AGREE REALTY CORP
Form 10-Q
July 24, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

**FORM 10-Q**

Mark One

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

For the quarterly period ended June 30, 2017, or

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

Commission File Number 1-12928

**AGREE REALTY CORPORATION**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Maryland<br>State or Other Jurisdiction of Incorporation or Organization | 38-3148187<br>(I.R.S. Employer Identification No.) |

70 E. Long Lake Road, Bloomfield Hills, Michigan 48304

(Address of Principal Executive Offices)

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

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

Yes x No ¨

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

Yes x No ¨

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

| Large Accelerated Filer x | Accelerated Filer ¨ | Non-accelerated Filer ¨<br>(Do not check if a smaller reporting company) | Smaller reporting company ¨ | Emerging growth company ¨ |
|---|---|---|---|---|

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

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

Yes ¨ No x

As of July 21, 2017, the Registrant had 28,636,903 shares of common stock, $0.0001 par value, outstanding.

AGREE REALTY CORPORATION

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**AGREE REALTY CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share and per-share data)**

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

| | June 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Real Estate Investments | | |
| Land | $ 345,255 | $ 309,687 |
| Buildings | 805,271 | 703,506 |
| Less accumulated depreciation | (75,841) | (69,696) |
| | 1,074,685 | 943,497 |
| Property under development | 6,665 | 6,764 |
| Net Real Estate Investments | 1,081,350 | 950,261 |
| **Real Estate Held For Sale,** net | 5,409 | - |
| Cash and Cash Equivalents | 4,173 | 33,395 |
| **Accounts Receivable - Tenants,** net of allowance of $100 and $50 for possible losses at June 30, 2017 and December 31, 2016, respectively | 14,243 | 11,535 |
| Unamortized Deferred Expenses | | |
| Credit facility finance costs, net of accumulated amortization of $230 and $1,262 at June 30, 2017 and December 31, 2016, respectively | 1,352 | 1,552 |
| Leasing costs, net of accumulated amortization of $733 and $677 at June 30, 2017 and December 31, 2016, respectively | 1,546 | 1,227 |
| Lease intangibles, net of accumulated amortization of $32,997 and $25,666 at June 30, 2017 and December 31, 2016, respectively | 172,928 | 139,871 |
| Interest Rate Swaps | 1,285 | 1,409 |
| Other Assets | 4,554 | 2,722 |

| | | |
|---|---|---|
| Total Assets | $ 1,286,840 | $ 1,141,972 |

*See accompanying notes to consolidated financial statements.*

**AGREE REALTY CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share and per-share data)**

| | June 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|
| LIABILITIES | | |
| **Mortgage Notes Payable,** net | $ 68,003 | $ 69,067 |
| **Unsecured Term Loans,** net | 158,437 | 158,679 |
| **Senior Unsecured Notes,** net | 159,218 | 159,176 |
| Unsecured Revolving Credit Facility | 48,000 | 14,000 |
| Dividends and Distributions Payable | 14,637 | 13,124 |
| Deferred Revenue | 1,794 | 1,823 |
| Accrued Interest Payable | 2,216 | 2,210 |
| Accounts Payable and Accrued Expenses | | |
| Capital expenditures | 68 | 677 |
| Operating | 5,989 | 4,866 |
| **Lease intangibles,** net of accumulated amortization of $9,132 and $7,079 at June 30, 2017 and December 31, 2016, respectively | 30,186 | 30,047 |
| Interest Rate Swaps | 1,539 | 1,994 |
| Deferred Income Taxes | 705 | 705 |
| Tenant Deposits | 96 | 94 |
| Total Liabilities | 490,888 | 456,462 |
| EQUITY | | |
| Common stock, $.0001 par value, 45,000,000 shares authorized, 28,637,180 and 26,164,977 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively | 3 | 3 |
| Preferred Stock, $.0001 par value per share, 4,000,000 shares authorized | | |

| | | |
|---|---|---|
| Series A junior participating preferred stock, $.0001 par value, 200,000 authorized, no shares issued and outstanding | - | - |
| Additional paid-in-capital | 820,134 | 712,069 |
| Dividends in excess of net income | (26,547) | (28,558) |
| Accumulated other comprehensive loss | (211) | (536) |
| Total Equity - Agree Realty Corporation | 793,379 | 682,978 |
| Non-controlling interest | 2,573 | 2,532 |
| Total Equity | 795,952 | 685,510 |
| Total Liabilities and Equity | $ 1,286,840 | $ 1,141,972 |

