filing a full amendment to the Form 10-K. Further, we have conformed the exhibit list in Item 15 to reflect the foregoing filings.

Except as set forth above, we have not amended or updated the disclosures presented in the 10-K filed on March 14, 2007 and this report speaks only as of the original filing date. Therefore, you should refer to our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports filed with or furnished to the Securities and Exchange Commission for information on the Company since March 14, 2007.

**Part I**

**FORWARD LOOKING STATEMENTS**

We have made statements in this Form 10-K that are forward-looking in that they do not discuss historical facts but instead note future expectations, projections, intentions or other items relating to the future.

Forward-looking statements, which are generally prefaced by the words anticipate, estimate, should, expect, believe, intend, and similar terms, are subject to known and unknown risks, uncertainties and other facts that may cause our actual results or performance to differ materially from those contemplated by the forward-looking statements. Many of those factors are noted in conjunction with the forward-looking statements in the text. Other important factors that could cause our actual results to differ include:

Our inability to effect the development or acquisition of properties on favorable terms.

The effect of economic conditions. If an economic downturn occurs, any corresponding decrease in disposable income could result in consumers being less willing to purchase goods from our tenants which could adversely affect our financial condition and results of operations. Our financial condition and results of operations could also be adversely affected if our tenants are otherwise unable to make lease payments or fail to renew their leases.

Our inability to obtain long-term financing at interest rates that will allow us to offer attractive rental rates to our tenants in order to continue the development or acquisition of retail properties leased to national tenants on a long-term basis.

Actions of our competitors. We seek to remain competitive in the development of real estate assets in the markets that we currently serve. With regard to our acquisition of properties, we compete with insurance companies, credit companies, pension funds, private individuals, investment companies and other REITs, many of which have greater resources than we do.

Failure to qualify as a REIT. Although we believe that we were organized and have been operating in conformity with the requirements for qualification as a REIT under the Internal Revenue Code, we cannot assure you that we will continue to qualify as a REIT.

Changes in government regulations, tax rates and similar matters. For example, changes in real estate and zoning laws, environmental uncertainties and natural disasters could adversely affect our financial condition and results of operations.

Other risk uncertainties and factors that could cause actual results to differ materially from those projected are discussed in the Risk Factors section of this Form 10-K.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in or incorporated by reference into this Form 10-K might not occur.

References herein to the Company include Agree Realty Corporation, together with its wholly-owned subsidiaries and its majority owned operating partnership, Agree Limited Partnership (Operating Partnership), unless the context otherwise requires.

**Table of Contents**

**Item 1. BUSINESS**

**General**

Agree Realty Corporation is a fully-integrated, self-administered and self-managed real estate investment trust (REIT) focused primarily on the development, acquisition and management of retail properties net leased to national tenants. We were formed in December 1993 to continue and expand the business founded in 1971 by our current President 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 December 31, 2006, approximately 89% of our annualized base rent was derived from national tenants. 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.

At December 31, 2006, our portfolio consisted of 60 properties, located in 15 states containing an aggregate of approximately 3.4 million square feet of gross leasable area (GLA). As of December 31, 2006, our portfolio included 48 freestanding net leased properties and 12 community shopping centers that were 99.7% leased with a weighted average lease term of approximately 11.5 years. As of December 31, 2006, approximately 67% of our annualized base rent was derived from our top three tenants: Borders Group, Inc. (Borders) 32%, Walgreen Co. (Walgreen) 22% and Kmart Corporation (Kmart) 13%.

We expect to continue to grow our asset base primarily through the development of retail properties that are pre-leased on a long-term basis to national tenants. We believe this development strategy provides attractive returns on investment, without the risks associated with speculative development. Since our initial public offering in 1994, we have developed 47 of our 60 properties, including 35 of our 48 freestanding properties and all 12 of our community shopping centers. As of December 31, 2006, the properties that we developed accounted for 82.3% of our annualized base rent. We focus on development because we believe, based on our historical returns we have been able to achieve, it generally provides us a higher return on investment than the acquisition of similarly located properties. We expect to continue to expand our tenant relationships and diversify our tenant base to include other quality national tenants.

**Growth Strategy**

Our growth strategy is to continue to develop retail properties pre-leased on a long-term basis to national tenants. We believe that this strategy produces superior risk adjusted returns. Our development process commences with the identification of a land parcel we believe is situated in an attractive retail location. The location must be in a concentrated retail corridor and have high traffic counts, good visibility and demographics compatible with the needs of a particular retail tenant. After assessing the feasibility of development, we propose to the tenants that we execute long-term net leases for the finished development on that site.

Upon the execution of the leases, we purchase the land and pursue all the necessary approvals to begin development. We direct all aspects of the development, including construction, design, leasing and management. Property management and the majority of the leasing activities are handled directly by our personnel. We believe that this approach enhances our ability to maximize the long-term value of our properties.

**Financing Strategy**

The majority of our indebtedness is fixed rate, non-recourse and long-term in nature. Whenever feasible, we enter into long-term financing for our properties to match the underlying long-term leases. As of December 31, 2006, the average weighted maturity of our long-term debt was 13.4 years. We intend to limit our floating rate debt to borrowings under our credit facilities, which are primarily used to finance new development and acquisitions. Once development of a project is completed, we typically refinance this floating rate debt with long-term, fixed rate, non-recourse debt. As of December 31, 2006, our total debt was approximately \$68.8 million, consisting of approximately \$48.3 million of fixed rate debt at an average interest rate of 6.64% and approximately \$20.5 million of floating rate debt, consisting primarily of the credit facilities, at an aggregate weighted average interest rate of



**Table of Contents**

6.35%. We intend to maintain a ratio of total indebtedness (including construction and acquisition financing) to market capitalization of 65% or less.

We may from time to time re-evaluate our borrowing policies in light of the then current economic conditions, relative costs of debt and equity capital, market value of properties, growth and acquisition opportunities and other factors. There is no contractual limit or any limit in our organizational documents on our ratio of total indebtedness to total market capitalization, and accordingly, we may modify our borrowing policy and may increase or decrease our ratio of debt to market capitalization without stockholder approval.

**Property Management**

We maintain a proactive leasing and capital improvement program that, combined with the quality and locations of our properties, has made our properties attractive to tenants. We intend to continue to hold our properties for long-term investment and, accordingly, place a strong emphasis on quality construction and an on-going program of regular maintenance. Our properties are designed and built to require minimal capital improvements other than renovations or expansions paid for by tenants. At our 12 community shopping centers properties, we sub-contract on-site functions such as maintenance, landscaping, snow removal and sweeping and the cost of these functions is generally reimbursed by our tenants. Personnel from our corporate headquarters conduct regular inspections of each property and maintain regular contact with major tenants.

We have a management information system designed to provide management with the operating data necessary to make informed business decisions on a timely basis. This computer system provides us immediate access to store availability, lease data, tenants sales history, cash flow budgets and forecasts, and enables us to maximize cash flow from operations and closely monitor corporate expenses.

**Agree Limited Partnership**

Our assets are held by, and all of our operations are conducted through, Agree Limited Partnership (Operating Partnership), of which we are the sole general partner and held a 92.00% interest as of December 31, 2006. Under the partnership agreement of the Operating Partnership, we, as the sole general partner, have exclusive responsibility and discretion in the management and control of the Operating Partnership.

**Headquarters**

Our headquarters are located at 31850 Northwestern Highway, Farmington Hills, MI 48334 and our telephone number is (248) 737-4190. Our web site address is [www.agreerealty.com](http://www.agreerealty.com). Agree Realty Corporation's SEC filings can be accessed through this site.

**Major Tenants**

As of December 31, 2006, approximately 67% of our gross leasable area was leased to Borders, Walgreen, and Kmart and approximately 67% of our total annualized base rents was attributable to these tenants. At December 31, 2006, Borders occupied approximately 29% of our gross leasable area and accounted for approximately 32% of the annualized base rent. At December 31, 2006, Walgreen occupied approximately 8% of our gross leasable area and accounted for approximately 22% of the annualized base rent. At December 31, 2006, Kmart occupied approximately 30% of our gross leasable area and accounted for approximately 13% of the annualized base rent. No other tenant accounted for more than 10% of gross leasable area or annualized base rent in 2006. The loss of any of these anchor tenants or the inability of any of them to pay rent would have an adverse effect on our business.

**Tax Status**

We have operated and intend to operate in a manner to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code. In order to maintain qualification as a REIT, we must, among other things, distribute at least 90% of our real estate investment trust income and meet certain other asset and income tests. Additionally, our charter limits ownership of the Company, directly or constructively, by any single person to 9.8% of the total

## **Table of Contents**

number of outstanding shares, subject to certain exceptions. As a REIT, we are not subject to federal income tax with respect to that portion of its income that meets certain criteria and is distributed annually to the stockholders.

### **Competition**

We face competition in seeking properties for acquisition and tenants who will lease space in these properties from insurance companies, credit companies, pension funds, private individuals, investment companies and other REITs, many of which have greater financial and other resources than us. There can be no assurance that we will be able to successfully compete with such entities in our development, acquisition and leasing activities in the future.

### **Potential Environmental Risks**

Investments in real property create a potential for environmental liability on the part of the owner or operator of such real property. If hazardous substances are discovered on or emanating from a property, the owner or operator of the property may be held strictly liable for all costs and liabilities relating to such hazardous substances. We have obtained a Phase I environmental study (which involves inspection without soil sampling or ground water analysis) conducted on each Property by independent environmental consultants. Furthermore, we have adopted a policy of conducting a Phase I environmental study on each property we acquire and if necessary conducting additional investigation as warranted.

We conducted Phase I environmental study on the one (1) property we acquired in 2006. The results of this Phase I study indicated that no further action was required. In addition, we have no knowledge of any hazardous substances existing on any of our properties in violation of any applicable laws; however, no assurance can be given that such substances are not located on any of the properties. We carry no insurance coverage for the types of environmental risks described above.

We believe that we are in compliance, in all material respects, with all federal, state and local ordinances and regulations regarding hazardous or toxic substances. Furthermore, we have not been notified by any governmental authority of any noncompliance, liability or other claim in connection with any of the properties.

### **Employees**

As of February 28, 2007, we employed eight persons. Employee responsibilities include accounting, construction, leasing, property coordination and administrative functions for the properties. Our employees are not covered by a collective bargaining agreement, and we consider our employee relations to be satisfactory.

### **Financial Information About Industry Segments**

We are in the business of development, acquisition and management of freestanding net leased properties and community shopping centers. We consider our activities to consist of a single industry segment. See the Consolidated Financial Statements and Notes thereto included in this Annual Report on Form 10-K.

## **ITEM 1A. RISK FACTORS**

### **General**

*We rely significantly on three major tenants.* As of December 31, 2006, we derived approximately 67% of our annualized base rent from three major tenants, Borders, Walgreen and Kmart. In the event of a default by any of these tenants under their leases, we may experience delays in enforcing our rights as lessor and may incur substantial costs in protecting our investment. The bankruptcy or insolvency of any of the major tenants would likely have a material adverse effect on the properties affected and the income produced by those properties and correspondingly our ability to make distributions.

**Table of Contents**

In the event that certain tenants cease to occupy a property, although under most circumstances such a tenant would remain liable for its lease payments, such an action may result in certain other tenants having the right to terminate their leases at the affected property, which could adversely affect the future income from that property. As of December 31, 2006, 12 of our properties had tenants with those provisions in their leases.

*We could be adversely affected by a tenant's bankruptcy.* If a tenant becomes bankrupt or insolvent, that could diminish the income we receive from that tenant's leases. We may not be able to evict a tenant solely because of its bankruptcy. On the other hand, a bankruptcy court might authorize the tenant to terminate its leases with us. If that happens, our claim against the bankrupt tenant for unpaid future rent would be subject to statutory limitations that might be substantially less than the remaining rent we are owed under the leases. In addition, any claim we have for unpaid past rent would likely not be paid in full.

*Risks involved in single tenant leases.* We focus our development activities on net leased real estate or interests therein. Because our properties are generally leased to single tenants, the financial failure of or other default by a tenant resulting in the termination of a lease is likely to cause a significant reduction in our operating cash flow and might decrease the value of the property leased to such tenant.

*Risks associated with borrowing, including loss of properties in the event of a foreclosure.* At December 31, 2006, our ratio of indebtedness to market capitalization was approximately 23.8%. The use of leverage presents an additional element of risk in the event that (1) the cash flow from lease payments on our properties is insufficient to meet debt obligations, (2) we are unable to refinance our debt obligations as necessary or on as favorable terms or (3) there is an increase in interest rates. If a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the property could be foreclosed upon with a consequent loss of income and asset value to us. Under the cross-default provisions contained in mortgages encumbering some of our properties, our default under a mortgage with a lender would result in our default under mortgages held by the same lender on other properties resulting in multiple foreclosures.

*Risks associated with our development and acquisition activities.* We intend to continue development of new properties and to consider possible acquisitions of existing properties. New project development is subject to a number of risks, including risks of construction delays or cost overruns that may increase project costs, risks that the properties will not achieve anticipated occupancy levels or sustain anticipated rent levels, and new project commencement risks such as receipt of zoning, occupancy and other required governmental permits and authorizations and the incurrence of development costs in connection with projects that are not pursued to completion. In addition, we anticipate that our new development will be financed under lines of credit or other forms of construction financing that will result in a risk that permanent financing on newly developed projects might not be available or would be available only on disadvantageous terms. In addition, the fact that we must distribute 90% of our taxable income in order to maintain our qualification as a REIT will limit our ability to rely upon income from operations or cash flow from operations to finance new development or acquisitions. As a result, if permanent debt or equity financing was not available on acceptable terms to refinance new development or acquisitions undertaken without permanent financing, further development activities or acquisitions might be curtailed or cash available for distribution might be adversely affected. Acquisitions entail risks that investments will fail to perform in accordance with expectations and that judgments with respect to the costs of improvements to bring an acquired property up to standards established for the market position intended for that property will prove inaccurate, as well as general investment risks associated with any new real estate investment.

*Our portfolio has limited geographic diversification.* Our properties are located primarily in the Midwestern United States and Florida. The concentration of our properties in a limited number of geographic regions creates the risk that, should these regions experience an economic downturn, our operations may be adversely affected. Thirty-four of our properties are located in Michigan. Should Michigan experience an economic downturn, our operations and our rentals from our Michigan properties could be adversely affected.

*Dependence on key personnel.* We are dependent on the efforts of our executive officers. The loss of one or more of our executive officers would likely have a material adverse effect on our future development or acquisition operations, which could adversely affect the market price of our common stock. We do not presently have key-man life insurance for any of our employees.



**Table of Contents**

*We are not limited by our organization documents as to the amount of debt we may incur.* 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. Our organization documents contain no limitation on the amount or percentage of indebtedness which we may incur. Therefore, our board of directors, without a vote of the stockholders, could alter the general policy on borrowings at any time. If our debt capitalization policy were changed, we could become more highly leveraged, resulting in an increase in debt service that could adversely affect our operating cash flow and our ability to make expected distributions to stockholders, and could result in an increased risk of default on our obligations.

*We can change our investment and financing policies without stockholder approval.* Our investment and financing policies, and our policies with respect to certain other activities, including our growth, debt capitalization, distributions, REIT status and investment and operating policies, are determined by our board of directors. Although we have no present intention to do so, these policies may be amended or revised from time to time at the discretion of our board of directors without a vote of our stockholders.

*Competition.* We face competition in seeking properties for acquisition and tenants who will lease space in these properties from insurance companies, credit companies, pension funds, private individuals, investment companies and other REITs, many of which have greater financial and other resources than we do. There can be no assurance that the Company will be able to successfully compete with such entities in its development, acquisition and leasing activities in the future.

**Risks Associated With Investment In Real Estate**

There are risks associated with owning and leasing real estate. Although our lease terms obligate the tenants to bear substantially all of the costs of operating our properties, investing in real estate involves a number of risks, including:

The risk that tenants will not perform under their leases, reducing our income from the leases or requiring us to assume the cost of performing obligations (such as taxes, insurance and maintenance) that are the tenant's responsibility under the lease.

The risk that changes in economic conditions or real estate markets may adversely affect the value of our properties.

The risk that local conditions (such as oversupply of similar properties) could adversely affect the value of our properties.

The risk that we may not always be able to lease properties at favorable rental rates.

The risk that we may not always be able to sell a property when we desire to do so at a favorable price.

The risk of changes in tax, zoning or other laws could make properties less attractive or less profitable. If a tenant fails to perform on its lease covenants, that would not excuse us from meeting any mortgage debt obligation secured by the property and could require us to fund reserves in favor of our mortgage lenders, thereby reducing funds available for payment of dividends on our shares of common stock. We cannot be assured that tenants will elect to renew their leases when the terms expire. If a tenant does not renew its lease or if a tenant defaults on its lease obligations, there is no assurance we could obtain a substitute tenant on acceptable terms. If we cannot obtain another tenant with comparable structural needs, we may be required to modify the property for a different use, which may involve a significant capital expenditure and a delay in re-leasing the property.

**Table of Contents**

*Uncertainties relating to lease renewals and re-letting of space.* We are subject to the risks that, upon expiration of leases for space located in our properties, the premises may not be re-let or the terms of re-letting (including the cost of concessions to tenants) may be less favorable than current lease terms. If we are unable to re-let promptly all or a substantial portion of our retailers or if the rental rates upon such re-letting were significantly lower than expected rates, our net income and ability to make expected distributions to stockholders would be adversely affected. There can be no assurance that we will be able to retain tenants in any of our properties upon the expiration of their leases.

*Some potential losses are not covered by insurance.* Our leases require the tenants to carry comprehensive liability, casualty, workers' compensation, extended coverage and rental loss insurance on our properties. However, there are some types of losses, such as terrorist acts or catastrophic acts of nature, for which we or our tenants cannot obtain insurance at an acceptable cost. If there is an uninsured loss or a loss in excess of insurance limits, we could lose both the revenues generated by the affected property and the capital we have invested in the property. We believe the required coverage is of the type, and amount, customarily obtained by an owner of similar properties. We believe all of our properties are adequately insured. We would, however, remain obligated to repay any mortgage indebtedness or other obligations related to the property.