*See accompanying notes to consolidated financial statements.*

**AGREE REALTY CORPORATION**

**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

**(In thousands, except share and per-share data)**

**(Unaudited)**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Revenues | | | | |
| Minimum rents | $25,160 | $19,912 | $49,174 | $38,403 |
| Percentage rents | - | 7 | 212 | 190 |
| Operating cost reimbursement | 2,881 | 1,934 | 5,225 | 3,523 |
| Other income | 39 | (9) | 29 | (48) |
| Total Revenues | 28,080 | 21,844 | 54,640 | 42,068 |
| | | | | |
| Operating Expenses | | | | |
| Real estate taxes | 2,031 | 1,438 | 3,839 | 2,561 |
| Property operating expenses | 915 | 929 | 1,710 | 1,501 |
| Land lease payments | 163 | 163 | 327 | 327 |
| General and administrative | 2,569 | 2,042 | 5,174 | 4,087 |
| Depreciation and amortization | 7,704 | 5,665 | 14,728 | 10,750 |
| Total Operating Expenses | 13,382 | 10,237 | 25,778 | 19,226 |
| | | | | |
| Income from Operations | 14,698 | 11,607 | 28,862 | 22,842 |
| | | | | |
| Other (Expense) Income | | | | |
| Interest expense, net | (4,411) | (3,497) | (8,547) | (7,145) |
| Gain (Loss) on sale of assets, net | 4,780 | 2,718 | 9,521 | 2,718 |
| | | | | |
| Net Income | 15,067 | 10,828 | 29,836 | 18,415 |
| | | | | |
| Less Net Income Attributable to Non-Controlling Interest | 191 | 167 | 384 | 293 |
| | | | | |
| Net Income Attributable to Agree Realty Corporation | $14,876 | $10,661 | $29,452 | $18,122 |
| | | | | |
| Net Income Per Share Attributable to Agree Realty Corporation | | | | |
| Basic | $0.56 | $0.48 | $1.13 | $0.85 |
| Diluted | $0.56 | $0.48 | $1.12 | $0.85 |
| | | | | |
| Other Comprehensive Income | | | | |

| | | | | |
|---|---|---|---|---|
| Net income | $15,067 | $10,828 | $29,836 | $18,415 |
| Other Comprehensive Income (Loss) - Gain (Loss) on Interest Rate Swaps | (411) | (1,677) | 330 | (4,613) |
| Total Comprehensive Income | 14,656 | 9,151 | 30,166 | 13,802 |
| Comprehensive Income Attributable to Non-Controlling Interest | (189) | (140) | (389) | (220) |
| Comprehensive Income Attributable to Agree Realty Corporation | $14,467 | $9,011 | $29,777 | $13,582 |
| Weighted Average Number of Common Shares Outstanding - Basic: | 26,389,703 | 22,185,525 | 26,172,730 | 21,315,541 |
| Weighted Average Number of Common Shares Outstanding - Diluted: | 26,457,340 | 22,265,139 | 26,240,220 | 21,385,098 |

*See accompanying notes to consolidated financial statements.*

**AGREE REALTY CORPORATION**

**CONSOLIDATED STATEMENT OF EQUITY**

**(In thousands, except share and per-share data)**

**(Unaudited)**

| | Common Stock | | Additional | Dividends in excess of net | Accumulated Other Comprehensive | Non-Controlling | Total |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Paid-In Capital | income | Income (Loss) | Interest | Equity |
| Balance, December 31, 2016 | 26,164,977 | $ 3 | $ 712,069 | $ (28,558 ) | $ (536 ) | $ 2,532 | $685,510 |
| Issuance of common stock, net of issuance costs | 2,420,745 | - | 107,987 | - | - | - | 107,987 |
| Repurchase of common shares | (23,580 ) | - | (1,095 ) | - | - | - | (1,095 ) |
| Issuance of restricted stock under the Omnibus Incentive Plan | 75,038 | - | - | - | - | - | - |
| Vesting of restricted stock | - | - | 1,173 | - | - | - | 1,173 |
| Dividends and distributions declared for the period | - | - | - | (27,441 ) | - | (348 ) | (27,789 ) |
| Other comprehensive income (loss) - change in fair value of interest rate swaps | - | - | - | - | 325 | 5 | 330 |
| Net income | - | - | - | 29,452 | - | 384 | 29,836 |
| Balance, June 30, 2017 | 28,637,180 | $ 3 | $ 820,134 | $ (26,547 ) | $ (211 ) | $ 2,573 | $795,952 |

*See accompanying notes to consolidated financial statements.*

**AGREE REALTY CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

**(Unaudited)**

| | Six Months Ended | |
|---|---|---|
| | June 30, 2017 | June 30, 2016 |
| Cash Flows from Operating Activities | | |
| Net income | $29,836 | $ 18,415 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 9,236 | 6,992 |
| Amortization | 5,492 | 3,758 |
| Amortization from financing and credit facility costs | 486 | 344 |
| Stock-based compensation | 1,173 | 1,217 |
| (Gain) loss on sale of assets | (9,521) | (2,718) |
| (Increase) decrease in accounts receivable | (2,783) | (2,556) |
| (Increase) decrease in other assets | 324 | (189) |
| Increase (decrease) in accounts payable | 444 | 1,685 |
| Increase (decrease) in deferred revenue | (29) | (232) |
| Increase (decrease) in accrued interest | 6 | (85) |
| Increase (decrease) in tenant deposits | 2 | 65 |
| Net Cash Provided by Operating Activities | 34,666 | 26,696 |
| | | |
| Cash Flows from Investing Activities | | |
| Acquisition of real estate investments and other assets | (185,573) | (185,442) |
| Development of real estate investments and other assets (including capitalized interest of $154 in 2017 and $14 in 2016) | (12,827) | (8,139) |
| Payment of leasing costs | (449) | (521) |
| Net proceeds from sale of assets | 21,894 | 7,027 |
| Net Cash Used In Investing Activities | (176,955) | (187,075) |
| | | |
| Cash Flows from Financing Activities | | |
| Proceeds from common stock offerings, net | 107,987 | 112,077 |
| Repurchase of common shares | (1,095) | (703) |
| Unsecured revolving credit facility borrowings | 158,000 | 180,000 |
| Unsecured revolving credit facility repayments | (124,000) | (100,000) |
| Payments of mortgage notes payable | (1,187) | (10,028) |
| Payments of unsecured term loans | (359) | - |
| Dividends paid | (25,930) | (19,247) |
| Distributions to Non-Controlling Interest | (344) | (323) |
| Payments for financing costs | (5) | (74) |

| | | |
|---|---|---|
| Net Cash Provided by Financing Activities | 113,067 | 161,702 |
| | | |
| Net Increase (Decrease) in Cash and Cash Equivalents | (29,222 ) | 1,323 |
| Cash and Cash Equivalents, beginning of period | 33,395 | 2,712 |
| Cash and Cash Equivalents, end of period | $4,173 | $ 4,035 |
| | | |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid for interest (net of amounts capitalized) | $13,822 | $ 6,926 |
| Cash paid (refunded) for income tax | $1 | $ 8 |
| | | |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities | | |
| Shares issued under equity incentive plans (in dollars) | $3,648 | $ 3,059 |
| Dividends and limited partners' distributions declared and unpaid | $14,637 | $ 11,513 |

*See accompanying notes to consolidated financial statements.*

**AGREE REALTY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

**(Unaudited)**

Note 1 – Organization

Agree Realty Corporation, a Maryland corporation, is a fully integrated real estate investment trust (“REIT”) primarily focused on the ownership, acquisition, development and management of retail properties net leased to industry leading tenants. The Company was founded in 1971 by its current Executive Chairman, Richard Agree, and our common stock was listed on the New York Stock Exchange (“NYSE”) in 1994.

Our assets are held by, and all of our operations are conducted through, directly or indirectly, Agree Limited Partnership (the “Operating Partnership”), of which Agree Realty Corporation is the sole general partner and in which it held a 98.8% interest as of June 30, 2017. Under the partnership agreement of the Operating Partnership, Agree Realty Corporation, as the sole general partner, has exclusive responsibility and discretion in the management and control of the Operating Partnership.

The terms “Agree Realty,” the "Company," “Management,” "we,” “our” or "us" refer to Agree Realty Corporation and all of its consolidated subsidiaries, including the Operating Partnership.

Note 2 – Summary of Significant Accounting Policies

*Basis of Accounting and Principles of Consolidation*

The accompanying unaudited consolidated financial statements for the six months ended June 30, 2017 have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for audited financial statements. The unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim period presented. Operating results for the six months ended June 30, 2017 may not be indicative of the results that may be expected for the year ending December 31, 2017. Amounts as of December 31, 2016 included in the consolidated financial statements have been derived from the audited consolidated financial statements as of that date. The unaudited consolidated financial statements, included herein, should be read in conjunction with the consolidated financial statements and notes thereto, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Form 10-K for the year ended December 31, 2016.

The unaudited consolidated financial statements include the accounts of the Company, the Operating Partnership and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP 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.

*Reclassification*

Certain reclassifications of prior period amounts have been made in the consolidated financial statements and footnotes in order to conform to the current presentation. Prepaid rents are presented on the Balance Sheet as Deferred Revenue; in previously filed reports prepaid rents were presented in Accounts Payable - Operating. The classification of below-market lease intangibles are presented net of accumulated amortization as a Liability; in previously filed reports below-market lease intangibles were presented in Unamortized Deferred Expenses: Lease Intangibles, net with in-place and above-market lease intangibles.

*Segment Reporting*

The Company is primarily in the business of acquiring, developing and managing retail real estate which is considered to be one reporting segment. The Company has no other reportable segments.

**AGREE REALTY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

(Unaudited)

*Real Estate Investments*

The Company records the acquisition of real estate at cost, including acquisition and closing costs. For properties developed by the Company, all direct and indirect costs related to planning, development and construction, including interest, real estate taxes and other miscellaneous costs incurred during the construction period, are capitalized for financial reporting purposes and recorded as property under development until construction has been completed. Properties classified as “held for sale” are recorded at the lower of their carrying value or their fair value, less anticipated selling costs.