*Potential liability for environmental contamination could result in substantial costs.* Under federal, state and local environmental laws, we may be required to investigate and clean up any release of hazardous or toxic substances or petroleum products at our properties, regardless of our knowledge or actual responsibility, simply because of our current or past ownership of the real estate. If unidentified environmental problems arise, we may have to make substantial payments, which could adversely affect our cash flow and our ability to make distributions to our stockholders. This potential liability results from the fact that:

As owner we may have to pay for property damage and for investigation and clean-up costs incurred in connection with the contamination.

The law may impose clean-up responsibility and liability regardless of whether the owner or operator knew of or caused the contamination.

Even if more than one person is responsible for the contamination, each person who shares legal liability under environmental laws may be held responsible for all of the clean-up costs.

Governmental entities and third parties may sue the owner or operator of a contaminated site for damages and costs.

These costs could be substantial and in extreme cases could exceed the value of the contaminated property. The presence of hazardous substances or petroleum products or the failure to properly remediate contamination may adversely affect our ability to borrow against, sell or lease an affected property. In addition, some environmental laws create liens on contaminated sites in favor of the government for damages and costs it incurs in connection with a contamination.

Our leases require our tenants to operate the properties in compliance with environmental laws and to indemnify us against environmental liability arising from the operation of the properties. However, we could be subject to strict liability under environmental laws because we own the properties. There is also a risk that tenants may not satisfy their environmental compliance and indemnification obligations under the leases. Any of these events could substantially increase our cost of operations, require us to fund environmental indemnities in favor of our secured lenders and reduce our ability to service our secured debt and pay dividends to stockholders and any debt security interest payments. Environmental problems at any properties could also put us in default under loans secured by those properties, as well as loans secured by unaffected properties.

Real estate investments are relatively illiquid. We may desire to sell a property in the future because of changes in market conditions or poor tenant performance or to avail ourselves of other opportunities. We may also be required to sell a property in the future to meet secured debt obligations or to avoid a secured debt loan default.

**Table of Contents**

Real estate projects cannot always be sold quickly, and we cannot assure you that we could always obtain a favorable price. We may be required to invest in the restoration or modification of a property before we can sell it.

**Tax Risks**

We will be subject to increased taxation if we fail to qualify as a REIT for federal income tax purposes. A REIT generally is not taxed at the corporate level on income it distributes to its stockholders, as long as it distributes annually at least 90% of its taxable income to its stockholders. We have not requested and do not plan to request, a ruling from the Internal Revenue Service that we qualify as a REIT.

If we fail to qualify as a REIT, we will face tax consequences that will substantially reduce the funds available for payment of dividends:

We would not be allowed a deduction for dividends paid to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates.

We could be subject to the federal alternative minimum tax and possibly increased state and local taxes.

Unless we are entitled to relief under statutory provisions, we could not elect to be treated as a REIT for four taxable years following the year in which we were disqualified.

In addition, if we fail to qualify as a REIT, we will no longer be required to pay dividends (other than any mandatory dividends on any preferred shares we may offer). As a result of these factors, our failure to qualify as a REIT could adversely effect the market price for our common stock.

*Excessive non-real estate asset values may jeopardize our REIT status.* In order to qualify as a REIT, at least 75% of the value of our assets must consist of investments in real estate, investments in other REITs, cash and cash equivalents, and government securities. Therefore, the value of any property that is not considered a real estate asset for federal income tax purposes must represent in the aggregate less than 25% of our total assets. In addition, under federal income tax law, we may not own securities in any one company (other than a REIT, a qualified REIT subsidiary or a taxable REIT subsidiary) which represent in excess of 10% of the voting securities or 10% of the value of all securities of any one company, or which have, in the aggregate, a value in excess of 5% of our total assets, and we may not own securities of one or more taxable REIT subsidiaries which have, in the aggregate, a value in excess of 20% of our total assets. We may invest in securities of another REIT, and our investment may represent in excess of 10% of the voting securities or 10% of the value of the securities of the other REIT. If the other REIT were to lose its REIT status during a taxable year in which our investment represented in excess of 10% of the voting securities or 10% of the value of the securities of the other REIT as of the close of a calendar quarter, we will lose our REIT status.

The 25%, 20%, 10% and 5% tests are determined at the end of each calendar quarter. If we fail to meet any such test at the end of any calendar quarter, we will cease to qualify as a REIT.

*We may have to borrow funds or sell assets to meet our distribution requirements.* Subject to some adjustments that are unique to REITs, a REIT generally must distribute 90% of its taxable income. For the purpose of determining taxable income, we may be required to accrue interest, rent and other items treated as earned for tax purposes but that we have not yet received. In addition, we may be required not to accrue as expenses for tax purposes some items which actually have been paid, including, for example, payments of principal on our debt, or some of our deductions might be disallowed by the Internal Revenue Service. As a result, we could have taxable income in excess of cash available for distribution. If this occurs, we may have to borrow funds or liquidate some of our assets in order to meet the distribution requirement applicable to a REIT.

*We may be subject to other tax liabilities.* Even if we qualify as a REIT, we may be subject to some federal, state and local taxes on our income and property that could reduce operating cash flow.

**Table of Contents**

*Changes in tax laws may prevent us from qualifying as a REIT.* As we have previously described, we intend to qualify as a REIT for federal income tax purposes. However, this intended qualification is based on the tax laws that are currently in effect. We are unable to predict any future changes in the tax laws that would adversely affect our status as a REIT. If there is a change in the tax laws that prevents us from qualifying as a REIT or that requires REITs generally to pay corporate level income taxes, we may not be able to make the same level of distributions to our stockholders.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

**ITEM 2. PROPERTIES**

Our properties consist of 48 freestanding net leased properties and 12 community shopping centers, that as of December 31, 2006 were 99.7% leased, with a weighted average lease term of 11.5 years. Approximately 89% of our annualized base rent was attributable to national retailers. Among these retailers are Borders, Walgreen and Kmart which, at December 31, 2006, collectively represented approximately 67% of our annualized base rent. A majority of our properties were built for or are leased to national tenants who require a high quality location with strong retail characteristics. We developed 35 of our 48 freestanding properties and all 12 of our community shopping centers. Five of our freestanding properties were acquired as part of our relationship with Borders. Properties we have developed (including our community shopping centers) account for approximately 82.3% of our annualized base rent as of December 31, 2006. Our 48 freestanding properties are comprised of 47 retail locations and Borders corporate headquarters.

A substantial portion of our income consists of rent received under net leases. Most of the leases provide for the payment of fixed base rentals monthly in advance and for the payment by tenants of a pro rata share of the real estate taxes, insurance, utilities and common area maintenance of the shopping center as well as payment to us of a percentage of the tenant's sales. We received percentage rents of \$53,550 \$68,071 and \$55,955 and for the fiscal years 2006, 2005 and 2004, respectively, and these amounts represented 0.2%, 0.2% and 0.2%, respectively, of our total revenue for these periods. Included in those amounts were percentage rents from Kmart of \$13,605, \$25,240 and \$-0- for fiscal years 2006, 2005 and 2004, respectively. Leases with Borders do not contain percentage rent provisions. Leases with Walgreen do contain percentage rent provisions; however, no percentage rent was received from Walgreen during these periods. Some of our leases require us to make roof and structural repairs, as needed.

**Development and Acquisition Summary**

During 2006:

We acquired one (1) freestanding net leased property that added 11,060 square feet of gross leasable area to our operating portfolio and cost approximately \$2.3 million. The property is located in Summit Township, Michigan and is leased to Rite Aid.

We completed the development of a Walgreen drug store at our community shopping center located in Frankfort, Kentucky. The Walgreen store replaced a vacant Winn Dixie grocery store. The Walgreen store cost approximately \$2.6 million.

We exercised our option to purchase the fee interest in a parcel of land located in Lawrence, Kansas for \$980,000. The land was previously leased by us from a private investor.

We commenced the development of a Walgreen drug store located in Livonia, Michigan. Budgeted cost for this development is approximately \$4.4 million and is expected to be completed during the second quarter of 2007.



**Table of Contents****Major Tenants**

The following table sets forth certain information with respect to our major tenants:

|          | <b>Number<br/>of<br/>Leases</b> | <b>Annualized Base<br/>Rent as of<br/>December 31,<br/>2006</b> | <b>Percent of Total<br/>Annualized Base<br/>Rent as<br/>of December 31,<br/>2006</b> |
|----------|---------------------------------|---|--|
| Borders  | 18                              | \$ 9,861,727  | 32%  |
| Walgreen | 18                              | 6,648,599   | 22   |
| Kmart    | 12                              | 3,847,911   | 13   |
| Total    | 48                              | \$ 20,358,237   | 67%  |

Borders Group, Inc., (Borders), trades on the New York Stock Exchange under the symbol **BGP**. Borders, is a leading global retailer of books, music, movies and gift and stationary items. Headquartered in Ann Arbor, Michigan, Borders operates 487 Borders domestic superstores, as well as 61 international Borders stores, approximately 652 Waldenbooks locations and 30 United Kingdom based Books etc. stores. Borders employs more than 34,000 people worldwide. We derive approximately 32% of our annualized base rent as of December 31, 2006 from Borders. Borders has reported that its annual revenues for its 2005 fiscal year ended January 28, 2006 were approximately \$4,030,700,000; its annual net income for 2005 was approximately \$101,000,000 and its total stockholders equity at fiscal year end 2005 was approximately of \$927,800,000.

Walgreen is a leader of the U.S. chain drugstore industry and trades on the New York Stock Exchange under the symbol **WAG**. It operates over 5,461 stores in 47 states and Puerto Rico and has total assets of approximately \$17.1 billion as of August 31, 2006. As of January 29, 2007, Walgreen's long-term debt had a Standard and Poor's rating of A+ and a Moody's rating of Aa3. We derive approximately 22% of our annualized base rent as of December 31, 2006 from Walgreen. For its fiscal year ended August 31, 2006, Walgreen reported that its annual net sales were \$47,409,000,000 and its annual net income was \$1,750,600,000 and that it had shareholders equity of \$10,115,800,000.

Kmart is a mass merchandising company that offers customers quality products through a portfolio of exclusive brands and labels. As of January 28, 2006, Kmart operated a total of 1,416 stores across 49 states, Guam, Puerto Rico and the U.S. Virgin Islands. Kmart is a wholly-owned subsidiary of Sears Holdings Corporation (Sears). Sears is a broadline retailer with approximately 2,300 full-line and 1,100 specialty retail stores in the United States operating through Kmart and Sears and 380 full-line and specialty stores in Canada operating through Sears Canada, Inc. (Sears Canada), a 70%-owned subsidiary. We derive approximately 12% of our annualized base rent as of December 31, 2006 from Kmart. As of October 28, 2006, Sears had total assets of \$30,469,000,000, total liabilities of \$18,845,000,000 and shareholders equity of \$11,624,000,000. All of our Kmart properties are in the traditional Kmart format and these Kmart properties average 85,000 square feet per property.

The financial information set forth above with respect to Borders, Walgreen and Kmart was derived from the annual reports on Form 10-K filed by Borders and Walgreen with the SEC with respect to their 2005 fiscal years and the quarterly report on form 10-Q filed by Sears Holdings Corporation with the SEC with respect to the third quarter of 2006. Additional information regarding Borders, Walgreen or Kmart may be found in their respective public filings. These filings can be accessed at [www.sec.gov](http://www.sec.gov)

**Location of Properties in the Portfolio**

**Table of Contents**

| <b>State</b>  | <b>Number<br/>of<br/>Properties</b> | <b>Total Gross<br/>Leasable Area<br/>(Sq. feet)</b> | <b>Percent of GLA<br/>Leased on<br/>December 31, 2006</b> |
|---------------|-------------------------------------|---|---|
| Florida       | 4                                   | 258,793   | 100   |
| Indiana       | 1                                   | 15,844  | 100   |
| Illinois      | 1                                   | 20,000  | 100   |
| Kansas        | 2                                   | 45,000  | 100   |
| Kentucky      | 1                                   | 116,212   | 100   |
| Maryland      | 2                                   | 53,000  | 100   |
| Michigan      | 34                                  | 2,035,304   | 99  |
| Nebraska      | 2                                   | 55,000  | 100   |
| New Jersey    | 1                                   | 10,118  | 100   |
| New York      | 2                                   | 27,626  | 100   |
| Ohio          | 1                                   | 21,000  | 100   |
| Oklahoma      | 4                                   | 99,282  | 100   |
| Pennsylvania  | 1                                   | 37,004  | 100   |
| Wisconsin     | 3                                   | 523,036   | 99  |
| Total/Average | 60                                  | 3,355,234   | 99%   |

**Lease Expirations**

The following table shows lease expirations for the next 10 years for our community shopping centers and wholly-owned freestanding properties, assuming that none of the tenants exercise renewal options.

| <b>Expiration Year</b> | <b>Number<br/>of<br/>Leases<br/>Expiring</b> | <b>December 31, 2006</b>   |                                 |                             |                                 |
|------------------------|--|----------------------------|---------------------------------|-----------------------------|---------------------------------|
|                        |  | <b>Gross Leasable Area</b> |                                 | <b>Annualized Base Rent</b> |                                 |
|                        |  | <b>Square<br/>Footage</b>  | <b>Percent<br/>Of<br/>Total</b> | <b>Amount</b>               | <b>Percent<br/>Of<br/>Total</b> |
| 2007                   | 5  | 24,300                     | .7%                             | \$ 178,399                  | .6%                             |
| 2008                   | 27   | 313,925                    | 9.4%                            | 1,396,808                   | 4.6%                            |
| 2009                   | 20   | 193,326                    | 5.8%                            | 973,978                     | 3.2%                            |
| 2010                   | 20   | 328,035                    | 9.8%                            | 2,031,328                   | 6.7%                            |
| 2011                   | 25   | 231,524                    | 6.9%                            | 1,644,262                   | 5.4%                            |
| 2012                   | 10   | 58,260                     | 1.7%                            | 513,016                     | 1.7%                            |
| 2013                   | 1  | 51,868                     | 1.6%                            | 492,746                     | 1.6%                            |
| 2014                   | 3  | 172,958                    | 5.2%                            | 824,206                     | 2.7%                            |
| 2015                   | 11   | 730,525                    | 21.8%                           | 5,075,265                   | 16.7%                           |
| 2016                   | 5  | 80,945                     | 2.4%                            | 1,664,513                   | 5.5%                            |
| Thereafter             | 41   | 1,158,948                  | 34.7%                           | 15,628,821                  | 51.3%                           |

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|       |     |           |        |               |        |
|-------|-----|-----------|--------|---------------|--------|
| Total | 168 | 3,344,614 | 100.0% | \$ 30,423,342 | 100.0% |
|-------|-----|-----------|--------|---------------|--------|

We have made preliminary contact with the five (5) tenants whose leases expire in 2007. Of those tenants, three (3) tenants, at their option, have the right to extend their lease term and two (2) tenants have leases expiring in 2007. We expect all five (5) tenants to extend their leases or enter into lease extensions.

**Table of Contents****Annualized Base Rent of our Properties**

The following is a breakdown of base rents in place at December 31, 2006 for each type of retail tenant:

| <b>Type of Tenant</b> | <b>Annualized<br/>Base Rent</b> | <b>Percent of<br/>Annualized<br/>Base Rent</b> |
|-----------------------|---------------------------------|--|
| National(1)           | \$ 27,125,947                   | 89%  |
| Regional(2)           | 2,146,579                       | 7  |
| Local                 | 1,150,816                       | 4  |
| <br>                  |                                 |  |
| Total                 | \$ 30,423,342                   | 100%   |

- (1) Includes the following national tenants:  
 Borders,  
 Walgreen,  
 Kmart,  
 Wal-Mart,  
 Eckerd Drugs,  
 Fashion Bug,  
 Rite Aid, JC  
 Penney, Avco  
 Financial, GNC  
 Group, Radio  
 Shack, Sam  
 Goody, Super  
 Value,  
 Maurices,  
 Payless Shoes,  
 Blockbuster  
 Video, Family  
 Dollar, H&R  
 Block, Sally  
 Beauty, Jo Ann  
 Fabrics, Staples,  
 Best Buy,  
 Dollar Tree,  
 TGI Friday s,  
 Circuit City and  
 Pier 1 Imports.

**Freestanding Properties**

Forty-eight (48) of our properties are freestanding properties which at December 31, 2006 were leased to Borders (18), Circuit City Stores (1), Rite Aid (5), Eckerd Drugs (2), Fajita Factory (1), Citizens Bank (1), Kmart (2), Walgreen (17) and Wal-Mart (1). Our freestanding properties provided \$20,085,734, or approximately 66.0%, of our annualized base rent as of December 31, 2006, at an average base rent per square foot of \$13.00. These properties contain, in the aggregate, 1,492,578 square feet of gross leasable area or approximately 44.5% of our total gross

leasable area. Our freestanding properties tend to have high traffic counts, are generally located in densely populated areas and are leased to a single tenant on a long term basis. Thirty-five (35) of our 48 freestanding properties were developed by us. Five (5) of our 48 freestanding properties, although not developed by us, were acquired as part of our relationship with Borders. As of December 31, 2006, our freestanding properties have a weighted average lease term of 14.1 years.

Our freestanding properties range in size from 4,426 to 458,729 square feet of gross leasable area and are located in the following states: California (1), Florida (3), Indiana (1), Kansas (2), Maryland (2), Michigan (28), Nebraska (2), New Jersey (1), New York (2), Ohio (1), Oklahoma (4) and Pennsylvania (1).