*Accounting for Acquisitions of Real Estate*

The acquisition of property for investment purposes is typically accounted for as an asset acquisition. The Company allocates the purchase price to land, building and identified intangible assets and liabilities, based in each case on their relative estimated fair values and without giving rise to goodwill. Intangible assets and liabilities represent the value of in-place leases and above- or below-market leases. In making estimates of fair values, the Company may use a number of sources, including data provided by independent third parties, as well as information obtained by the Company as a result of our due diligence, including expected future cash flows of the property and various characteristics of the markets where the property is located.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, in-place lease intangibles are valued based on the Company’s estimates of costs related to tenant acquisition and the carrying costs that would be incurred during the time it would take to locate a tenant if the property were vacant, considering current market conditions and costs to execute similar leases at the time of the acquisition. Above and below market lease intangibles are recorded based on the present value of the difference between the contractual amounts to be paid pursuant to the leases at the time of acquisition of the real estate and the Company’s estimate of current market lease rates for the property, measured over a period equal to the remaining non-cancelable term of the lease.

The fair value of identified intangible assets and liabilities acquired is amortized to depreciation and amortization over the remaining term of the related leases.

*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. Cash and cash equivalents consist of cash and money market accounts. 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. We had $3.3 million and $32.4 million in cash as of June 30, 2017 and December 31, 2016, respectively, in excess of the FDIC insured limit.

*Accounts Receivable – Tenants*

The Company reviews its rent receivables for collectability on a regular basis, taking into consideration changes in factors such as the tenant’s payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area where the property is located. In the event that the collectability of a receivable with respect to any tenant is in doubt, a provision for uncollectible amounts will be established or a direct write-off of the specific rent receivable will be made. For accrued rental revenues related to the straight-line method of reporting rental revenue, the Company performs a periodic review of receivable balances to assess the risk of uncollectible amounts and establish appropriate provisions.

The Company’s leases provide for reimbursement from tenants for common area maintenance (“CAM”), insurance, real estate taxes and other operating expenses ("Operating Cost Reimbursement Revenue"). A portion of our Operating Cost Reimbursement Revenue is estimated each period and is recognized as revenue in the period the recoverable costs are incurred and accrued. Receivables from Operating Cost Reimbursement Revenue are included in our Accounts Receivable - Tenants line item in our consolidated balance sheets. The balance of unbilled Operating Cost Reimbursement Receivable at June 30, 2017 and December 31, 2016 was $1.5 million and $1.1 million, respectively.

**AGREE REALTY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

(Unaudited)

In addition, many of the Company's leases contain rent escalations for which we recognize revenue on a straight-line basis over the non-cancelable lease term. This method results in rental revenue in the early years of a lease being higher than actual cash received, creating a straight-line rent receivable asset which is included in the Accounts Receivable - Tenants line item in our consolidated balance sheet. The balance of straight-line rent receivables at June 30, 2017 and December 31, 2016 was $11.2 million and $9.6 million, respectively. To the extent any of the tenants under these leases become unable to pay their contractual cash rents, the Company may be required to write down the straight-line rent receivable from those tenants, which would reduce operating income.

*Sales Tax*

The Company collects various taxes from tenants and remits these amounts, on a net basis, to the applicable taxing authorities.

*Unamortized Deferred Expenses*

Deferred expenses include debt financing costs related to the line of credit, leasing costs and lease intangibles, and are amortized as follows: (i) debt financing costs related to the line of credit on a straight-line basis to interest expense over the term of the related loan, which approximates the effective interest method; (ii) leasing costs on a straight-line basis to depreciation and amortization over the term of the related lease entered into; and (iii) lease intangibles on a straight-line basis to depreciation and amortization over the remaining term of the related lease acquired.

The following schedule summarizes the Company's amortization of deferred expenses for the three and six months ended June 30, 2017 and 2016 (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Credit Facility Financing Costs | $ 104 | $ 53 | $ 202 | $ 105 |

| | | | | |
|---|---|---|---|---|
| Leasing Costs | 40 | 24 | 80 | 47 |
| Lease Intangibles (Asset) | 3,890 | 2,808 | 7,330 | 5,063 |
| Lease Intangibles (Liability) | (1,041) | (781) | (2,053) | (1,351) |
| Total | $ 2,993 | $ 2,104 | $ 5,559 | $ 3,864 |

The following schedule represents estimated future amortization of deferred expenses as of June 30, 2017 (in thousands):

| Year Ending December 31, | 2017 (remaining) | 2018 | 2019 | 2020 | 2021 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Credit Facility Financing Costs | $ 192 | $ 380 | $ 379 | $ 380 | $ 21 | $ - | $ 1,352 |
| Leasing Costs | 80 | 179 | 211 | 191 | 175 | 710 | 1,546 |
| Lease Intangibles (Asset) | 8,342 | 16,919 | 16,391 | 16,019 | 15,330 | 99,927 | 172,928 |
| Lease Intangibles (Liability) | (2,150) | (4,182) | (4,108) | (4,007) | (3,714) | (12,025) | (30,186) |
| Total | $ 6,464 | $ 13,296 | $ 12,873 | $ 12,583 | $ 11,812 | $ 88,612 | $ 145,640 |

*Earnings per Share*

Earnings per share have been computed by dividing the net income after allocation by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average common shares and potentially dilutive common shares outstanding in accordance with the treasury stock method.