#### **Freestanding Properties**

| <b>Tenant/Location</b>     | <b>Year Completed/<br/>Expanded</b> | <b>Total GLA</b> | <b>Lease Expiration(2)<br/>(Option expiration)</b> |
|----------------------------|-------------------------------------|------------------|--|
| Borders,(1) Aventura, FL   | 1996                                | 30,000           | Jan 31, 2016<br>(2036)                             |
| Borders, Columbus, OH      | 1996                                | 21,000           | Jan 23, 2016<br>(2036)                             |
| Borders, Monroeville, PA   | 1996                                | 37,004           | Nov 8, 2016<br>(2036)                              |
| Borders, Norman, OK        | 1996                                | 24,641           | Sep 20, 2016<br>(2036)                             |
| Borders, Omaha, NE         | 1995                                | 30,000           | Nov 3, 2015<br>(2035)                              |
| Borders, Santa Barbara, CA | 1995                                | 38,015           | Nov 17, 2015<br>(2035)                             |
| Borders, Wichita, KS       | 1995                                | 25,000           | Nov 10, 2015<br>(2035)                             |
| Borders, Lawrence, KS      | 1997                                | 20,000           | Oct 16, 2022<br>(2042)                             |
| Borders, Tulsa, OK         | 1998                                | 25,000           | Sep 30, 2018<br>(2038)                             |
| Borders, Oklahoma City, OK | 2002                                | 24,641           | Nov 17, 2017<br>(2037)                             |

**Table of Contents**

| <b>Tenant/Location</b>              | <b>Year Completed/<br/>Expanded</b> | <b>Total GLA</b> | <b>Lease Expiration(2)<br/>(Option expiration)</b> |
|-------------------------------------|-------------------------------------|------------------|--|
| Borders, Omaha, NE                  | 2002                                | 25,000           | Nov 17, 2017<br>(2037)                             |
| Borders, Indianapolis, IN           | 2002                                | 15,844           | Nov 17, 2017<br>(2037)                             |
| Borders, Columbia, MD               | 1999                                | 28,000           | Oct 16, 2022<br>(2042)                             |
| Borders, Germantown, MD             | 2000                                | 25,000           | Oct 16, 2022<br>(2042)                             |
| Borders Headquarters, Ann Arbor, MI | 1996/1998                           | 458,729          | Jan 29, 2023<br>(2043)                             |
| Borders, Tulsa, OK                  | 1996                                | 25,000           | Sep 30, 2018<br>(2038)                             |
| Borders, Boynton Beach, FL          | 1996                                | 25,000           | July 20, 2024<br>(2044)                            |
| Borders, Ann Arbor, MI              | 1996                                | 110,000          | July 20, 2024<br>(2044)                            |
| Circuit City, Boynton Beach, FL     | 1996                                | 32,459           | Dec 15, 2016<br>(2036)                             |
| Citizens Bank, Flint, MI            | 2003                                | 4,426            | Apr 15, 2023<br>Feb 24, 2024                       |
| Eckerd Drugs, Webster, NY           | 2004                                | 13,813           | (2044)<br>Oct 12, 2024                             |
| Eckerd Drugs, Albion, NY            | 2004                                | 13,813           | (2044)<br>Aug 31, 2014                             |
| Fajita Factory, Lansing, MI         | 2004                                | Note (3)         | (2032)<br>Sep 30, 2009                             |
| Kmart, Grayling, MI                 | 1984                                | 52,320           | (2059)<br>Sep 30, 2009                             |
| Kmart, Oscoda, MI                   | 1984/1990                           | 90,470           | (2059)<br>Oct 31, 2019                             |
| Rite Aid, Canton Twp, MI            | 2003                                | 11,180           | (2049)<br>June 30, 2025                            |
| Rite Aid, Roseville, MI             | 2005                                | 11,060           | (2050)<br>Nov 30, 2025                             |
| Rite Aid, Mt Pleasant, MI           | 2005                                | 11,095           | (2065)<br>Nov 30, 2025                             |
| Rite Aid, N Cape May, NJ            | 2005                                | 10,118           | (2065)<br>Oct 31, 2019                             |
| Rite Aid, Summit Twp, MI            | 2006                                | 11,060           | (2039)<br>Aug 4, 2022                              |
| Sam's Club, Roseville, MI           | 2002                                | Note (4)         | (2082)<br>Feb 28, 2018                             |
| Walgreen, Waterford, MI             | 1997                                | 13,905           | (2058)   |
| Walgreen, Chesterfield, MI          | 1998                                | 13,686           |  |

|                               |      |           |                         |
|-------------------------------|------|-----------|-------------------------|
|                               |      |           | July 31, 2018<br>(2058) |
|                               |      |           | Oct 31, 2018<br>(2058)  |
| Walgreen, Pontiac, MI         | 1998 | 13,905    | Feb 28, 2019<br>(2059)  |
| Walgreen, Grand Blanc, MI     | 1998 | 13,905    | June 30, 2019<br>(2059) |
| Walgreen, Rochester, MI       | 1998 | 13,905    | Dec 31, 2019<br>(2059)  |
| Walgreen, Ypsilanti, MI       | 1999 | 15,120    | Apr 30, 2020<br>(2060)  |
| Walgreen,(1) Petoskey, MI     | 2000 | 13,905    | Dec 31, 2020<br>(2060)  |
| Walgreen, Flint, MI           | 2000 | 14,490    | Feb 28, 2021<br>(2061)  |
| Walgreen, Flint, MI           | 2001 | 15,120    | Aug 31, 2021<br>(2061)  |
| Walgreen, N Baltimore, MI     | 2001 | 14,490    | Apr 30, 2027<br>(2077)  |
| Walgreen, Flint, MI           | 2002 | 14,490    | Apr 30, 2028<br>(2078)  |
| Walgreen, Big Rapids, MI      | 2003 | 13,560    | Feb 28, 2029<br>(2079)  |
| Walgreen, Flint, MI           | 2004 | 14,560    | Oct 31, 2029<br>(2079)  |
| Walgreen, Flint, MI           | 2004 | 13,650    | July 31, 2030<br>(2080) |
| Walgreen, Midland, MI         | 2005 | 14,820    | Aug 30, 2030<br>(2080)  |
| Walgreen, Grand Rapids, MI    | 2005 | 14,820    | Nov 30, 2030<br>(2080)  |
| Walgreen, Delta Township,, MI | 2005 | 14,559    |                         |
| Total                         |      | 1,492,578 |                         |

**Table of Contents**

- (1) These properties are subject to long-term ground leases where a third party owns the underlying land and has leased the land to us to construct or operate freestanding properties. We pay rent for the use of the land and we are generally responsible for all costs and expenses associated with the building and improvements. At the end of the lease terms, as extended (Aventura, FL 2036, and Petoskey, MI 2049), the land together with all improvements revert to the land owner. We have an option to purchase the Petoskey property after August 7, 2019.
  
- (2) At the expiration of tenant's initial lease term, each tenant has an option, subject to certain requirements, to



extend its lease for an additional period of time.

(3) This 2.03 acre property is leased from us by Fajita Factory, LLC pursuant to a ground lease.

(4) This 12.68 acre property is leased from us by Wal-Mart pursuant to a ground lease.

### Community Shopping Centers

Twelve (12) of our properties are community shopping centers ranging in size from 20,000 to 241,458 square feet of gross leaseable area. The community shopping centers are located in five states as follows: Florida (1), Illinois (1), Kentucky (1), Michigan (6) and Wisconsin (3). Our community shopping centers tend to be located in high traffic, market dominant centers in which customers of our tenants purchase day-to-day necessities. Our community shopping centers are anchored by national tenants.

The location, general character and primary occupancy information with respect to the community shopping centers as of December 31, 2006 are set forth below:

| Property Location                      | Year Completed/Expanded | Gross Leasable Area |                          | Annualized Base Rent (2) | Average Percent Occupied |                                  | Anchor Tenants (Lease expiration/Option period expiration) (5)       |
|--|-------------------------|---------------------|--------------------------|--------------------------|--------------------------|----------------------------------|--|
|  |                         | Sq. Ft.             | Annualized Base Rent (2) |                          | Base Rent per Sq. Ft.(3) | Percent at December 31, 2006 (4) |  |
| Capital Plaza,(1)<br>Frankfort, KY     | 1978/2006               | 116,212             | \$ 561,917               | \$ 4.84                  | 100%                     | 100%                             | Kmart(2008/2053)<br>Walgreen (2031/2052)<br>Fashion Bug (2008/2025)  |
| Charlevoix Commons<br>Charlevoix, MI   | 1991                    | 137,375             | 683,162                  | 4.97                     | 74%                      | 100%                             | Kmart (2015/2065)<br>Roundy s (2011-2031)                            |
| Chippewa Commons<br>Chippewa Falls, WI | 1991                    | 168,311             | 961,783                  | 5.71                     | 100%                     | 100%                             | Kmart (2014/2064)<br>Roundy s (2011/2031)<br>Fashion Bug (2011/2021) |
| Ironwood Commons<br>Ironwood, MI       | 1991                    | 185,535             | 956,910                  | 5.16                     | 100%                     | 100%                             | Kmart (2015/2065)<br>Super Value (2011/2036)                         |

|   |           |         |           |      |      |      |   |
|---|-----------|---------|-----------|------|------|------|---|
|   |           |         |           |      |      |      | Fashion Bug (2007/2022)   |
| Marshall Plaza<br>Marshall, MI                      | 1990      | 119,279 | 687,484   | 5.76 | 100% | 100% | Kmart (2015/2065)   |
| Mt. Pleasant<br>Shopping Center<br>Mt. Pleasant, MI | 1973/1997 | 241,458 | 1,085,782 | 4.63 | 97%  | 97%  | Kmart (2008/2048)<br>J.C. Penney Co.<br>(2005/2020)<br>Staples, Inc. (2010/2025)<br>Fashion Bug (2006/2026) |

**Table of Contents**

| Property Location                          | Year Completed/<br>Expanded | Gross Leasable Area<br>Sq. Ft. | Annualized Base Rent<br>(2) | Average Base Rent per Sq. Ft.(3) | Percent Occupied at December 31, 2006 | Percent Leased at December 31, 2006<br>(4) | Anchor Tenants (Lease expiration/Option period expiration) (5)                                      |
|--|-----------------------------|--------------------------------|-----------------------------|----------------------------------|---------------------------------------|--|---|
|  |                             |                                |                             |                                  |                                       |  |   |
| North Lakeland Plaza<br>Lakeland, FL       | 1987                        | 171,334                        | 1,285,585                   | 7.50                             | 100%                                  | 100%                                       | Best Buy (2013/2028)<br>Beall's (2015/2025)   |
| Petoskey Town Center<br>Petoskey, MI       | 1990                        | 174,870                        | 1,093,873                   | 6.26                             | 100%                                  | 100%                                       | Kmart (2015/2065)<br>Roundy's (2010/2030)<br>Fashion Bug (2007/2022)                                |
| Plymouth Commons<br>Plymouth, WI           | 1990                        | 162,031                        | 889,934                     | 5.65                             | 97%                                   | 97%  | Kmart (2015/2065)<br>Roundy's (2010/2030)<br>Fashion Bug (2008/2021)                                |
| Rapids Associates<br>Big Rapids, MI        | 1990                        | 173,557                        | 955,457                     | 5.51                             | 74%                                   | 100%                                       | Kmart (2015/2065)<br>Roundy's (2010/2030)<br>Fashion Bug (2006/2021)                                |
| Shawano Plaza<br>Shawano, WI               | 1990                        | 192,694                        | 1,030,388                   | 5.35                             | 100%                                  | 100%                                       | Kmart (2014/2064)<br>Roundy's (2010/2030)<br>J.C. Penney Co. (2005/2025)<br>Fashion Bug (2006/2021) |
| West Frankfort Plaza<br>West Frankfort, IL | 1982                        | 20,000                         | 145,333                     | 7.27                             | 100%                                  | 100%                                       | Fashion Bug (2007)  |
| <b>Total/Average</b>                       |                             | 1,862,656                      | \$ 10,337,608               | \$ 5.53                          | 95%                                   | 99%  |   |

(1) All community shopping centers except Capital Plaza (which is subject to a long-term

ground lease  
expiring in 2053  
from a third  
party) are  
wholly-owned  
by us.

- (2) Total annualized  
base rents of the  
Company as of  
December 31,  
2006.
- (3) Calculated as  
total annualized  
base rents,  
divided by gross  
leaseable area  
actually leased  
as of  
December 31,  
2006.
- (4) Roundy's leases  
but does not  
currently  
occupy, the  
35,896 square  
feet it leases at  
Charlevoix  
Commons at a  
rate of \$5.97 per  
square foot and  
the 44,478  
square feet it  
leases at Rapids  
Associates at a  
rate of \$6.00 per  
square foot. The  
Charlevoix lease  
expires in 2011  
and the Rapids  
Associates lease  
expires in 2010  
(assuming they  
are not extended  
by Roundy's).
- (5) The option to  
extend the lease  
beyond its

initial term is  
only at the  
option of the  
tenant.

**ITEM 3. 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.

**Table of Contents****ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matter was submitted to a vote of security holders during the fourth quarter of 2006.

**Part II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock is traded on the New York Stock Exchange under the symbol `ADC`. The following table sets forth the high and low sales prices of our common stock, as reported on the New York Stock Exchange Composite Tape, and the dividends declared per share of Common Stock by us for each calendar quarter in the last two fiscal years. Dividends were paid in the periods immediately subsequent to the periods in which such dividends were declared.

**Market Information**

| Quarter Ended      | High    | Low     | Dividends Per<br>Common<br>Share |
|--------------------|---------|---------|----------------------------------|
| March 31, 2006     | \$32.10 | \$29.69 | \$ 0.49                          |
| June 30, 2006      | \$35.07 | \$29.88 | \$ 0.49                          |
| September 30, 2006 | \$34.05 | \$31.24 | \$ 0.49                          |
| December 31, 2006  | \$36.26 | \$32.10 | \$ 0.49                          |
| March 31, 2005     | \$31.31 | \$26.63 | \$ 0.49                          |
| June 30, 2005      | \$30.37 | \$26.54 | \$ 0.49                          |
| September 30, 2005 | \$31.00 | \$27.72 | \$ 0.49                          |
| December 31, 2005  | \$29.67 | \$26.16 | \$ 0.49                          |

At December 31, 2006, there were 7,750,496 shares of our common stock issued and outstanding which were held by approximately 200 stockholders of record. The stockholders of record do not reflect persons or entities who held their shares in nominee or street name.

We intend to continue to declare quarterly dividends to our stockholders. However, our distributions are determined by our board of directors and will depend on a number of factors, including the amount of our funds from operations, the financial and other condition of our properties, our capital requirements, our annual distribution requirements under the provisions of the Internal Revenue Code applicable to REITs and such other factors as our board of directors deems relevant.

During the year ended December 31, 2006, we did not sell any unregistered securities, except the grant, under our 2005 Equity Incentive Plan (the Plan), of 43,650 shares of restricted stock to certain of our employees. The transfer restrictions on such shares lapse in equal annual installments over a five-year period from the date of the grant, but the holder thereof is entitled to receive dividends on all such shares from the date of the grant.

Certain information relating to equity compensation plans is set forth in Item 12.

**ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth our selected financial information on a historical basis and should be read in conjunction with Management Discussion and Analysis of Financial Condition and Results of Operations and all of the financial statements and notes thereto included elsewhere in this Form 10-K. Certain amounts have been reclassified to conform to the current presentation of discontinued operations. The balance sheet for the periods ending December 31, 2002 through 2006 and operating data for each of the periods presented were derived from our audited financial statements.

**Table of Contents**

**Selected Financial Data**  
**(in thousands, except per share, number of properties, and percentage leased information)**

|  | <b>Year<br/>Ended<br/>Dec 31,<br/>2006</b> | <b>Year<br/>Ended<br/>Dec 31,<br/>2005</b> | <b>Year<br/>Ended<br/>Dec 31,<br/>2004</b> | <b>Year<br/>Ended<br/>Dec 31,<br/>2003</b> | <b>Year<br/>Ended<br/>Dec 31,<br/>2002</b> |
|--|--|--|--|--|--|
| <b>Operating Data</b>  |  |  |  |  |  |
| Total Revenue  | \$ 32,908                                  | \$ 31,579                                  | \$ 28,940                                  | \$ 26,224                                  | \$ 23,061                                  |
| Expenses   |  |  |  |  |  |
| Property expense (1)   | 4,219                                      | 4,545                                      | 4,220                                      | 4,161                                      | 3,806                                      |
| General and administrative                                     | 4,019                                      | 4,191                                      | 2,849                                      | 2,275                                      | 2,012                                      |
| Interest   | 4,625                                      | 4,159                                      | 4,507                                      | 5,684                                      | 6,196                                      |
| Early extinguishment of debt                                   |  |  |  | 961  |  |
| Depreciation and amortization                                  | 4,851                                      | 4,637                                      | 4,249                                      | 3,836                                      | 3,466                                      |
| Total Expenses   | 17,714                                     | 17,532                                     | 15,825                                     | 16,917                                     | 15,480                                     |
| Other Income (2)   |  | 6  | 217  | 438  | 674  |
| Income before Minority Interest<br>and Discontinued Operations | 15,194                                     | 14,053                                     | 13,332                                     | 9,745                                      | 8,255                                      |
| Minority Interest  | 1,220                                      | 1,145                                      | 1,257                                      | 1,103                                      | 1,085                                      |
| Income before Discontinued<br>Operations                       | 13,974                                     | 12,908                                     | 12,075                                     | 8,642                                      | 7,170                                      |
| Gain on Sale of Asset From<br>Discontinued Operations          |  | 2,654                                      | 523  | 740  |  |
| Income From Discontinued<br>Operations                         |  | 486  | 525  | 1,090                                      | 1,602                                      |
| Net Income   | \$ 13,974                                  | \$ 16,048                                  | \$ 13,123                                  | \$ 10,472                                  | \$ 8,772                                   |
| Number of Properties   | 60   | 59   | 54   | 50   | 48   |
| Number of Square Feet  | 3,355                                      | 3,363                                      | 3,463                                      | 3,495                                      | 3,699                                      |

| Percentage Leased  | 99%        | 99%        | 99%        | 97%        | 99%        |
|--|------------|------------|------------|------------|------------|
| <b>Per Share Data Dilutive</b>   |            |            |            |            |            |
| Income before discontinued operations  | \$ 1.83    | \$ 1.72    | \$ 1.87    | \$ 1.64    | \$ 1.61    |
| Discontinued operations  |            | .42        | .16        | .35        | .36        |
| Net income   | \$ 1.83    | \$ 2.14    | \$ 2.03    | \$ 1.99    | \$ 1.97    |
| Weighted average of common shares outstanding Dilutive   | 7,651      | 7,491      | 6,475      | 5,276      | 4,447      |
| Cash dividends   | \$ 1.96    | \$ 1.96    | \$ 1.95    | \$ 1.94    | \$ 1.84    |
| <b>Balance Sheet Data</b>  |            |            |            |            |            |
| Real Estate (before accumulated depreciation)  | \$ 268,248 | \$ 258,332 | \$ 252,427 | \$ 220,334 | \$ 210,986 |
| Total Assets   | \$ 223,515 | \$ 223,460 | \$ 214,837 | \$ 190,795 | \$ 178,162 |
| Total debt, including accrued interest   | \$ 69,031  | \$ 68,504  | \$ 92,441  | \$ 83,313  | \$ 115,534 |
| (1) Property expense includes real estate taxes, property maintenance, insurance, utilities and land lease expense.              |            |            |            |            |            |
| (2) Other income is composed of development fee income, gain on land sales, and equity in net income of unconsolidated entities. |            |            |            |            |            |
| (3) Net income per share has been computed by dividing the net income by the   |            |            |            |            |            |



weighted  
average number  
of shares of  
Common Stock  
outstanding and  
the effect of  
dilutive  
securities  
outstanding.

The per share  
amounts are  
presented in  
accordance with  
SFAS No. 128

Earnings per  
share.

**Table of Contents**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

***Overview***

We were established to continue to operate and expand the retail property business of our predecessor. We commenced our operations in April 1994. Our assets are held by, and all operations are conducted through, Agree Limited Partnership (the Operating Partnership), of which Agree Realty Corporation is the sole general partner and held a 92.00% interest as of December 31, 2006. We are operating so as to qualify as a real estate investment trust (REIT) for federal income tax purposes.

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

***Recent Accounting Pronouncements***

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123 (R), to expand and clarify SFAS No. 123 in several areas. The Statement requires companies to measure the cost of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award. The cost is recognized over the requisite service period (usually the vesting period) for the estimated number of instruments where service is expected to be rendered. This statement is effective for the interim reporting periods beginning after December 15, 2005. The Company adopted this statement in the first quarter of 2006. The impact of adopting SFAS No. 123 (R) did not have a material impact on the Company's financial position or results of operations.

In June 2006, the FASB issued an Emerging Issues Task Force (EITF) Consensus in Issue 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). The consensus includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes. The consensus states that the presentation of taxes within the scope on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to Accounting Principles Board (APB) Opinion No. 22 Disclosure of Accounting Policies. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis. The consensus should be applied to financial reports for interim and annual reporting periods beginning after December 15, 2006. The adoption of this consensus did not have a significant impact on our financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 is not expected to have a significant impact on our financial position or results of operations.

In September 2006, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin (SAB) Topic 1N Financial Statements Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB 108 references both the iron curtain and rollover approaches to quantifying a current year misstatement for purposes of determining the materiality. The iron curtain approach focuses on how the current year's balance sheet

**Table of Contents**

would be affected in correcting a misstatement without considering the year(s) in which the misstatement originated. The rollover approach focuses on the amount of the misstatement that originated in the current year's income statement. SAB 108 states that registrants must quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. Both the iron curtain approach and rollover approach should be used in assessing the materiality of a current year misstatement. SAB 108 provides that once a current year misstatement has been quantified, the guidance in SAB Topic 1N, Financial Statements—Materiality, (SAB 99) should be applied to determine whether the misstatement is material and should result in an adjustment to the financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a significant impact on our financial position or results of operations.

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands the disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The changes to current practice resulting from the application of SFAS No. 157 relate to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. The definition focuses on the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price) and not the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price). This statement also emphasizes that fair value is a market-based measurement, not an entity specific measurement and subsequently a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The statement also clarifies that the market participant assumptions about risk and assumptions about the effect of a restriction on the sale or use of an asset. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This statement should be applied prospectively as of the beginning of the year in which this statement is initially applied. A limited form of retrospective application of SFAS No. 157 is allowed for certain financial instruments. We are currently evaluating the provisions of SFAS No. 157 to determine the potential impact, if any, the adoption of SFAS No. 157 will have on our financial position or results of operations.

In February 2007, the FASB issued SFAS Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits companies and not-for-profit organizations to make a one-time election to carry eligible types of financial assets and liabilities at fair value, even if fair value measurement is not required under GAAP. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect of the adoption of SFAS No. 159.

***Critical Accounting Policies***

In the course of developing and evaluating accounting policies and procedures, we use estimates, assumptions and judgments to determine the most appropriate methods to be applied. Such processes are used in determining 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. Subsequent to completion of construction, expenditures for property maintenance are charged to operations as incurred, while significant renovations are capitalized. Depreciation of the buildings is recorded on the straight-line method using an estimated useful life of forty years.

**Table of Contents**

In determining the fair value of real estate investments, we consider future cash flow projections on a property by property basis, current interest rates and current market conditions of the geographical location of each property.

Substantially all of our leases contain provisions requiring tenants to pay as additional rent a proportionate share of operating expenses (Operating Cost Reimbursements) such as real estate taxes, repairs and maintenance, insurance, etc. 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 1994 tax year. As a result, we are not subject to federal income taxes to the extent that we distribute annually at least 90% of our taxable income to our shareholders and satisfy certain other requirements defined in the Code. Accordingly, no provision was made for federal income taxes in the accompanying consolidated financial statements.

***Comparison of Year Ended December 31, 2006 to Year Ended December 31, 2005***

Minimum rental income increased \$1,577,000, or 6%, to \$29,963,000 in 2006, compared to \$28,386,000 in 2005. The increase was the result of an increase of \$629,000 from the acquisition of three properties in 2005 and one property in 2006; an increase of \$760,000 from the development of three properties in 2005; and rental increases of \$188,000.

Percentage rents decreased \$14,000, or 21%, to \$54,000 in 2006, compared to \$68,000 in 2005. The decrease was primarily the result of decreased tenant sales.

Operating cost reimbursements decreased \$236,000, or 8%, to \$2,847,000 in 2006, compared to \$3,083,000 in 2005. Operating cost reimbursements decreased due to the net decrease in the reimbursable property operating expenses as explained below.

Other income remained relatively constant at \$44,000 in 2006, compared to \$41,000 in 2005.

Real estate taxes increased \$72,000, or 4%, to \$1,821,000 in 2006 compared to \$1,749,000 in 2005. The increase is the result of general assessment increases on the properties.

Property operating expenses (shopping center maintenance, snow removal, insurance and utilities) decreased \$375,000, or 19%, to \$1,637,000 in 2006 compared to \$2,012,000 in 2005. The decrease was the result of a decrease in shopping center maintenance expenses of (\$44,000); decreased snow removal costs of (\$270,000); decreased utility costs of (\$7,000); and decreased insurance costs of (\$54,000) in 2006 versus 2005.

Land lease payments decreased \$24,000, or 3%, to \$760,000 in 2006 compared to \$784,000 for 2005. The decrease is the result of our purchase of the fee interest in the land located at our Lawrence, Kansas property previously leased.

General and administrative expenses decreased \$172,000, or 4%, to \$4,019,000 in 2006 compared to \$4,191,000 in 2005. The decrease was the result of a decrease in compensation related expenses of (\$16,000); decreased contracted services to investigate development opportunities of (\$612,000); offset by an increase in general business taxes of \$140,000; increased professional fees of \$297,000; and increased property management related expenses of \$19,000. General and administrative expenses as a percentage of rental income decreased from 14.7% for 2005 to 13.4% for 2006.

Depreciation and amortization increased \$214,000, or 5%, to \$4,851,000 in 2006 compared to \$4,637,000 in 2005. The increase was the result the development and acquisition of six properties in 2005 and one property in 2005.

**Table of Contents**

Interest expense increased \$466,000, or 11%, to \$4,625,000 in 2006, from \$4,159,000 in 2005. The increase in interest expense was the result of increased borrowings to fund the development and acquisition of six properties in 2005 and one property in 2006, as well as overall interest rate increases.

We sold a parcel of land and recognized a gain on the sale of \$6,000 in 2005. There were no sales of assets in 2006.

The Company's income before minority interest and discontinued operations increased \$1,141,000, or 8%, to \$15,194,000 in 2006, from \$14,053,000 in 2005 as a result of the foregoing factors.

***Comparison of Year Ended December 31, 2005 to Year Ended December 31, 2004***

Minimum rental income increased \$2,420,000, or 9%, to \$28,386,000 in 2005, compared to \$25,966,000 in 2004. The increase was the result of an increase of \$989,000 due to additional rent resulting from the acquisition of our joint venture partner's interest in two joint venture properties in 2004; an increase of \$545,000 from the acquisition of three properties in 2004 and three properties in 2005; an increase of \$707,000 from the development of two properties in 2004 and three properties in 2005; an increase of \$64,000 from the settlement of our rent dispute with Borders; and rental increases of \$116,000.

Percentage rents increased \$12,000, or 22%, to \$68,000 in 2005, compared to \$56,000 in 2004. The increase was primarily the result of increased tenant sales.

Operating cost reimbursements increased \$198,000, or 7%, to \$3,083,000 in 2005, compared to \$2,885,000 in 2004. Operating cost reimbursements increased due to the increase in the reimbursable property operating expenses as explained below. Included in 2004 operating cost reimbursements are bad debt recoveries of \$100,000 as a result of the decrease in the allowance for bad debts.

Other income increased \$8,000 to \$41,000 in 2005, compared to \$33,000 in 2004. The increase was the result of a leasing commission being earned in 2005. No leasing commission was earned in 2004.

Real estate taxes increased \$57,000, or 3%, to \$1,749,000 in 2005 compared to \$1,692,000 in 2004. The increase is the result of general assessment increases on the properties and additional real estate taxes related to the re-tenanting of a closed Kmart store.

Property operating expenses (shopping center maintenance, snow removal, insurance and utilities) increased \$221,000, or 12%, to \$2,012,000 in 2005 compared to \$1,791,000 in 2004. The increase was the result of an increase in shopping center maintenance expenses of \$122,000; increased snow removal costs of \$75,000; an increase in utility costs of \$18,000; and an increase in insurance costs of \$6,000 in 2005 versus 2004.

Land lease payments increased \$47,000, or 6%, to \$784,000 in 2005 compared to \$737,000 for 2004. The increase is the result of the scheduled lease increase at our Ventura, Florida property.

General and administrative expenses increased \$1,343,000, or 47%, to \$4,191,000 in 2005 compared to \$2,848,000 in 2004. The increase was the result of an increase in compensation related expenses as a result of salary increases and the addition of four employees of \$654,000; increased contracted services to investigate development opportunities of \$570,000 and property management related expenses of \$119,000. General and administrative expenses as a percentage of rental income increased from 11.0% for 2004 to 14.7% for 2005.

Depreciation and amortization increased \$388,000, or 9%, to \$4,637,000 in 2005 compared to \$4,249,000 in 2004. The increase was the result the acquisition the development and acquisition of five properties in 2004, six properties in 2005 and the acquisition of the joint venture partner's interest in two joint venture properties in 2004.

Interest expense decreased \$348,000, or 8%, to \$4,159,000 in 2005, from \$4,507,000 in 2004. The decrease in interest expense was the result of decreased borrowings as a result of the reduction in outstanding indebtedness from the application of the net proceeds of the 2005 Offering.

**Table of Contents**

We sold a parcel of land and recognized a gain on the sale of \$6,000 in 2005. There were no sales of assets in 2004. Equity in net income of unconsolidated entities totaled \$217,000 in 2004. There was no income from unconsolidated entities in 2005 since we acquired the interest of our joint venture partner in our final two joint ventures in 2004.

The Company's income before minority interest and discontinued operations increased \$721,000, or 5%, to \$14,053,000 in 2005, from \$13,332,000 in 2004 as a result of the foregoing factors.

***Discontinued Operations***

In August 2004, we completed the sale of a single tenant property for approximately \$2.2 million. The property was leased to Kmart Corporation and was located in Perrysburg, Ohio. In October 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 aggregate revenues from these properties were \$864,113 and \$1,125,842 for the years ending December 31, 2005 and 2004. The aggregate expenses for these properties were \$377,960 and \$600,391, including minority interest of \$43,137 and \$54,708 for the years ending December 31, 2005 and 2004.

***Liquidity and Capital Resources***

Our principal demands for liquidity are distributions to our stockholders, debt service, development of new properties and future property acquisitions.

During the quarter ended December 31, 2006, we declared a quarterly dividend of \$.49 per share. The dividend was paid on January 4, 2007 to holders of record on December 22, 2006.

As of December 31, 2006, we had total mortgage indebtedness of \$48,291,247 with a weighted average interest rate of 6.64%. Future scheduled annual maturities of mortgages payable for the years ending December 31 are as follows: 2007 \$2,531,080; 2008 \$2,749,772; 2009 \$2,937,232; 2010 \$3,137,505; 2011 \$3,351,470. The mortgage debt is all fixed rate, self-amortizing debt.

In addition, the Operating Partnership has in place a \$50 million credit facility with LaSalle Bank, as the agent (Credit Facility), which is guaranteed by the Company. The Credit Facility matures in November 2009 and can be extended at our option, for two additional one year periods. Advances under the Credit Facility bear interest within a range of one-month to twelve-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 is used to fund property acquisitions and development activities. As of February 15, 2007, \$20,500,000 was outstanding under the Credit Facility bearing a weighted average interest rate of 6.35%.

We also have in place a \$5 million line of credit (Line of Credit), which matures in November 30, 2007, and which we expect to renew for an additional 12-month period. 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 twelve month LIBOR rate, at our option. The purpose of the Line of Credit is to provide working capital and fund land options and start-up costs associated with new projects. As of February 15, 2007, \$1,700,000 was outstanding under the Line of Credit bearing a weighted average interest rate of 7.50%.

**Table of Contents**

The following table outlines our contractual obligations (in thousands) as of December 31, 2006.

|   | <b>Total</b>     | <b>Yr 1</b>    | <b>2-3 Yrs</b> | <b>4-5 Yrs</b>  | <b>Over 5 Yrs</b> |
|---|------------------|----------------|----------------|-----------------|-------------------|
| Mortgages Payable                                   | \$ 48,291        | \$2,531        | \$ 5,687       | \$ 6,489        | \$33,584          |
| Notes Payable                                       | 20,500           |                | 20,500         |                 |                   |
| Land Lease Obligations                              | 11,610           | 674            | 1,305          | 1,387           | 8,244             |
| Other Long-Term Liabilities                         |                  |                |                |                 |                   |
| Interest Payments on Mortgages<br>and Notes Payable | 27,239           | 4,368          | 7,028          | 6,009           | 9,834             |
| <b>Total</b>  | <b>\$107,640</b> | <b>\$7,573</b> | <b>34,520</b>  | <b>\$13,885</b> | <b>\$51,662</b>   |

We have one development project under construction that will add an additional 14,491 square feet to our portfolio. The project is expected to be completed during the second quarter of 2007. Additional funding required to complete the project is estimated to be \$1,628,000 and will come from the credit facility.

We intend to meet our short-term liquidity requirements, including capital expenditures related to the leasing and improvement of the properties, through cash flow provided by operations and 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. We may obtain additional funds for future development or acquisitions through other borrowings or the issuance of additional shares of common stock. We intend to incur additional debt in a manner consistent with our policy of maintaining a ratio of total debt (including construction and acquisition financing) to total market capitalization of 65% or less. 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 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. Upon completion of refinancing, we intend to lower the ratio of total debt to market capitalization to 50% or less. Nevertheless, we may operate with debt levels or ratios, which are in excess of 50% for extended periods of time prior to such refinancing.

***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 our tenants certain operating costs, including real estate taxes, common area maintenance, utilities and insurance, thereby reducing our exposure to cost increases 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 term 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***

We consider Funds from Operations (FFO) to be a useful supplemental measure to evaluate our operating performance because, by excluding gains or losses on dispositions and excluding depreciation, FFO can help an investor compare the operating performance of our real estate between periods or compare such performance to that of different companies. 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 uses historical cost accounting is insufficient by itself.





**Table of Contents**

FFO is defined by the National Association of Real Estate Investment Trusts, Inc. (NAREIT) to mean net income computed in accordance with GAAP, excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization. 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. While we adhere to the NAREIT definition of FFO in making our calculation, our method of calculating FFO may not be comparable to the methods used by other REITs and accordingly may be different from similarly titled measures reported by other companies.

The following table illustrates the calculation of FFO for the years ended December 31, 2006, 2005 and 2004:

|  | Year ended December 31, |                      |                      |
|--|-------------------------|----------------------|----------------------|
|  | 2006                    | 2005                 | 2004                 |
| Net income                                       | \$ 13,974,168           | \$ 16,047,576        | \$ 13,123,020        |
| Depreciation of real estate assets               | 4,745,319               | 4,683,807            | 4,379,912            |
| Amortization of leasing costs                    | 44,423                  | 48,357               | 45,178               |
| Minority interest                                | 1,220,113               | 1,423,932            | 1,366,347            |
| Gain on sale of assets                           |                         | (2,895,532)          | (577,168)            |
| <b>Funds from Operations</b>                     | <b>\$ 19,984,023</b>    | <b>\$ 19,308,140</b> | <b>\$ 18,337,289</b> |
| Weighted average shares and OP Units outstanding |                         |                      |                      |
| Basic  | 8,254,391               | 8,134,051            | 7,141,898            |
| Dilutive   | 8,324,973               | 8,164,288            | 7,148,664            |

**ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to interest rate risk primarily through our 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 remaining debt, by year of expected maturity to evaluate the expected cash flows and sensitivity to interest rate changes.

|                       | 2007    | 2008    | 2009     | 2010    | 2011    | Thereafter | Total    |
|-----------------------|---------|---------|----------|---------|---------|------------|----------|
| Fixed rate debt       | \$2,531 | \$2,750 | \$ 2,937 | \$3,138 | \$3,351 | \$33,584   | \$48,291 |
| Average interest rate | 6.64%   | 6.64%   | 6.64%    | 6.64%   | 6.64%   | 6.64%      |          |
| Variable rate debt    |         |         | \$20,500 |         |         |            | \$20,500 |
| Average interest rate |         |         | 6.35%    |         |         |            |          |

The fair value (in thousands) is estimated at \$48,300 and \$20,500 for fixed rate debt and variable rate debt, respectively.

The table above incorporates those exposures that exist as of December 31, 2006; it does not consider those exposures or position, 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.

**Table of Contents**

The Company does not enter into financial instrument transactions for trading or other speculative purposes or to manage interest rate exposure.