**AGREE REALTY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

(Unaudited)

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Weighted average number of common shares outstanding | 26,619,350 | 22,406,775 | 26,402,377 | 21,536,791 |
| Less: Unvested restricted stock | (229,647) | (221,250) | (229,647) | (221,250) |
| Weighted average number of common shares outstanding used in basic earnings per share | 26,389,703 | 22,185,525 | 26,172,730 | 21,315,541 |
| Weighted average number of common shares outstanding used in basic earnings per share | 26,389,703 | 22,185,525 | 26,172,730 | 21,315,541 |
| Effect of dilutive securities: restricted stock | 67,637 | 79,614 | 67,490 | 69,557 |
| Weighted average number of common shares outstanding used in diluted earnings per share | 26,457,340 | 22,265,139 | 26,240,220 | 21,385,098 |

*Income Taxes (not presented in thousands)*

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). As a REIT, the Company generally will not be subject to federal income tax provided it continues to satisfy certain tests concerning the Company's sources of income, the nature of its assets, the amounts distributed to its stockholders, and the ownership of Company stock. Management believes the Company has qualified and will continue to qualify as a REIT. Notwithstanding the Company's qualification for taxation as a REIT, the Company is subject to certain state and local taxes on its income and real estate.

The Company has established taxable REIT subsidiaries ("TRS") pursuant to the provisions of the Internal Revenue Code. The Company's TRS entities are able to engage in activities resulting in income that would be non-qualifying income for a REIT. As a result, certain activities of the Company which occur within its TRS entities are subject to federal and state income taxes. As of June 30, 2017 and December 31, 2016, the Company had accrued a deferred income tax amount of $705,000. In addition, the Company recognized income tax expense of $834 and $1,767 for the three months ended June 30, 2017 and 2016, respectively, and $834 and $7,747 for the six months ended June 30,

2017 and 2016, respectively.

*Fair Values of Financial Instruments*

The Company's estimates of fair value of financial and non-financial assets and liabilities are based on the framework established in the fair value accounting guidance. The framework specifies a hierarchy of valuation inputs which was established to increase consistency, clarity and comparability in fair value measurements and related disclosures. The guidance describes a fair value hierarchy based upon three levels of inputs that may be used to measure fair value, two of which are considered observable and one that is considered unobservable. The following describes the three levels:

| | |
|---|---|
| Level 1 – | Valuation is based upon quoted prices in active markets for identical assets or liabilities. |
| Level 2 – | Valuation is based upon inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. |
| Level 3 – | Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include option pricing models, discounted cash flow models and similar techniques. |

*Recent Accounting Pronouncements*

In May 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"). The objective of ASU 2017-09 is to provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. ASU 2017-09 will be effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods in the year of adoption. Early adoption is permitted for any interim or annual period. The Company is in the process of determining the impact that the implementation of ASU 2017-09 will have on the Company's financial statements.

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In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations: Clarifying the Definition of a Business” (“ASU 2017-01”). The objective of ASU 2017-01 is to clarify the definition of a business by adding guidance on how entities should evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 will be effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods in the year of adoption. Early adoption is permitted for any interim or annual period. The Company has early adopted and the guidance has no material impact on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02 “Leases” (“ASU 2016-02”). The new standard creates Topic 842, Leases, in FASB *Accounting Standards Codification* (FASB ASC) and supersedes FASB ASC 840, *Leases.* ASU 2016-02 requires a lessee to recognize the assets and liabilities that arise from leases (operating and finance). However, for leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. The main difference between the existing guidance on accounting for leases and the new standard is that operating leases will now be recorded in the statement of financial position as assets and liabilities. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases and operating leases. ASU 2016-02 is expected to impact the Company’s consolidated financial statements as the Company has certain operating land lease arrangements for which it is the lessee. GAAP requires only capital (finance) leases to be recognized in the statement of financial position, and amounts related to operating leases largely are reflected in the financial statements as rent expense on the income statement and in disclosures to the financial statements. ASU 2016-02 is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2018. Early adoption is permitted. The Company has engaged a professional services firm to assist in the implementation of ASU 2016-02. The Company anticipates that its retail leases where it is the lessor will continue to be accounted for as operating leases under the new standard. Therefore, the Company does not currently anticipate significant changes in the accounting for its lease revenues. The Company is also the lessee under various land lease arrangements and it will be required to recognize right of use assets and related lease liabilities on its consolidated balance sheets upon adoption. The Company will continue to evaluate the impact of adopting the new leases standard on its consolidated statements of income and comprehensive income and consolidated balance sheets.

In May 2014, with subsequent updates issued in August 2015 and March, April and May 2016, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 was developed to enable financial statement users to better understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The update’s core principle is that an entity should recognize revenue to

depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Companies are to use a five-step contract review model to ensure revenue is recognized, measured and disclosed in accordance with this principle. ASU 2014-09, as updated, is effective for fiscal years and interim periods beginning after December 15, 2017. The Company has engaged a professional services firm to assist in the implementation of ASU 2014-09. The Company is continuing to evaluate the standard; however, we do not expect its adoption to have a significant impact on the consolidated financial statements, as approximately 90% of total revenues consist of rental income from leasing arrangements, which is specifically excluded from the standard. In addition, given the nature of its disposition transactions, there should be no changes in accounting under the new standard.