A 10% adverse change in interest rates on the portion of the Company's debt bearing interest at variable rates would result in an increase in interest expense of approximately \$135,000.

**ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements and supplementary data are listed in the Index to Financial Statements and Financial Statement Schedules appearing on Page F-1 of this Form 10-K and are included in this Form 10-K following page F-1.

**ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Effective May 9, 2006, BDO Seidman, LLP, resigned as the Company's independent registered public accounting firm for the 2006 fiscal year. BDO Seidman, LLP served as the Company's certifying accountant for the period from January 1, 2004 through the fiscal year ended December 31, 2005 and the first quarter of 2006. During the two most recent fiscal years and during the subsequent interim period through May 9, 2006, there were no disagreements between the Company and BDO Seidman, LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to BDO Seidman, LLP's satisfaction, would have caused it to make reference to the subject matter of the disagreements in connection with its report, and there were no reportable events as specified in Item 304(a)(1)(v) of Regulation S-K.

Effective July 26, 2006, the Company's Audit Committee of the Board of Directors engaged Virchow, Krause & Company, LLP as the Company's independent registered public accounting firm.

**ITEM 9A CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report (the Evaluation Date).

Based on this evaluation, and due to the material weaknesses in our internal control over financial reporting (as described below in Report of Management on Agree Realty Corporation's Internal Control over Financial Reporting), our chief executive officer and chief financial officer concluded that as of December 31, 2006, our disclosure controls and procedures were not 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. There was no change in our internal control over financial reporting during its most recently completed fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Our audit committee has engaged an independent third party consultant to perform periodic reviews of our financial reporting process to help mitigate the material weakness in our internal controls described in Report of Management on Agree Realty Corporation's Internal Control over Financial Reporting.

Because of its inherent limitations, our disclosure controls and procedures may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issued and instances of fraud, if any, have been detected.

**Table of Contents**

***Report of Management on Agree Realty Corporation's Internal Control Over Financial Reporting***

We, as members of management of Agree Realty Corporation, are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, our internal controls and procedures may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The following material weakness has been identified and reported to the audit committee:

We lack segregation of duties in the period-end financial reporting process. Our Chief Financial Officer (CFO) is the only employee with any significant knowledge of generally accepted accounting principles. The CFO is also the sole employee in charge of the general ledger (including the preparation of routine and non-routine journal entries and journal entries involving accounting estimates), the preparation of accounting reconciliations, the selection of accounting principles, and the preparation of interim and annual financial statements (including report combinations, consolidation entries and footnote disclosures) in accordance with generally accepted accounting principles.

We, under the supervision of and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, assessed the our internal control over financial reporting as of December 31, 2006, based on criteria for effective internal control over financial reporting described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of the material weaknesses described above, management has concluded that our internal control was not effective as of December 31, 2006.

Management's assessment of the effectiveness of our internal control over financial reporting has been audited by Virchow, Krause & Company, an independent registered public accounting firm, as stated in their report that is included herein.

**Report of Independent Registered Public Accounting Firm**

To the Shareholders, Audit Committee and Board of Directors

We have audited management's assessment, included in the accompanying Report of Management on Agree Realty Corporation's Internal Control Over Financial Reporting, that Agree Realty Corporation (the Company) did not maintain effective internal control over financial reporting as of December 31, 2006, because of the effect of the material weakness noted below, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Agree Realty Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our

**Table of Contents**

responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment:

The Company lacks segregation of duties in the period-end financial reporting process. The Chief Financial Officer ( CFO ) is the only employee with any significant knowledge of generally accepted accounting principles. The CFO is also the sole employee in charge of the general ledger (including the preparation of routine and non-routine journal entries and journal entries involving accounting estimates), the preparation of accounting reconciliations, the selection of accounting principles, and the preparation of interim and annual financial statements (including report combinations, consolidation entries and footnote disclosures) in accordance with generally accepted accounting principles.

The material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2006 financial statements, and this report does not affect our report dated March 6, 2007 on those financial statements.

In our opinion, management's assessment that Agree Realty Corporation did not maintain effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, Agree Realty Corporation has not maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO )

Virchow, Krause & Company  
Chicago, Illinois  
March 6, 2007

**Table of Contents****Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the above-referenced evaluation by management of the effectiveness of our internal control over financial reporting that occurred during our fourth quarter ended December 31, 2006.

**ITEM 9B OTHER INFORMATION**

None

**PART III****ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to our Annual Meeting of Stockholders to be held on May 7, 2007.

**ITEM 11. EXECUTIVE COMPENSATION**

Incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to our Annual Meeting of Stockholders to be held on May 7, 2007.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table summarizes the equity compensation plans under which the Company's common stock may be issued as of December 31, 2006.

| Plan category  | Number<br>of<br>securities<br>to be<br>issued<br>upon<br>exercise<br>of<br>outstanding<br>options,<br>warrants<br>and<br>rights | Weighted<br>average<br>exercise price<br>of<br>outstanding<br>options,<br>warrants<br>and rights | Number of<br>securities<br>remaining<br>available<br>for future<br>issuance |
|--|---|--|---|
| Equity compensation plans approved by security holders     |   |  | 918,850   |
| Equity compensation plans not approved by security holders |   |  |   |
| Total  |   |  | 918,850   |

Additional information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to our Annual Meeting of Stockholders to be held on May 7, 2007.

**Table of Contents**

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Incorporated herein by reference from our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K with respect to our Annual Meeting of Stockholders to be held on May 7, 2007.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Incorporated herein by reference from our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K with respect to our Annual Meeting of Stockholders to be held on May 7, 2007.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES**

- (a) The following documents are filed as part of this Report
  - (1) (2) The financial statements indicated by Part II, Item 8, Financial Statements and Supplementary Data.
  - (b) 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 Bylaws of the Company (Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 (the 2006 Form 10-K ))
  - 4.1 Rights Agreement by and between Agree Realty Corporation and BankBoston, N.A. as Rights Agent dated as of December 7, 1998 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed December 7, 1998)
  - 10.1 First Amended and Restated Agreement of Limited Partnership of Agree Limited Partnership, dated as of April 22, 1994, by and among the Company, Richard Agree, Edward Rosenberg and Joel Weiner (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the 1996 Form 10-K ))
  - 10.2 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 Annual Report on Form 10-K for the year ended December 31, 1994)
  - 10.3 Contribution Agreement, dated as of April 21, 1994, by and among the Company, Richard Agree, Edward Rosenberg and the co-partnerships named therein (incorporated by reference to Exhibit 10.10 to the 1996 Form 10-K)
  - 10.4 + Agree Realty Corporation Profit Sharing Plan (incorporated by reference to Exhibit 10.13 to the 1996 Form 10-K)
  - 10.5 Line of Credit Agreement by and among Agree Limited Partnership, the Company, the lenders parties thereto, and Michigan National Bank as Agent (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995)

**Table of Contents**

- 10.6 First amendment to \$5 million business loan agreement dated September 21, 1997 between Agree Limited Partnership and Michigan National Bank (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1997)
- 10.7 Second amendment to amended and restated \$5 million business Loan agreement dated October 19, 1998 between Agree Limited Partnership and Michigan National Bank (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998)
- 10.8 + Employment Agreement, dated July 1, 2004, by and between the Company and Richard Agree (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004 (the June 2004 Form 10-Q))
- 10.9 + Employment Agreement, dated July 1, 2004, by and between the Company, and Kenneth R. Howe (incorporated by reference to Exhibit 10.2 to the June 2004 Form 10-Q)
- 10.10 Third amendment to amended and restated \$5 million business Loan agreement dated December 19, 1999 between Agree Limited Partnership and Michigan National Bank (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999)
- 10.11 Trust Mortgage dated as of June 27, 1999 from Agree Facility No. 1, L.L.C. as Grantor to Manufacturers and Traders Trust Company (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1999)
- 10.12 + Employment Agreement, dated January 10, 2000, by and between the Company, and David J. Prueter (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2000)
- 10.13 Fourth amendment to amended and restated \$5 million business Loan agreement dated February 19, 2001 between Agree Limited Partnership and Michigan National Bank (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000)
- 10.14 Mortgage dated as of December 20, 2001, by Agree Limited Partnership to and in favor of Nationwide Life Insurance Company (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001)
- 10.15 Fifth amendment to amended and restated \$5 million business Loan agreement dated April 30, 2002 between Agree Limited Partnership and Standard Federal Bank (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002 (the June 2002 Form 10-Q))
- 10.16 Project Loan Agreement dated as of April 30, 2002 between Royal Identify Company (together with its successors and assigns) and Lawrence Store No. 203 L.L.C. (together with its permitted successors and assigns) (incorporated by reference to Exhibit 10.2 to the June 2002 Form 10-Q)
- 10.17 Project Loan Agreement dated as of November 25, 2002 between Wilmington Trust Company, not in its individual capacity, but solely as Owner Trustee, and Indianapolis Store No. 16 L.L.C. (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002)



- 10.18 Project Loan Agreement dated as of January 30, 2003 between Modern Woodman of America and Phoenix Drive L.L.C. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2003)

**Table of Contents**

- 10.19 Sixth amendment to amended and restated \$5 million business loan agreement dated April 30, 2003, between Agree Limited Partnership and Standard Federal Bank (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2003)
- 10.20 Amended and Restated \$50 million Line of Credit agreement dated November 5, 2003, among Agree Realty Corporation, Standard Federal Bank and Bank One. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2003)
- 10.21 Indemnity Deed of Trust and Security Agreement dated October 31, 2003, by Agree Columbia Crossing Project, L.L.C., and Nationwide Life Insurance Company (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (the 2003 Form 10-K))
- 10.22 Indemnity Deed of Trust and Security Agreement dated October 31, 2003, by Agree-Milestone Center Project, L.L.C., and Nationwide Life Insurance Company (incorporated by reference to Exhibit 10.34 to the 2003 Form 10-K)
- 10.23 Mortgage and Security Agreement dated October 31, 2003, by Oklahoma Store No. 151, L.L.C. and Nationwide Life Insurance Company (incorporated by reference to Exhibit 10.35 to the 2003 Form 10-K)
- 10.24 Deed of Trust and Security Agreement dated October 31, 2003, by Omaha Store No. 166, L.L.C. and Nationwide Life Insurance Company (incorporated by reference to Exhibit 10.36 to the 2003 Form 10-K)
- 10.25 + The Company's 2005 Equity Incentive Plan (incorporated by reference to Appendix A of the Company's Proxy Statement for its 2005 Annual Meeting of Stockholders)
- 10.26 + Employment Agreement, dated August 1, 2005, by and between the Company, and Charles Carter (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2005 (the September 2005 Form 10-Q))
- 10.27 + Employment Agreement, dated September 1, 2005, by and between the Company, and Vicky Umphryes (incorporated by reference to Exhibit 10.2 to the September 2005 Form 10-Q)
- 10.28 Third Amended and Restated Line of Credit Agreement by and between the Company, and LaSalle Bank Midwest National Association Individually and as Agent for the Lenders and together with Fifth Third Bank (incorporated by reference to Exhibit 10.28 to the 2006 Form 10-K)
- 10.29 Amendment No. 10 to Business Loan Agreement. Amendment No. 2 to Ninth Amended and Restated Promissory Note (\$5 million Line of Credit) (incorporated by reference to Exhibit 10.29 to the 2006 Form 10-K)
- 21.1 Subsidiaries of Agree Realty Corporation (incorporated by reference to Exhibit 21 to the 2006 Form 10-K)
- 23.1 \* Consent of Virchow, Krause & Company, LLP
- 23.2 \* Consent of BDO Seidman, LLP
- 31.1 \* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Richard Agree, Chief Executive Officer

- 31.2 \* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Kenneth R. Howe, Chief Financial Officer
- 32.1 \* Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Richard Agree, Chief Executive Officer
- 32.2 \* Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Kenneth R. Howe, Chief Financial Officer

\* Filed herewith

+ Management contract or compensatory plan or arrangement

**Table of Contents**

**SIGNATURES**

PURSUANT to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AGREE REALTY CORPORATION

By: /s/ Richard Agree  
Name: Richard Agree  
President and Chairman of the Board of  
Directors  
Date: December 7, 2007

PURSUANT to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 7<sup>th</sup> day of December 2007.

By: /s/ Richard Agree

Richard Agree  
President and Chairman of the Board  
of Directors  
(Principal Executive Officer)

By: /s/ Farris G. Kalil

Farris G. Kalil  
Director

By: /s/ Michael Rotchford

Michael Rotchford  
Director

By: /s/ Kenneth R. Howe

Kenneth R. Howe  
Vice President, Finance and Secretary  
(Principal Financial and Accounting  
Officer)

By: /s/ Ellis G. Wachs

Ellis G. Wachs  
Director

By: /s/ Gene Silverman

Gene Silverman  
Director

By: /s/ Leon M. Schurgin

Leon M. Schurgin  
Director

**Table of Contents**

**Agree Realty Corporation  
Index**

|   | Page |
|---|------|
| <b><u>Reports of Independent Registered Public Accounting Firms</u></b> | F-2  |
| <b>Financial Statements</b>   |      |
| <u>Consolidated Balance Sheets</u>                                      | F-4  |
| <u>Consolidated Statements of Income</u>                                | F-6  |
| <u>Consolidated Statements of Stockholders' Equity</u>                  | F-7  |
| <u>Consolidated Statements of Cash Flows</u>                            | F-8  |
| <b><u>Notes to Consolidated Financial Statements</u></b>                | F-10 |
| <b><u>Schedule III Real Estate and Accumulated Depreciation</u></b>     | F-29 |
| <b>F-1</b>  |      |

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**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Shareholders, Audit Committee and Board of Directors

Agree Realty Corporation

Farmington Hills, Michigan

We have audited the accompanying consolidated balance sheet of Agree Realty Corporation (the Company) as of December 31, 2006 and the related consolidated statements of income, stockholders' equity and cash flows for year then ended. We have also audited the schedule listed in the accompanying index. These consolidated financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement and schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Agree Realty Corporation at December 31, 2006, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Also, in our opinion, the schedule presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board, the effectiveness of Agree Realty Corporation's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 6, 2007 expressed an unqualified opinion on management's assessment of, and an adverse opinion on the effectiveness of internal control over financial reporting.

/s/ Virchow, Krause & Company, LLP

Chicago, Illinois

March 6, 2007

**F-2**

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**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Owners of  
Agree Realty Corporation  
Farmington Hills, Michigan

We have audited the accompanying consolidated balance sheet of Agree Realty Corporation (the Company) as of December 31, 2005 and the related consolidated statements of income, stockholders' equity and cash flows for the years ended December 31, 2005 and 2004. We have also audited the information included in the notes to the schedule listed in the accompanying index for the years ended December 31, 2005 and 2004. These financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and the schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and the schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Agree Realty Corporation at December 31, 2005, and the results of its operations and its cash flows for the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the notes to the schedule for the years ended December 31, 2005 and 2004 presents fairly, in all material respects, the information set forth therein.

BDO SEIDMAN, LLP  
Troy, Michigan  
March 15, 2006

**F-3**

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**Table of Contents**

|   | <b>Agree Realty Corporation<br/>Consolidated Balance Sheets</b> |                |
|---|---|----------------|
| <i>December 31,</i>   | <b>2006</b>   | <b>2005</b>    |
| <b>Assets</b>   |   |                |
| <b>Real Estate Investments</b> (Notes 3 and 4)  |   |                |
| Land  | \$ 77,536,458   | \$ 73,035,167  |
| Buildings   | 189,117,421   | 185,032,185    |
| Property under development  | 1,593,828   | 264,913        |
|   | <b>268,247,707</b>  | 258,332,265    |
| Less accumulated depreciation   | <b>(48,352,753)</b>   | (43,771,581)   |
| <b>Net Real Estate Investments</b>  | <b>219,894,954</b>  | 214,560,684    |
| <b>Cash and Cash Equivalents</b>  | <b>463,730</b>  | 5,714,540      |
| <b>Accounts Receivable – Tenants</b> , net of allowance of \$20,000 for possible losses at both December 31, 2006 and 2005  | <b>732,141</b>  | 730,606        |
| <b>Unamortized Deferred Expenses</b>  |   |                |
| Financing costs, net of accumulated amortization of \$4,482,272 and \$4,344,244 at December 31, 2006 and 2005, respectively | <b>1,019,905</b>  | 852,036        |
| Leasing costs, net of accumulated amortization of \$665,811 and \$621,388 at December 31, 2006 and 2005, respectively       | <b>421,229</b>  | 389,354        |
| <b>Other Assets</b>   | <b>982,640</b>  | 1,212,387      |
|   | <b>\$ 223,514,599</b>   | \$ 223,459,607 |

*See accompanying notes to consolidated financial statements.*

**F-4**

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**Table of Contents**

|  | <b>Agree Realty Corporation<br/>Consolidated Balance Sheets</b> |                       |
|--|---|-----------------------|
| <i>December 31,</i>  | <b>2006</b>   | <b>2005</b>           |
| <b>Liabilities and Stockholders Equity</b>   |   |                       |
| <b>Mortgages Payable</b> (Note 3)  | <b>\$ 48,291,247</b>  | <b>\$ 50,721,920</b>  |
| <b>Notes Payable</b> (Note 4)  | <b>20,500,000</b>   | <b>17,500,000</b>     |
| <b>Dividends and Distributions Payable</b> (Note 5)  | <b>4,111,807</b>  | <b>4,089,243</b>      |
| <b>Deferred Revenue</b> (Note 13)  | <b>12,103,954</b>   | <b>12,793,504</b>     |
| <b>Accrued Interest Payable</b>  | <b>239,318</b>  | <b>282,080</b>        |
| <b>Accounts Payable</b>  |   |                       |
| Capital expenditures   | <b>766,378</b>  | <b>112,687</b>        |
| Operating  | <b>1,140,617</b>  | <b>1,300,416</b>      |
| <b>Tenant Deposits</b>   | <b>64,085</b>   | <b>54,062</b>         |
| <b>Total Liabilities</b>   | <b>87,217,406</b>   | <b>86,853,912</b>     |
| <b>Minority Interest</b> (Note 6)  | <b>5,878,593</b>  | <b>5,978,635</b>      |
| <b>Stockholders Equity</b> (Note 5)  |   |                       |
| Common stock, \$.0001 par value; 20,000,000 shares authorized; 7,750,496 and 7,706,846 shares issued and outstanding | <b>775</b>  | <b>772</b>            |
| Additional paid-in capital   | <b>141,276,763</b>  | <b>143,138,497</b>    |
| Deficit  | <b>(10,858,938)</b>   | <b>(9,717,471)</b>    |
|  | <b>130,418,600</b>  | <b>133,421,798</b>    |
| Less: unearned compensation restricted stock (Note 8)  |   | <b>(2,794,738)</b>    |
| <b>Total Stockholders Equity</b>   | <b>130,418,600</b>  | <b>130,627,060</b>    |
|  | <b>\$ 223,514,599</b>   | <b>\$ 223,459,607</b> |