Note 3 – Real Estate Investments

*Real Estate Portfolio*

As of June 30, 2017, the Company owned 413 properties, with a total gross leasable area of 7.9 million square feet. Net Real Estate Investments totaled $1.1 billion as of June 30, 2017. As of December 31, 2016, the Company owned 366 properties, with a total gross leasable area of 7.0 million square feet. Net Real Estate Investments totaled $950.3 million as of December 31, 2016.

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*Investments*

During the three months ended June 30, 2017, the Company acquired 36 retail net lease assets for approximately $131.2 million, which includes acquisition and closing costs. These properties are located in 19 states and are leased to 31 different tenants operating in 18 diverse retail sectors for a weighted average lease term of approximately 12.7 years.

During the six months ended June 30, 2017, the Company acquired 47 retail net lease assets for approximately $184.4 million, which includes acquisition and closing costs. These properties are located in 21 states and are leased to 38 different tenants operating in 20 diverse retail sectors for a weighted average lease term of approximately 12.1 years.

The aggregate acquisitions for the six months ended June 30, 2017 were allocated $35.7 million to land, $106.7 million to buildings and improvements, and $42.0 million to lease intangibles and other assets. The acquisitions were all cash purchases and there were no contingent considerations associated with these acquisitions.

None of the Company's acquisitions during the first six months of 2017 caused any new or existing tenant to comprise 10% or more of its total assets or generate 10% or more of its total annualized base rent at June 30, 2017.

*Developments*

During the second quarter of 2017, construction continued on three new development and Partner Capital Solutions ("PCS") projects with anticipated total project costs of approximately $24.1 million. The projects consist of the Company's first PCS project with Art Van Furniture in Canton, Michigan, as well as the Company's first two development projects with Mister Car Wash in Urbandale, Iowa and Bernalillo, New Mexico.

For the first six months of 2017, the Company had seven development or PCS projects completed or under construction. Anticipated total costs for those projects are approximately $45.9 million and include the following

completed or commenced projects:

| Tenant | Location | Lease Structure | Lease Term | Actual or Anticipated Rent Commencement | Status |
|---|---|---|---|---|---|
| Camping World | Tyler, TX | Build-to-Suit | 20 Years | Q1 2017 | Completed |
| Burger King(1) | Heber, UT | Build-to-Suit | 20 Years | Q1 2017 | Completed |
| Camping World | Georgetown, KY | Build-to-Suit | 20 Years | Q2 2017 | Completed |
| Orchard Supply | Boynton Beach, FL | Build-to-Suit | 15 Years | Q3 2017 | Under Construction |
| Mister Car Wash | Urbandale, IA | Build-to-Suit | 20 years | Q4 2017 | Under Construction |
| Mister Car Wash | Bernalillo, NM | Build-to-Suit | 20 years | Q4 2017 | Under Construction |
| Art Van Furniture | Canton, MI | Build-to-Suit | 20 years | Q1 2018 | Under Construction |

Notes:

(1) Franchise restaurant operated by Meridian Restaurants Unlimited, L.C.

*Dispositions*

During the three months ended June 30, 2017, the Company sold real estate properties for net proceeds of $11.7 million and a net gain of $4.8 million (net of any expected losses on real estate held for sale).

During the six months ended June 30, 2017, the Company sold real estate properties for net proceeds of $21.9 million and a net gain of $9.5 million (net of any expected losses on real estate held for sale).

Note 4 – Debt

We account for debt issuance costs under ASU 2015-03 which requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the gross carrying amount of that debt liability, consistent with debt discounts. Unamortized debt issuance costs of approximately $2.8 million and $3.1 million are included as an offset to the respective debt balances as of June 30, 2017 and December 31, 2016.

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As of June 30, 2017, we had total gross indebtedness of $436.5 million, including (i) $68.8 million of mortgage notes payable; (ii) $159.7 million of unsecured term loans; (iii) $160.0 million of senior unsecured notes; and (iv) $48.0 million of borrowings under our Credit Facility.

*Mortgage Notes Payable*

As of June 30, 2017, the Company had total gross mortgage indebtedness of $68.8 million which was collateralized by related real estate with an aggregate net book value of $89.5 million. Including mortgages that have been swapped to a fixed interest rate, the weighted average interest rate on the Company's mortgage notes payable was 3.92%.

Mortgages payable consisted of the following:

| (not presented in thousands) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| | (in thousands) | |
| Note payable in monthly installments of interest only at LIBOR plus 160 basis points, swapped to a fixed rate of 2.49% with a balloon payment due April 4, 2018; collateralized by related real estate and tenants' leases | $25,000 | $ 25,000 |
| 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 | 4,357 | 5,114 |
| Note payable in monthly installments of $23,004, including interest at 6.24% per annum, with a balloon payment of $2,781,819 due February 2020; collateralized by related real estate and tenant lease | 3,006 | 3,049 |
| Note payable in monthly installments of interest only at 3.60% per annum, with a balloon payment due January 1, 2023; collateralized by related real estate and tenants' leases | 23,640 | 23,640 |

| | | |
|---|---|---|
| Note payable in monthly installments of $35,673, including interest at 5.01% per annum, with a balloon payment of $4,034,627 due September 2023; collateralized by related real estate and tenant lease | 5,213 | 5,294 |
| Note payable in monthly installments of $91,675 including interest at 6.27% per annum, with a final monthly payment due July 2026; collateralized by related real estate and tenants' leases | 7,604 | 7,910 |
| Total principal | 68,820 | 70,007 |
| Unamortized debt issuance costs | (817) | (940) |
| Total | $68,003 | $ 69,067 |

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*Senior Unsecured Notes*

The following table presents the Senior Unsecured Notes balance net of unamortized debt issuance costs as of June 30, 2017, and December 31, 2016 (in thousands):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| 2025 Senior Unsecured Notes | $ 50,000 | $ 50,000 |
| 2027 Senior Unsecured Notes | 50,000 | 50,000 |
| 2028 Senior Unsecured Notes | 60,000 | 60,000 |
| Total Principal | 160,000 | 160,000 |
| Unamortized debt issuance costs | (782) | (824) |
| Total | $ 159,218 | $ 159,176 |

In May 2015, the Company completed a private placement of $100.0 million principal amount of senior unsecured notes. The senior unsecured notes were sold in two series; $50.0 million of 4.16% notes due in May 2025 and $50.0 million of 4.26% notes due in May 2027. The weighted average term of the senior unsecured notes is 11 years and the weighted average interest rate is 4.21%.

In July 2016, the Company completed a private placement of $60.0 million principal amount of senior unsecured notes. The senior unsecured notes bear a fixed interest rate of 4.42% per annum and mature in July 2028.

*Unsecured Term Loan Facilities*

The following table presents the Unsecured Term Loans balance net of unamortized debt issuance costs as of June 30, 2017 and December 31, 2016 (in thousands):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| 2019 Term Loan | $ 19,685 | $ 20,044 |
| 2023 Term Loan | 40,000 | 40,000 |
| 2024 Term Loans | 100,000 | 100,000 |
| Total Principal | 159,685 | 160,044 |
| Unamortized debt issuance costs | (1,248) | (1,365) |
| Total | $ 158,437 | $ 158,679 |

*Debt Maturities*

The following table presents scheduled principal payments related to our debt as of June 30, 2017 (in thousands):

| | Scheduled Principal | Balloon Payment | Total |
|---|---|---|---|
| Remainder of 2017 | $ 1,602 | $- | $1,602 |
| 2018 | 3,337 | 25,000 | 28,337 |
| 2019 | 2,751 | 18,547 | 21,298 |
| 2020 | 1,092 | 2,775 | 3,867 |
| 2021 (1) | 998 | 48,000 | 48,998 |
| Thereafter | 8,763 | 323,640 | 332,403 |
| Total | $ 18,543 | $417,962 | $436,505 |

(1) *The balloon payment balance includes the balance outstanding under the Credit Facility as of June 30, 2017. The Credit Facility matures in January 2021, with options to extend the maturity for one year at the Company's election, subject to certain conditions.*

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The amended and restated credit agreement, described below, extended the maturity dates of the $65.0 million unsecured term loan facility and $35.0 million unsecured term loan facility (together, the “2024 Term Loan Facilities”) to January 2024. In connection with entering into the amended and restated credit agreement, the prior notes evidencing the existing $65.0 million unsecured term loan facility and $35.0 million unsecured term loan facility were canceled and new notes evidencing the 2024 Term Loan Facilities were executed. Borrowings under the unsecured 2024 Term Loan Facilities bear interest at a variable LIBOR plus 1.65% to 2.35%, depending on the Company's leverage ratio. The Company utilized existing interest rate swaps to effectively fix the LIBOR rate (Refer to Note 7 – Derivative Instruments and Hedging Activity).

In July 2016, the Company completed a $40.0 million unsecured term loan facility that matures in July 2023 (the “2023 Term Loan”). Borrowings under the 2023 Term Loan are priced at LIBOR plus 165 to 225 basis points, depending on the Company’s leverage. The Company entered into an interest rate swap to fix LIBOR at 1.40% until maturity. As of June 30, 2017, $40.0 million was outstanding under the 2023 Term Loan, which is subject to an all-in interest rate of 3.05%.

In August 2016, the Company entered into a $20.3 million unsecured amortizing term loan that matures in May 2019 (the “2019 Term Loan”). Borrowings under the 2019 Term Loan are priced at LIBOR plus 170 basis points. In order to fix LIBOR on the 2019 Term Loan at 1.92% until maturity, the Company had an interest rate swap agreement in place, which was assigned by the lender under the Mortgage Note to the 2019 Term Loan lender. As of June 30, 2017, $19.7 million was outstanding under the 2019 Term Loan bearing an all-in interest rate of 3.62%.