*See accompanying notes to consolidated financial statements.*

**F-5**

**Table of Contents****Agree Realty Corporation  
Consolidated Statements of Income**

| <i>Year Ended December 31,</i>   | <b>2006</b>        | 2005          | 2004          |
|--|--------------------|---------------|---------------|
| <b>Revenues</b>  |                    |               |               |
| Minimum rents  | \$ 29,963,363      | \$ 28,386,580 | \$ 25,966,256 |
| Percentage rents   | 53,550             | 68,071        | 55,995        |
| Operating cost reimbursement   | 2,846,775          | 3,082,831     | 2,885,132     |
| Other income   | 43,938             | 41,415        | 32,716        |
| <b>Total Revenues</b>  | <b>32,907,626</b>  | 31,578,897    | 28,940,099    |
| <b>Operating Expenses</b>  |                    |               |               |
| Real estate taxes  | 1,821,372          | 1,749,005     | 1,692,176     |
| Property operating expenses  | 1,637,192          | 2,011,688     | 1,790,773     |
| Land lease payments  | 759,831            | 784,027       | 737,460       |
| General and administrative   | 4,018,836          | 4,191,279     | 2,848,414     |
| Depreciation and amortization  | 4,851,343          | 4,637,325     | 4,249,361     |
| <b>Total Operating Expenses</b>  | <b>13,088,574</b>  | 13,373,324    | 11,318,184    |
| <b>Income From Continuing Operations</b>   | <b>19,819,052</b>  | 18,205,573    | 17,621,915    |
| <b>Other Income (Expense)</b>  |                    |               |               |
| Interest expense, net  | (4,624,771)        | (4,158,887)   | (4,506,712)   |
| Gain on sale of asset  |                    | 6,397         |               |
| Equity in net income of unconsolidated entities  |                    |               | 216,837       |
| <b>Total Other Expense</b>   | <b>(4,624,771)</b> | (4,152,490)   | (4,289,875)   |
| <b>Income Before Minority Interest and Discontinued Operations</b>   | <b>15,194,281</b>  | 14,053,083    | 13,332,040    |
| <b>Minority Interest</b>   | <b>1,220,113</b>   | 1,145,330     | 1,257,212     |
| <b>Income Before Discontinued Operations</b>   | <b>13,974,168</b>  | 12,907,753    | 12,074,828    |
| <b>Gain on Sale of Asset From Discontinued Operations,</b><br>net of minority interest of \$235,465 and \$54,427 |                    | 2,653,670     | 522,741       |

|  |                      |               |               |
|--|----------------------|---------------|---------------|
| <b>Income From Discontinued Operations</b> , net of minority interest of \$43,137 and \$54,708 |                      | 486,153       | 525,451       |
| <b>Net Income</b>  | <b>\$ 13,974,168</b> | \$ 16,047,576 | \$ 13,123,020 |
| <b>Basic Earnings Per Share</b> (Note 2)   |                      |               |               |
| Income before discontinued operations  | \$ 1.84              | \$ 1.73       | \$ 1.87       |
| Discontinued operations  |                      | .42           | .16           |
| <b>Basic Earnings Per Share</b>  | <b>\$ 1.84</b>       | \$ 2.15       | \$ 2.03       |
| <b>Dilutive Earnings Per Share</b> (Note 2)  |                      |               |               |
| Income before discontinued operations  | \$ 1.83              | \$ 1.72       | \$ 1.87       |
| Discontinued operations  |                      | .42           | .16           |
| <b>Dilutive Earnings Per Share</b>   | <b>\$ 1.83</b>       | \$ 2.14       | \$ 2.03       |
| <b>Dividend Declared Per Common Share</b>  | <b>\$ 1.96</b>       | \$ 1.96       | \$ 1.95       |

*See accompanying notes to consolidated financial statements.*

**F-6**

**Table of Contents****Agree Realty Corporation  
Consolidated Statements of Stockholder's Equity**

|   | <i>Common Stock</i> |               | <i>Additional<br/>Paid-In<br/>Capital</i> | <i>Deficit</i> | <i>Unearned<br/>Compensation<br/>-<br/>Restricted<br/>Stock</i> |
|---|---------------------|---------------|---|----------------|---|
|   | <i>Shares</i>       | <i>Amount</i> |   |                |   |
| <b>Balance</b> , January 1, 2004                      | 6,434,345           | \$ 643        | \$ 108,251,813                            | \$(11,227,636) | \$ (837,384)  |
| Issuance of shares under the<br>Equity Incentive Plan | 59,501              | 6             | 1,517,832                                 |                | (950,925)   |
| Shares redeemed under the<br>Equity Incentive Plan    | (6,000)             |               | (169,680)                                 |                |   |
| Vesting of restricted stock                           |                     |               |   |                | 546,345   |
| Dividends declared, \$1.95 per<br>share               |                     |               |   | (12,622,047)   |   |
| Net income  |                     |               |   | 13,123,020     |   |
| <b>Balance</b> , December 31, 2004                    | 6,487,846           | 649           | 109,599,965                               | (10,726,663)   | (1,241,964)   |
| Issuance of common stock, net<br>of issuance costs    | 1,150,000           | 115           | 31,456,414                                |                |   |
| Issuance of shares under the<br>Equity Incentive Plan | 73,000              | 8             | 2,208,878                                 |                | (2,208,886)   |
| Shares redeemed under the<br>Equity Incentive Plan    | (4,000)             |               | (126,760)                                 |                |   |
| Vesting of restricted stock                           |                     |               |   |                | 656,112   |
| Dividends declared, \$1.96 per<br>share               |                     |               |   | (15,038,384)   |   |
| Net income  |                     |               |   | 16,047,576     |   |
| <b>Balance</b> , December 31, 2005                    | 7,706,846           | 772           | 143,138,497                               | (9,717,471)    | (2,794,738)   |
| Reclassify unearned<br>compensation                   |                     |               | (2,794,738)                               |                | 2,794,738   |
| Issuance of shares under the<br>Equity Incentive Plan | 43,650              | 3             | 95,547                                    |                |   |
| Vesting of restricted stock                           |                     |               | 837,457                                   |                |   |
| Dividends declared, \$1.96 per<br>share               |                     |               |   | (15,115,635)   |   |
| Net income  |                     |               |   | 13,974,168     |   |
| <b>Balance</b> , December 31, 2006                    | 7,750,496           | \$ 775        | \$ 141,276,763                            | \$(10,858,938) | \$  |

See accompanying notes to consolidated financial statements.  
**F-7**

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**Table of Contents****Agree Realty Corporation  
Consolidated Statements of Cash Flows**

| <i>Year Ended December 31,</i>  | <b>2006</b>         | 2005          | 2004          |
|---|---------------------|---------------|---------------|
| <b>Cash Flows From Operating Activities</b>   |                     |               |               |
| Net income  | <b>\$13,974,168</b> | \$ 16,047,576 | \$ 13,123,020 |
| Adjustments to reconcile net income to net cash provided by operating activities  |                     |               |               |
| Depreciation  | <b>4,799,370</b>    | 4,738,405     | 4,418,177     |
| Amortization  | <b>190,001</b>      | 207,040       | 204,986       |
| Stock-based compensation  | <b>837,457</b>      | 656,112       | 546,345       |
| Gain on sale of assets  |                     | (2,895,532)   | (577,168)     |
| Equity in net income of unconsolidated entities   |                     |               | (216,837)     |
| Minority interests  | <b>1,220,113</b>    | 1,423,932     | 1,366,347     |
| Decrease (increase) in accounts receivable  | <b>(1,535)</b>      | (103,308)     | (4,961)       |
| Decrease (increase) in other assets   | <b>160,596</b>      | 420,581       | (431,446)     |
| Increase (decrease) in accounts payable   | <b>(159,799)</b>    | (141,459)     | 33,605        |
| Decrease in deferred revenue  | <b>(689,550)</b>    | (689,550)     | (307,936)     |
| Increase (decrease) in accrued interest   | <b>(42,762)</b>     | (16,035)      | 131,016       |
| Increase (decrease) in tenant deposits  | <b>10,023</b>       | (6,927)       | 13,890        |
| <b>Net Cash Provided By Operating Activities</b>  | <b>20,298,082</b>   | 19,640,835    | 18,299,038    |
| <b>Cash Flows From Investing Activities</b>   |                     |               |               |
| Acquisition of real estate investments (including capitalized interest of \$198,000 in 2006, \$437,000 in 2005 and \$305,000 in 2004) | <b>(9,305,661)</b>  | (15,121,825)  | (21,711,356)  |
| Distributions from unconsolidated entities  |                     |               | 216,837       |
| Decrease in restricted cash   |                     |               | 4,309,914     |
| Net proceeds from sale of assets, less amounts held in escrow   |                     | 9,576,974     | 2,046,493     |
| <b>Net Cash Used In Investing Activities</b>  | <b>(9,305,661)</b>  | (5,544,851)   | (15,138,112)  |

*See accompanying notes to consolidated financial statements.*

**F-8**

**Table of Contents****Agree Realty Corporation  
Consolidated Statements of Cash Flows**

| <i>Year Ended December 31,</i>                                    | <b>2006</b>         | <b>2005</b>  | <b>2004</b>   |
|---|---------------------|--------------|---------------|
| <b>Cash Flows From Financing Activities</b>                       |                     |              |               |
| Line-of-credit net borrowings (payments)                          | <b>3,000,000</b>    | (21,700,000) | 12,700,000    |
| Dividends and limited partners' distributions paid                | <b>(16,413,226)</b> | (15,778,376) | (13,873,516)  |
| Payments of mortgages payable                                     | <b>(2,430,673)</b>  | (2,247,255)  | (2,158,689)   |
| Payments of payables for capital expenditures                     | <b>(112,687)</b>    | (393,711)    | (361,769)     |
| Redemption of restricted stock                                    |                     | (126,760)    | (169,680)     |
| Payments for financing costs                                      | <b>(305,897)</b>    |              |               |
| Payments of leasing costs   | <b>(76,298)</b>     | (179,395)    | (72,150)      |
| Exercise of stock options   | <b>95,550</b>       |              | 358,312       |
| Net proceeds from the issuance of common stock                    |                     | 31,456,529   |               |
| <b>Net Cash Used In Financing Activities</b>                      | <b>(16,243,231)</b> | (8,968,968)  | (3,577,492)   |
| <b>Net Increase (Decrease) In Cash and Cash Equivalents</b>       |                     |              |               |
|   | <b>(5,250,810)</b>  | 5,127,016    | (416,566)     |
| <b>Cash and Cash Equivalents, beginning of year</b>               | <b>5,714,540</b>    | 587,524      | 1,004,090     |
| nbsp;   |                     |              |               |
| <b>Cash and Cash Equivalents, end of year</b>                     | <b>\$ 463,730</b>   | \$ 5,714,540 | \$ 587,524    |
| <b>Supplemental Disclosure of Cash Flow Information</b>           |                     |              |               |
| Cash paid for interest (net of amounts capitalized)               | <b>\$ 4,530,740</b> | \$ 3,984,010 | \$ 4,243,983  |
| <b>Supplemental Disclosure of Non-Cash Transactions</b>           |                     |              |               |
| Dividends and limited partners' distributions Declared and unpaid | <b>\$ 4,111,807</b> | \$ 4,089,243 | \$ 3,509,083  |
| Shares issued under Stock Incentive Plan                          | <b>\$ 1,310,766</b> | \$ 2,208,886 | \$ 1,159,518  |
| Real estate investments financed with accounts payable            | <b>\$ 766,378</b>   | \$ 112,687   | \$ 393,711    |
| Real estate investments acquired from joint ventures              | <b>\$</b>           | \$           | \$ 13,790,990 |

*See accompanying notes to consolidated financial statements.*

**F-9**

**Table of Contents**

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

**1. The Company**

Agree Realty Corporation (the Company) is a self-administered, self-managed real estate investment trust (REIT), which develops, acquires, owns and operates properties, which are primarily leased to national and regional retail companies under net leases. At December 31, 2006 the Company's properties are comprised of forty-eight single tenant retail facilities and twelve shopping centers located in fifteen states. At December 31, 2006, approximately 96% of the Company's annual base rental revenues will be received from national and regional tenants under long-term leases, including approximately 32% from Borders, Inc., 22% from Walgreen Co., and 13% from Kmart Corporation, a wholly-owned subsidiary of Sears Holdings Corporation

**2. Summary of  
Significant**

**Accounting Policies**

*Principles of Consolidation*

The consolidated financial statements of Agree Realty Corporation include the accounts of the Company, its majority-owned partnership, Agree Limited Partnership (the Operating Partnership), and its wholly-owned subsidiaries. The Company controlled, as the sole general partner, 92.00% and 91.96% of the Operating Partnership as of December 31, 2006 and 2005, respectively. All material intercompany accounts and transactions are eliminated.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of (1) assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and (2) revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Fair Values of Financial Instruments*

The carrying amounts of the Company's financial instruments, which consist of cash, cash equivalents, receivables, and accounts payable approximate their fair values. The fair value of notes and mortgages payable approximates their carrying amount because the terms are equivalent to borrowing notes currently available to the Company with similar terms and maturities



**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

*Investments in Real Estate Carrying Value of Assets*

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 Company allocates the cost of an acquisition based upon the estimated fair value of the net assets acquired. The Company also estimates the fair value of intangibles related to its acquisitions. The valuation of the fair value of the intangibles primarily involves estimates related to market conditions, probability of lease renewals and the current market value of leases.

Subsequent to completion of construction, expenditures for property maintenance are charged to operations as incurred, while significant renovations are capitalized. Depreciation of the buildings is recorded on the straight-line method using an estimated useful life of forty years.

**Depreciation and Amortization**

Depreciation expense is computed using a straight-line method and estimated useful lives for buildings and improvements of 40 years and equipment and fixtures of five to ten years.

*Investment in Real Estate Impairment evaluation*

Real estate investments are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the 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. No impairment loss recognition has been required through December 31, 2006.

Table of Contents

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company maintains its cash and cash equivalents at a financial institution. The account balances periodically exceed the Federal Deposit Insurance Corporation ( FDIC ) insurance coverage, and as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. The Company believes the risk is not significant, as the Company does not anticipate the financial institutions nonperformance.

*Accounts Receivable Tenants*

Accounts receivable from tenants are unsecured and reflect primarily reimbursement of specified common area expenses. The Company determines its allowance for uncollectible accounts based on historical trends, existing economic conditions, and known financial position of its tenants. Tenant accounts receivable are written-off by the Company in the year when receipt is determined to be remote.

*Unamortized Deferred Expenses*

Deferred expenses are stated net of total accumulated amortization. The nature and treatment of these capitalized costs are as follows: (1) financing costs, consisting of expenditures incurred to obtain long-term financing, are being amortized using the interest method over the term of the related loan, and (2) leasing costs, which are amortized on a straight-line basis over the term of the related lease. The Company incurred expenses of \$182,451, \$199,490 and \$197,436 for the years ended December 31, 2006, 2005 and 2004, respectively.

*Other Assets*

The Company records prepaid expenses, deposits, vehicles, furniture and fixtures, leasehold improvements, acquisition advances and miscellaneous receivables as other assets in the accompanying balance sheets.

*Accounts Payable Capital Expenditures*

Included in accounts payable are amounts related to the construction of buildings. Due to the nature of these expenditures, they are reflected in the statements of cash flows as a financing activity.

**Table of Contents**

**Agree Realty Corporation  
Notes to Consolidated Financial Statements**

***Minority Interest***

This amount represents the limited partners' interest (OP Units) of 8.00% and 8.04% (convertible into 637,547 shares) in the Operating Partnership as of December 31, 2006 and 2005, respectively.

***Revenue Recognition***

Minimum rental income attributable to leases is recorded when due from tenants. Certain leases provide for additional percentage rents based on tenants' sales volume. These percentage rents are recognized when determinable by the Company. 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.

***Taxes Collected and Remitted to Governmental Authorities***

The Company reports taxes, collected from tenants that are to be remitted to governmental authorities, on a net basis and therefore does not include the taxes in revenue.

***Operating Cost Reimbursement***

Substantially all of the Company's leases contain provisions requiring tenants to pay as additional rent a proportionate share of operating expenses such as real estate taxes, repairs and maintenance, insurance, etc. The related revenue from tenant billings is recognized as operating cost reimbursement in the same period the expense is recorded.

***Income Taxes***

The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code), and began operating as such on April 22, 1994. As a result, the Company is not subject to federal income taxes to the extent that it distributes annually at least 90% of its taxable income to its stockholders and satisfies certain other requirements defined in the Code. Accordingly, no provision was made for federal income taxes in the accompanying consolidated financial statements.

Table of Contents

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

*Stock Options*

The Company has elected to adopt the recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation (SFAS 123) using the prospective method beginning January 1, 2003. SFAS 123 establishes a fair value based method of accounting for stock-based compensation plans under which employees receive shares of stock or other equity instruments of the Company or the Company incurs liabilities to employees in amounts based on the price of its stock. No stock options were granted during 2006, 2005 or 2004 and there was no expense for stock options that would be required.

*Dividends*

The Company declared dividends of \$1.96, \$1.96 and \$1.95 per share during the years ended December 31, 2006, 2005, and 2004; the dividends have been reflected for federal income tax purposes as follows:

| <i>December 31,</i> | <b>2006</b>   | 2005   | 2004   |
|---------------------|---------------|--------|--------|
| Ordinary income     | <b>\$1.80</b> | \$1.76 | \$1.95 |
| Return of capital   | <b>.16</b>    | .20    |        |
| <b>Total</b>        | <b>\$1.96</b> | \$1.96 | \$1.95 |

The aggregate federal income tax basis of Real Estate Investments is approximately \$22.3 million less than the financial statement basis.

**F-14**

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Table of Contents

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

*Discontinued Operations*

In August 2004, the Company completed the sale of a single tenant property for approximately \$2.2 million and recognized a gain of approximately \$523,000, net of minority interest. The property was leased to Kmart Corporation and was located in Perrysburg, Ohio. In November 2005 the Company completed the sale of a shopping center for approximately \$8.8 million and recognized a gain of approximately \$2,654,000, net of minority interest. The shopping center was anchored by Kmart Corporation and Roundy's Foods and was located in Iron Mountain, Michigan. The gain on sale and results of operations for these properties are presented as discontinued operations in the Company's consolidated statements of income.

The revenues from the properties were \$864,113, and \$1,125,842 for the years ended December 31, 2005 and 2004, respectively. The expenses for the properties were \$377,960 and \$600,391, including minority interest charges of \$43,137 and \$54,708, for the years ended December 31, 2005 and 2004, respectively.

**F-15**

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Table of Contents

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

*Earnings Per Share*

Earnings per share have 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 SFAS No. 128 Earnings per Share. Diluted earnings per share is computed by dividing net income by the weighted average common and potential dilutive common shares outstanding in accordance with the treasury stock method.

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:

| <i>Year Ended December 31,</i>  | <b>2006</b>      | 2005      | 2004      |
|---|------------------|-----------|-----------|
| Weighted Average number of common shares outstanding                                    | <b>7,711,964</b> | 7,460,504 | 6,468,351 |
| Unvested restricted stock   | <b>131,120</b>   |           |           |
| Weighted average number of common shares outstanding used in basic earnings per share   | <b>7,580,844</b> | 7,460,504 | 6,468,351 |
| Weighted average number of common shares outstanding used in basic earnings per share   | <b>7,580,844</b> | 7,460,504 | 6,468,351 |
| Effect of dilutive securities   |                  |           |           |
| Restricted stock  | <b>70,582</b>    | 29,842    |           |
| Common stock options  |                  | 395       | 6,766     |
| Weighted average number of common shares outstanding used in diluted earnings per share | <b>7,651,426</b> | 7,490,741 | 6,475,117 |

**F-16**

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**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

**Stock Based Compensation**

On January 1, 2006, we adopted the provisions of SFAS No. 123R, Shares-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. No stock options were issued or vested during 2006, so SFAS 123R did not have any impact on net income.

***Recent Accounting Pronouncements***

In June 2006, the Financial Accounting Standards Board (FASB) issued an Emerging Issues Task force (EITF) Consensus in Issue 06-03, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). The consensus includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added and some exercise taxes. The consensus states that the presentation of taxes within the scope on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to Accounting Principles Board ( APB ) Opinion No. 22 Disclosure of Accounting Policies. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis. The consensus should be applied to financial reports for interim and annual reporting periods beginning after December 15, 2006. The Company reports taxes collected from customers on a net basis. The adoption of this consensus will not have a material impact on our financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of

**F-17**

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Table of Contents

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company will be required to adopt FIN 48 as of January 1, 2007, with any cumulative effect of the change in accounting principles recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of its adoption of FIN 48 and has not yet determined the effect on its earnings or financial position.

In September 2006, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin (SAB) Topic 1N Financial Statements Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB 108 references both the iron curtain and rollover approaches to quantifying a current year misstatement for purposes of determining the materiality. The iron curtain approach focuses on how the current year's balance sheet would be affected in correcting a misstatement without considering the year(s) in which the misstatement originated. The rollover approach focuses on the amount of the misstatement that originated in the current year's income statement. SAB 108 states that registrants must quantify the impact of correcting all misstatements, including both the carryover and reversing affects of prior year misstatements, on the current year financial statements. Both the iron curtain approach and rollover approach should be used in assessing the materiality of a current year misstatement. SAB 108 provides that once a current year misstatement has been quantified, the guidance in SAB Topic 1N, Financial Statements Materiality, (SAB 99) should be applied to determine whether the misstatement is material and should result in an adjustment to the financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a significant impact on our

**F-18**

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Table of Contents

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

financial position or results of operations.

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands the disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The changes to current practice resulting from the application of SFAS No 157 relate to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. The definition focuses on the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price) and not the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price). This statement also emphasizes that fair value is a market-based measurement, not an entity specific measurement and subsequently a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The statement also clarifies that the market participant assumptions about risk and assumptions about the effect of a restriction on the sale or use of an asset. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This statement should be applied prospectively as of the beginning of the year in which this statement is initially applied. A limited form of retrospective application of SFAS No. 157 is allowed for certain financial instruments. We are currently evaluating the provisions of SFAS No. 157 to determine the potential impact, if any, the adoption of SFAS No. 157 will have on our financial position or results of operations.

In February 2007, the FASB issued SFAS Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits companies and not-for-profit organizations to make a one-time election to carry eligible types of financial assets and liabilities at fair value, even if fair value measurement is not required under GAAP. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect of the adoption of SFAS No. 159.

**F-19**

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Table of Contents

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

**3. Mortgages Payable**

Mortgages payable consisted of the following:

| <i>December 31,</i>   | <b>2006</b>          | 2005          |
|---|----------------------|---------------|
| 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 | <b>\$ 15,878,633</b> | \$ 16,601,748 |
| 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  | <b>12,877,086</b>    | 13,592,901    |
| 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 | <b>8,822,558</b>     | 9,411,438     |
| Note payable in monthly installments of \$57,403 including interest at 6.50% per annum, with the final monthly payment due February 2023; collateralized by related real estate and tenant lease    | <b>6,881,562</b>     | 7,114,801     |

**F-20**

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Table of Contents

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

| <i>December 31,</i>  | <b>2006</b>          | 2005          |
|--|----------------------|---------------|
| 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      | <b>2,805,919</b>     | 2,899,217     |
| Note payable in monthly installments of \$12,453 including interest at 6.95% per annum, with the final monthly payment due December 2017; collateralized by related real estate and tenant lease | <b>1,025,489</b>     | 1,101,815     |
| <b>Total</b>   | <b>\$ 48,291,247</b> | \$ 50,721,920 |

Future scheduled annual maturities of mortgages payable for years ending December 31 are as follows: 2007 \$2,531,080; 2008 \$2,749,772; 2009 - \$2,937,232; 2010 \$3,137,505; 2011 \$3,351,470 and \$33,584,188 thereafter.

**F-21**

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**Table of Contents**

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

**4. Notes Payable**

The Operating Partnership has in place a \$50 million line-of-credit agreement, which is guaranteed by the Company up to the maximum amount and for the full term. The agreement expires in November 2009 and can be extended, solely at the option of the Operating Partnership, for two additional one year periods. Advances under the Credit Facility bear interest within a range of one-month to twelve-month LIBOR plus 100 basis points to 150 basis points or the bank's prime rate, at the option of the Company, based on certain factors such as the ratio of our indebtedness to the capital value of our properties.. In addition, we must maintain certain leverage and debt service coverage ratios, maintain our adjusted net worth at a minimum level, maintain our tax status as a REIT, and distribute no more than 95% of our adjusted funds from operations. The facility also requires that we pay a non-use fee of .125% of the unfunded balance if our outstanding balance is greater than \$25 million or .20% of the unfunded balance if our outstanding balance is less than \$25 million. The Credit Facility is used to fund property acquisitions and development activities. At December 31, 2006 and 2005, \$20,500,000 and \$17,000,000, respectively, was outstanding under this facility with a weighted average interest rate of 6.35% and 6.35%, respectively. The Credit Facility's covenants were all complied with through December 31, 2006.

In addition, the Company maintains a \$5,000,000 line-of-credit agreement. Monthly interest payments are required, either at the bank's prime rate less 75 basis points, or 150 basis points in excess of the one-month to twelve month LIBOR rate, at the option of the Company. At December 31, 2006 and 2005, \$-0- and \$500,000, respectively, was outstanding under this agreement with a weighted average interest rate of 6.75%.

**5. Dividends and Distributions Payable**

On December 4, 2006 the Company declared a dividend of \$.49 per share for the quarter ended December 31, 2006. The holders of OP Units were entitled to an equal distribution per OP Unit held as of December 31, 2006. The dividends and distributions payable are recorded as liabilities in the Company's consolidated balance sheet at December 31, 2006. The dividend has been reflected as a reduction of stockholders' equity and the distribution has been reflected as a reduction of the limited partners' minority interest. These amounts were paid on January 4, 2007.

**F-22**

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Table of Contents

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

**6. Minority Interest**      The following summarizes the changes in minority interest since January 1, 2004:

|   |              |
|---|--------------|
| <b>Minority Interest at January 1, 2004</b>     | \$ 5,821,739 |
| Minority interests share of income for the year | 1,366,347    |
| Distributions for the year                      | (1,313,231)  |
| <br>  |              |
| <b>Minority Interest at December 31, 2004</b>   | 5,874,855    |
| Minority interests share of income for the year | 1,423,932    |
| Distributions for the year                      | (1,320,152)  |
| <br>  |              |
| <b>Minority Interest at December 31, 2005</b>   | 5,978,635    |
| Minority interests share of income for the year | 1,220,113    |
| Distributions for the year                      | (1,320,155)  |
| <br>  |              |
| <b>Minority Interest at December 31, 2006</b>   | \$ 5,878,593 |

**7. Stock Incentive Plan**

The Company established a stock incentive plan in 1994 (the 1994 Plan) under which options were granted. The options, had an exercise price equal to the initial public offering price (\$19.50/share), can be exercised in increments of 25% on each anniversary of the date of the grant, and expire upon employment termination. There were -0-, 4,900 and 4,900, options outstanding and exercisable at December 31, 2006, 2005 and 2004, respectively. There were 18,375 options exercised in 2004 and 4,900 options exercised in 2006. No options were granted during 2006, 2005 or 2004. In 2005, our stockholders approved the 2005 Equity Incentive Plan (the 2005 Plan) which replaced the 1994 Plan. The 2005 Plan authorizes the issuance of a maximum of one million shares of common stock.

F-23

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Table of Contents

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

**8. Stock Based Compensation**

As part of the Company's 2005 Equity Incentive Plan, restricted common shares are granted to certain employees. As of December 31, 2006, there was \$3,268,045 of total unrecognized compensation costs related to the outstanding restricted shares, which is expected to be recognized over a weighted average period of 3.80 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. Pursuant to SFAS 123R, the Company reversed the previously recorded deferred compensation of \$2,794,738 at December 31, 2005 during the year ended December 31, 2006. The impact did not change stockholders' equity or reported net income.

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. We granted 38,750 shares of restricted stock to employees and associates under the 2005 Equity Incentive Plan. The restricted shares vest over a 3 to 5 year period based on continued service to the Company. Restricted share activity is summarized as follows:

|   | Shares<br>Outstanding | Weighted<br>Average<br>Grant<br>Date<br>Fair Value |
|---|-----------------------|--|
| Non-vested restricted shares at December 31, 2004 | 81,770                | \$ 15.19   |
| Restricted shares granted                         | 73,000                | \$ 30.26   |
| Restricted shares vested                          | (25,330)              | \$ 25.90   |
| Restricted shares forfeited                       |                       |  |
| Non-vested restricted shares at December 31, 2005 | 129,440               | \$ 21.59   |
| Restricted shares granted                         | 38,750                | \$ 33.83   |
| Restricted shares vested                          | (37,070)              | \$ 22.59   |
| Restricted shares forfeited                       |                       |  |
| Non-vested restricted shares at December 31, 2006 | 131,120               | \$ 24.92   |

Table of Contents

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

**9. Profit-Sharing Plan** The Company has a discretionary profit-sharing plan whereby it contributes to the plan such amounts as the Board of Directors of the Company determines. The participants in the plan cannot make any contributions to the plan. Contributions to the plan are allocated to the employees based on their percentage of compensation to the total compensation of all employees for the plan year. Participants in the plan become fully vested after six years of service. No contributions were made to the plan in 2006, 2005 or 2004.

**10. Rental Income** The Company leases premises in its properties to tenants pursuant to lease agreements, which provide for terms ranging generally from 5 to 25 years. The majority of leases provide for additional rents based on tenants' sales volume. The weighted average lease term is 11.5 years.

As of December 31, 2006, the future minimum rentals for the next five years from rental property under the terms of all noncancellable tenant leases, assuming no new or renegotiated leases are executed for such premises, are as follows (in thousands):

|              |                   |
|--------------|-------------------|
| 2007         | \$ 30,415         |
| 2008         | 29,550            |
| 2009         | 28,606            |
| 2010         | 27,593            |
| 2011         | 25,294            |
| Thereafter   | 196,809           |
| <b>Total</b> | <b>\$ 338,267</b> |

Of these future minimum rentals, approximately 35% of the total is attributable to Borders, Inc., approximately 34% of the total is attributable to Walgreen and approximately 9% is attributable to Kmart Corporation a wholly-owned subsidiary of Sears Holdings Corporation. Borders is a major operator of book superstores in the United States, Walgreen operates in the national drugstore chain industry and Kmart's principal business is general merchandise retailing through a chain of discount department stores. The loss of any of these anchor tenants or the inability of any of them to pay rent could have an adverse effect on the Company's business.

**F-25**

**Table of Contents****Agree Realty Corporation  
Notes to Consolidated Financial Statements****11. Lease  
Commitments**

The Company has entered into certain land lease agreements for four of its properties. As of December 31, 2006, future annual lease commitments under these agreements are as follows:

*For the Year ending December 31,*

|              |                     |
|--------------|---------------------|
| 2007         | \$ 674,200          |
| 2008         | 658,867             |
| 2009         | 648,200             |
| 2010         | 691,375             |
| 2011         | 695,300             |
| Thereafter   | 8,243,822           |
| <b>Total</b> | <b>\$11,609,764</b> |

**F-26**

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Table of Contents

**Agree Realty Corporation**  
**Notes to Consolidated Financial Statements**

**12. Interim Results (Unaudited)**

The following summary represents the unaudited results of operations of the Company, expressed in thousands except per share amounts, for the periods from January 1, 2005 through December 31, 2006. Certain amounts have been reclassified to conform to the current presentation of discontinued operations:

|   | <i>Three Months Ended</i> |                     |                          |                         |
|---|---------------------------|---------------------|--------------------------|-------------------------|
|   | <i>March<br/>31,</i>      | <i>June<br/>30,</i> | <i>September<br/>30,</i> | <i>December<br/>31,</i> |
| <b>2006</b>                                       |                           |                     |                          |                         |
| <b>Revenues</b>                                   | \$ 8,272                  | \$ 7,994            | \$ 8,114                 | \$ 8,528                |
| Income before discontinued operations             | \$ 3,387                  | \$ 3,519            | \$ 3,406                 | \$ 3,662                |
| Discontinued operations, net of minority interest |                           |                     |                          |                         |
| <b>Net Income</b>                                 | \$ 3,387                  | \$ 3,519            | \$ 3,406                 | \$ 3,662                |
| <b>Earnings Per Share Diluted</b>                 | \$ .44                    | \$ .46              | \$ .44                   | \$ .49                  |
|   |                           |                     |                          |                         |
|   | <i>Three Months Ended</i> |                     |                          |                         |
|   | <i>March<br/>31,</i>      | <i>June<br/>30,</i> | <i>September<br/>30,</i> | <i>December<br/>31,</i> |
| <b>2005</b>                                       |                           |                     |                          |                         |
| <b>Revenues</b>                                   | \$ 7,824                  | \$ 7,737            | \$ 7,690                 | \$ 8,328                |
| Income before discontinued operations             | \$ 3,164                  | \$ 3,379            | \$ 3,316                 | \$ 3,449                |
| Write-off of acquisition advances                 |                           |                     |                          | 400                     |
| Discontinued operations, net of minority interest | 138                       | 140                 | 138                      | 2,724                   |
| <b>Net Income</b>                                 | \$ 3,302                  | \$ 3,519            | \$ 3,454                 | \$ 5,773                |
| <b>Earnings Per Share Diluted</b>                 | \$ .45                    | \$ .46              | \$ .45                   | \$ .78                  |



**Table of Contents**

**Agree Realty Corporation  
Notes to Consolidated Financial Statements**

**13. Deferred Revenue** In July 2004, our tenant in two joint venture properties located in Ann Arbor, MI and Boynton Beach, FL repaid \$13.8 million that had been contributed by our joint venture partner. As a result of this repayment the Company became the sole member of the limited liability companies holding the properties. Total assets of the two properties were approximately \$13.8 million. We have treated the \$13.8 million repayment of the capital contribution as deferred revenue and accordingly, will recognize rental income over the term of the related leases.

**F-28**

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**Table of Contents**

**Agree Realty Corporation**  
**Schedule III Real Estate and Accumulated Depreciation**  
**December 31, 2006**

| <i>Column A</i>                    | <i>Column B</i>    | <i>Column C</i>     |                     | <i>Column D</i>    | <i>Column E</i> |                                      | <i>Column F</i>           | <i>Column G</i>    | <i>Column H</i>  |
|------------------------------------|--------------------|---------------------|---------------------|--------------------|-----------------|--------------------------------------|---------------------------|--------------------|------------------|
| <i>Description</i>                 | <i>Encumbrance</i> | <i>Land</i>         | <i>Improvements</i> | <i>Acquisition</i> | <i>Land</i>     | <i>Improvements</i>                  | <i>Total Depreciation</i> | <i>Costs</i>       | <i>Remaining</i> |
|                                    |                    | <i>Initial Cost</i> | <i>Buildings</i>    | <i>Capitalized</i> | <i>Costs</i>    | <i>Gross Amount at Which Carried</i> | <i>At Close of Period</i> | <i>Buildings</i>   | <i>and</i>       |
|                                    |                    | <i>Buildings</i>    | <i>and</i>          | <i>Subsequent</i>  | <i>to</i>       | <i>Buildings</i>                     | <i>and</i>                | <i>Accumulated</i> | <i>State of</i>  |
|                                    |                    | <i>and</i>          | <i>to</i>           | <i>to</i>          | <i>to</i>       | <i>and</i>                           | <i>and</i>                | <i>is</i>          | <i>Estimated</i> |
|                                    |                    | <i>Land</i>         | <i>Improvements</i> | <i>Acquisition</i> | <i>Land</i>     | <i>Improvements</i>                  | <i>Total Depreciation</i> | <i>Costs</i>       | <i>Remaining</i> |
| <b>Completed Retail Facilities</b> |                    |                     |                     |                    |                 |                                      |                           |                    |                  |
| Sam's Club, MI                     | \$ 622,941         | \$ 550,000          | \$ 562,404          | \$ 1,087,596       | \$ 550,000      | \$ 1,650,000                         | <b>\$ 2,200,000</b>       | \$ 1,288,027       | 197              |
| Capital Plaza, KY                  |                    | 7,379               | 2,240,607           | 3,223,736          | 7,379           | 5,464,343                            | <b>5,471,722</b>          | 1,761,206          | 197              |
| Charlevoix Commons, MI             |                    | 305,000             | 5,152,992           | 106,718            | 305,000         | 5,259,710                            | <b>5,564,710</b>          | 2,109,775          | 199              |
| Chippewa Commons, WI               |                    | 1,197,150           | 6,367,560           | 439,818            | 1,197,150       | 6,807,378                            | <b>8,004,528</b>          | 2,715,048          | 199              |
| Grayling Plaza, MI                 |                    | 200,000             | 1,778,657           |                    | 200,000         | 1,778,657                            | <b>1,978,657</b>          | 1,017,395          | 198              |
| Ironwood Commons, MI               |                    | 167,500             | 8,181,306           | 261,074            | 167,500         | 8,442,380                            | <b>8,609,880</b>          | 3,263,230          | 199              |
| Marshall Plaza Two, MI             |                    |                     | 4,662,230           | 115,294            |                 | 4,777,524                            | <b>4,777,524</b>          | 1,864,068          | 199              |
| North Lakeland Plaza, FL           | 2,698,890          | 1,641,879           | 6,364,379           | 1,525,238          | 1,641,879       | 7,889,617                            | <b>9,531,496</b>          | 3,438,950          | 198              |
| Oscoda Plaza, MI                   |                    | 183,295             | 1,872,854           |                    | 183,295         | 1,872,854                            | <b>2,056,149</b>          | 1,066,792          | 198              |
| Petoskey Town Center, MI           |                    | 875,000             | 8,895,289           | 223,581            | 875,000         | 9,118,870                            | <b>9,993,870</b>          | 3,583,749          | 199              |
|                                    |                    | 535,460             | 5,667,504           | 282,915            | 535,460         | 5,950,419                            | <b>6,485,879</b>          | 2,377,104          | 1990             |

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|                                  |           |           |           |           |           |                  |                  |           |          |          |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|------------------|------------------|-----------|----------|----------|
| Plymouth Commons, WI             |           |           |           |           |           |                  |                  |           | 40 Years |          |
| Rapids Associates, MI            | 705,000   | 6,854,790 | 27,767    | 705,000   | 6,882,557 | <b>7,587,557</b> | 2,787,776        | 1990      | 40 Years |          |
| Shawano Plaza, WI                | 190,000   | 9,133,934 | 176,471   | 190,000   | 9,310,405 | <b>9,500,405</b> | 3,818,357        | 1990      | 40 Years |          |
| West Frankfort Plaza, IL         | 8,002     | 784,077   | 143,258   | 8,002     | 927,335   | <b>935,337</b>   | 511,482          | 1982      | 40 Years |          |
| Omaha, NE                        | 1,065,055 | 1,705,619 | 2,053,615 | 2,152     | 1,705,619 | 2,055,767        | <b>3,761,386</b> | 571,752   | 1995     | 40 Years |
| Wichita, KS                      | 779,952   | 1,039,195 | 1,690,644 | 24,666    | 1,039,195 | 1,715,310        | <b>2,754,505</b> | 476,996   | 1995     | 40 Years |
| Santa Barbara, CA                | 1,585,279 | 2,355,423 | 3,240,557 | 2,650     | 2,355,423 | 3,243,207        | <b>5,598,630</b> | 902,007   | 1995     | 40 Years |
| Monroeville, PA                  |           | 6,332,158 | 2,249,724 |           | 6,332,158 | 2,249,724        | <b>8,581,882</b> | 569,208   | 1996     | 40 Years |
| Norman, OK                       |           | 879,562   | 1,626,501 |           | 879,562   | 1,626,501        | <b>2,506,063</b> | 416,601   | 1996     | 40 Years |
| Columbus, OH                     |           | 826,000   | 2,336,791 |           | 826,000   | 2,336,791        | <b>3,162,791</b> | 637,747   | 1996     | 40 Years |
| Aventura, FL                     |           |           | 3,173,121 |           |           | 3,173,121        | <b>3,173,121</b> | 849,471   | 1996     | 40 Years |
| Boyton Beach, FL                 | 1,013,146 | 1,534,942 | 2,043,122 |           | 1,534,942 | 2,043,122        | <b>3,578,064</b> | 514,849   | 1996     | 40 Years |
| Lawrence, KS                     | 2,805,919 | 981,331   | 3,000,000 | 349,127   | 981,331   | 3,349,127        | <b>4,330,458</b> | 736,488   | 1997     | 40 Years |
| Waterford, MI                    | 2,124,472 | 971,009   | 1,562,869 | 135,390   | 971,009   | 1,698,259        | <b>2,669,268</b> | 381,074   | 1997     | 40 Years |
| Chesterfield Township, MI        | 2,332,684 | 1,350,590 | 1,757,830 | (46,164)  | 1,350,590 | 1,711,666        | <b>3,062,256</b> | 364,309   | 1998     | 40 Years |
| Grand Blanc, MI                  | 2,228,578 | 1,104,285 | 1,998,919 | 13,968    | 1,104,285 | 2,012,887        | <b>3,117,172</b> | 402,923   | 1998     | 40 Years |
| Pontiac, MI                      | 2,136,824 | 1,144,190 | 1,808,955 | (113,506) | 1,144,190 | 1,695,449        | <b>2,839,639</b> | 351,394   | 1998     | 40 Years |
| Mt. Pleasant Shopping Center, MI |           | 907,600   | 8,081,968 | 410,600   | 907,600   | 8,492,568        | <b>9,400,168</b> | 2,307,181 | 1997     | 40 Years |
| Tulsa, OK                        |           | 1,100,000 | 2,394,512 |           | 1,100,000 | 2,394,512        | <b>3,494,512</b> | 514,219   | 1998     | 40 Years |
| Columbia, MD                     | 3,022,252 | 1,545,509 | 2,093,700 | 286,589   | 1,545,509 | 2,380,289        | <b>3,925,798</b> | 439,950   | 1999     | 40 Years |
| Rochester, MI                    | 3,182,078 | 2,438,740 | 2,188,050 | 1,949     | 2,438,740 | 2,189,999        | <b>4,628,739</b> | 410,601   | 1999     | 40 Years |

F-29

**Table of Contents**

**Agree Realty Corporation**  
**Schedule III Real Estate and Accumulated Depreciation**  
**December 31, 2006**

| <i>Column A</i> | <i>Column B</i>    | <i>Column C</i>      |                     | <i>Column D</i>      | <i>Column E</i>                      |                     | <i>Column F</i>           | <i>Column G</i>     |      |
|-----------------|--------------------|----------------------|---------------------|----------------------|--------------------------------------|---------------------|---------------------------|---------------------|------|
| <i>Location</i> | <i>Encumbrance</i> | <i>Land</i>          | <i>Improvements</i> | <i>Acquisition</i>   | <i>Land</i>                          | <i>Improvements</i> | <i>Total Depreciation</i> | <i>Construction</i> |      |
|                 |                    | <i>Initial Cost</i>  |                     | <i>Costs</i>         | <i>Gross Amount at Which Carried</i> |                     | <i>Accumulated</i>        | <i>Date</i>         |      |
|                 |                    | <i>Buildings and</i> |                     | <i>Capitalized</i>   | <i>At Close of Period</i>            |                     |                           | <i>Completed</i>    |      |
|                 |                    | <i>Land</i>          |                     | <i>Subsequent</i>    | <i>Buildings and</i>                 |                     |                           | <i>to</i>           |      |
|                 |                    | <i>Improvements</i>  |                     | <i>to</i>            | <i>Improvements</i>                  |                     |                           | <i>Subsequent</i>   |      |
|                 |                    | <i>Acquisition</i>   |                     | <i>Buildings and</i> | <i>Accumulated</i>                   |                     |                           | <i>to</i>           |      |
|                 |                    | <i>Costs</i>         |                     | <i>Land</i>          | <i>Improvements</i>                  |                     |                           | <i>Subsequent</i>   |      |
|                 |                    | <i>Capitalized</i>   |                     | <i>Subsequent</i>    | <i>to</i>                            |                     |                           | <i>to</i>           |      |
|                 |                    | <i>to</i>            |                     | <i>Buildings and</i> | <i>Improvements</i>                  |                     |                           | <i>to</i>           |      |
|                 |                    | <i>Buildings and</i> |                     | <i>Improvements</i>  | <i>Accumulated</i>                   |                     |                           | <i>to</i>           |      |
|                 |                    | <i>Land</i>          |                     | <i>Improvements</i>  | <i>Accumulated</i>                   |                     |                           | <i>to</i>           |      |
|                 |                    | <i>Improvements</i>  |                     | <i>Accumulated</i>   | <i>to</i>                            |                     |                           | <i>to</i>           |      |
|                 |                    | <i>Accumulated</i>   |                     | <i>to</i>            | <i>to</i>                            |                     |                           | <i>to</i>           |      |
|                 |                    | <i>to</i>            |                     | <i>to</i>            | <i>to</i>                            |                     |                           | <i>to</i>           |      |
| Ann Arbor, MI   | 2,874,033          | 2,050,000            | 2,222,097           | 29,624               | 2,050,000                            | 2,251,721           | <b>4,301,721</b>          | 394,095             | 1999 |
| Ann Arbor, MI   | 2,841,973          | 1,400,000            | 2,288,890           | 45,000               | 1,400,000                            | 2,333,890           | <b>3,733,890</b>          | 411,488             | 2000 |
| Ann Arbor, MI   | 1,999,120          |                      | 2,332,473           | (1,721)              |                                      | 2,330,752           | <b>2,330,752</b>          | 389,258             | 2000 |
| Ann Arbor, MI   | 3,015,352          | 2,026,625            | 1,879,700           | (1,201)              | 2,026,625                            | 1,878,499           | <b>3,905,124</b>          | 281,778             | 2000 |
| Ann Arbor, MI   | 2,594,569          | 1,477,680            | 2,241,293           |                      | 1,477,680                            | 2,241,293           | <b>3,718,973</b>          | 329,188             | 2001 |
| Ann Arbor, MI   | 2,213,481          | 1,250,000            | 2,285,781           | (16,502)             | 1,250,000                            | 2,269,279           | <b>3,519,279</b>          | 305,109             | 2001 |
| Ann Arbor, MI   | 999,141            | 1,729,851            | 1,798,091           | 660                  | 1,729,851                            | 1,798,751           | <b>3,528,602</b>          | 211,690             | 2002 |
| Ann Arbor, MI   | 3,657,092          | 1,914,859            | 2,057,034           |                      | 1,914,859                            | 2,057,034           | <b>3,971,893</b>          | 218,171             | 2002 |
| Ann Arbor, MI   | 3,355,769          | 1,530,000            | 2,237,702           |                      | 1,530,000                            | 2,237,702           | <b>3,767,702</b>          | 237,311             | 2002 |
| Ann Arbor, MI   | 1,025,489          | 180,000              | 1,117,617           |                      | 180,000                              | 1,117,617           | <b>1,297,617</b>          | 118,582             | 2002 |
| Ann Arbor, MI   | 909,998            | 1,201,675            | 2,014,107           | (2,000)              | 1,201,675                            | 2,012,107           | <b>3,213,782</b>          | 188,674             | 2003 |
| Ann Arbor, MI   |                    |                      | 471,272             | (201,809)            |                                      | 269,463             | <b>269,463</b>            | 17,964              | 2003 |
| Ann Arbor, MI   | 6,881,562          | 1,727,590            | 6,009,488           |                      | 1,727,590                            | 6,009,488           | <b>7,737,078</b>          | 610,142             | 2003 |
| Ann Arbor, MI   |                    | 2,000,000            | 2,740,507           |                      | 2,000,000                            | 2,740,507           | <b>4,740,507</b>          | 231,327             | 2003 |
| Ann Arbor, MI   | 1,049,122          | 1,550,000            | 2,132,096           | 23,020               | 1,550,000                            | 2,155,116           | <b>3,705,116</b>          | 166,074             | 2003 |

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|          |              |              |               |             |              |               |                      |              |      |
|----------|--------------|--------------|---------------|-------------|--------------|---------------|----------------------|--------------|------|
| MI       | 990,780      | 1,537,400    | 1,961,674     |             | 1,537,400    | 1,961,674     | <b>3,499,074</b>     | 139,035      | 2004 |
| r, NY    | 1,143,601    | 1,600,000    | 2,438,781     |             | 1,600,000    | 2,438,781     | <b>4,038,781</b>     | 170,208      | 2004 |
| NY       | 1,398,180    | 1,900,000    | 3,037,864     |             | 1,900,000    | 3,037,864     | <b>4,937,864</b>     | 161,387      | 2004 |
| MI       | 902,640      | 1,029,000    | 2,165,463     | (6,666)     | 1,029,000    | 2,158,797     | <b>3,187,797</b>     | 114,645      | 2004 |
| g, MI    |              | 785,000      | 348,501       | 3,045       | 785,000      | 351,546       | <b>1,136,546</b>     | 21,934       | 2004 |
| n        |              |              |               |             |              |               |                      |              |      |
| FL       | 1,144,278    | 1,569,000    | 2,363,524     | 108,651     | 1,569,000    | 2,472,175     | <b>4,041,175</b>     | 149,021      | 2004 |
| bor,     |              |              |               |             |              |               |                      |              |      |
|          | 2,876,529    | 1,700,000    | 8,308,854     | 150,000     | 1,700,000    | 8,458,854     | <b>10,158,854</b>    | 636,333      | 2004 |
| d, MI    | 1,320,468    | 2,350,000    | 2,313,413     |             | 2,350,000    | 2,313,413     | <b>4,663,413</b>     | 84,343       | 2005 |
| Rapids,  |              |              |               |             |              |               |                      |              |      |
|          |              | 1,450,000    | 2,646,591     |             | 1,450,000    | 2,646,591     | <b>4,096,591</b>     | 88,220       | 2005 |
| wp.,     |              |              |               |             |              |               |                      |              |      |
|          |              | 2,075,000    | 2,535,971     | 7,015       | 2,075,000    | 2,542,986     | <b>4,617,986</b>     | 74,225       | 2005 |
| lle., MI |              | 1,771,000    | 2,327,052     |             | 1,771,000    | 2,327,052     | <b>4,098,052</b>     | 65,448       | 2005 |
| asant.,  |              |              |               |             |              |               |                      |              |      |
|          |              | 1,075,000    | 1,432,390     | 4,787       | 1,075,000    | 1,437,177     | <b>2,512,177</b>     | 38,913       | 2005 |
| e May,   |              |              |               |             |              |               |                      |              |      |
|          |              | 1,075,000    | 1,430,092     | 495         | 1,075,000    | 1,430,587     | <b>2,505,587</b>     | 38,740       | 2005 |
| t Twp,   |              |              |               |             |              |               |                      |              |      |
|          |              | 998,460      | 1,336,357     |             | 998,460      | 1,336,357     | <b>2,334,817</b>     | 9,721        | 2006 |
| total    | 68,791,247   | 73,734,958   | 180,294,136   | 8,823,285   | 73,734,958   | 189,117,421   | <b>262,852,379</b>   | 48,352,753   |      |
| es       |              |              |               |             |              |               |                      |              |      |
| ment     |              |              |               |             |              |               |                      |              |      |
| a, MI    |              | 1,200,000    | 1,144,378     |             | 1,200,000    | 1,144,378     | <b>2,344,378</b>     |              | N/A  |
|          |              | 2,601,500    | 449,450       |             | 2,601,500    | 449,450       | <b>3,050,950</b>     |              | N/A  |
|          |              | 3,801,500    | 1,593,828     |             | 3,801,500    | 1,593,828     | <b>5,395,328</b>     |              |      |
|          | \$68,791,247 | \$77,536,458 | \$181,887,964 | \$8,823,285 | \$77,536,458 | \$190,711,249 | <b>\$268,247,707</b> | \$48,352,753 |      |

**Table of Contents**

**Agree Realty Corporation**  
**Notes to Schedule III**  
**December 31, 2006**

**1) Reconciliation of Real Estate Properties**

The following table reconciles the Real Estate Properties from January 1, 2004 to December 31, 2006:

|                                    | 2006           | 2005           | 2004           |
|------------------------------------|----------------|----------------|----------------|
| Balance at January 1               | \$ 258,332,265 | \$ 252,426,862 | \$ 220,358,955 |
| Construction and acquisition costs | 9,915,442      | 15,260,671     | 34,736,096     |
| Sale of real estate asset          |                | (9,355,268)    | (2,668,189)    |
| <br>                               |                |                |                |
| Balance at December 31             | \$ 268,247,707 | \$ 258,332,265 | \$ 252,426,862 |

**2) Reconciliation of Accumulated Depreciation**

The following table reconciles the accumulated depreciation from January 1, 2004 to December 31, 2006:

|                                   | 2006          | 2005          | 2004          |
|-----------------------------------|---------------|---------------|---------------|
| Balance at January 1              | \$ 43,771,581 | \$ 41,727,987 | \$ 38,475,767 |
| Current year depreciation expense | 4,581,172     | 4,676,257     | 4,372,362     |
| Sale of real estate asset         |               | (2,632,663)   | (1,120,142)   |
| <br>                              |               |               |               |
| Balance at December 31            | \$ 48,352,753 | \$ 43,771,581 | \$ 41,727,987 |

**3) Tax Basis of Buildings and Improvements**

The aggregate cost of Building and Improvements for federal income tax purposes is approximately \$22,268,000 less than the cost basis used for financial statement purpose.

**F-31**