*Senior Unsecured Revolving Credit Facility*

In December 2016, the Company amended and restated the credit agreement that governs the Company's senior unsecured revolving credit facility and the Company's unsecured term loan facility to increase the aggregate borrowing capacity to $350.0 million. The agreement provides for a $250.0 million unsecured revolving credit facility, a $65.0 million unsecured term loan facility and a $35.0 million unsecured term loan facility (Referenced above as 2024 Term Loan Facilities). The unsecured revolving credit facility matures in January 2021 with options to extend the maturity date to January 2022. The 2024 Term Loan Facilities mature in January 2024. The Company has the ability to increase the aggregate borrowing capacity under the credit agreement up to $500.0 million, subject to lender approval. Borrowings under the revolving credit facility bear interest at LIBOR plus 1.30% to 1.95%,

depending on the Company's leverage ratio. Additionally, the Company is required to pay an unused commitment fee at an annual rate of 0.15% or 0.25% of the unused portion of the revolving credit facility, depending on the amount of borrowings outstanding. The credit agreement contains certain financial covenants, including a maximum leverage ratio, a minimum fixed charge coverage ratio, and a maximum percentage of secured debt to total asset value. As of June 30, 2017 and December 31, 2016, the Company had $48.0 million and $14.0 million of outstanding borrowings under the revolving credit facility, respectively, bearing weighted average interest rates of approximately 2.4% and 1.9%, respectively. As of June 30, 2017, $202.0 million was available for borrowing under the revolving credit facility and the Company was in compliance with the credit agreement covenants.

Concurrent with the amendment and restatement of the Company's senior unsecured revolving credit facility, conforming changes were made to the 2023 Term Loan and 2019 Term Loan.

Note 5 – Common Stock

In April 2017, the Company entered into a new $200.0 million at-the-market equity program ("ATM program") through which the Company may, from time to time, sell shares of common stock. The Company uses the proceeds generated from its ATM program for general corporate purposes, including funding our investment activity, the repayment or refinancing of outstanding indebtedness, working capital and other general purposes.

During the three months ended June 30, 2017, the Company issued 2,500 shares of common stock under its ATM program at a weighted average price of $48.59, realizing gross proceeds of approximately $0.1 million.

During the six months ended June 30, 2017, the Company issued 2,500 shares of common stock under its ATM program at a weighted average price of $48.59, realizing gross proceeds of approximately $0.1 million. The Company had approximately $199.9 million remaining under the ATM program as of June 30, 2017.

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In May 2017, the Company filed an automatic shelf registration statement on Form S-3, registering an unspecified amount and an indeterminant aggregate initial offering price of common stock, preferred stock, depositary shares and warrants. The Company may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if these securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

In June 2017, the Company completed a follow-on offering of 2,415,000 shares of common stock. The offering, which included the full exercise of the overallotment option by the underwriters, raised net proceeds of approximately $108.2 million after deducting the underwriting discount.

Note 6 – Dividends and Distribution Payable

On May 19, 2017, the Company declared a dividend of $0.505 per share for the quarter ended June 30, 2017. The holders of limited partnership interests in the Operating Partnership (“OP Units”) were entitled to an equal distribution per OP Unit held as of June 30, 2017. The dividends and distributions payable were recorded as liabilities on the Company's consolidated balance sheet at June 30, 2017. The dividend has been reflected as a reduction of stockholders' equity and the distribution has been reflected as a reduction of the limited partners' non-controlling interest. These amounts were paid on July 14, 2017.

Note 7 – Derivative Instruments and Hedging Activity

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risk, including interest rate, liquidity and credit risk primarily by managing the amount, sources and duration of its debt funding and, to a limited extent, the use of derivative instruments. For additional information regarding the leveling of our derivatives (Refer to Note 9 – Fair Value Measurements).

The Company's objective in using interest rate derivatives is to manage its exposure to interest rate movements and add stability to interest expense. To accomplish this objective, the Company uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable rate amounts from a counterparty in exchange for the Company making fixed rate payments over the life of the agreement without exchange of the underlying notional amount.

In April 2012, the Company entered into an amortizing forward-starting interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on $22.3 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 1.92%. This swap effectively converted $22.3 million of variable-rate borrowings to fixed-rate borrowings from July 1, 2013 to May 1, 2019. As of June 30, 2017, this interest rate swap was valued as a liability of approximately $0.1 million.

In December 2012, the Company entered into interest rate swap agreements to hedge against changes in future cash flows resulting from changes in interest rates on $25.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 0.89%. This swap effectively converted $25.0 million of variable-rate borrowings to fixed-rate borrowings from December 6, 2012 to April 4, 2018. As of June 30, 2017, this interest rate swap was valued as an asset of approximately $0.1 million.

In September 2013, the Company entered into an interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on $35.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 2.20%. This swap effectively converted $35.0 million of variable-rate borrowings to fixed-rate borrowings from October 3, 2013 to September 29, 2020. As of June 30, 2017, this interest rate swap was valued as a liability of approximately $0.6 million.

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In July 2014, the Company entered into interest rate swap agreements to hedge against changes in future cash flows resulting from changes in interest rates on $65.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 2.09%. This swap effectively converted $65.0 million of variable-rate borrowings to fixed-rate borrowings from July 21, 2014 to July 21, 2021. As of June 30, 2017, this interest rate swap was valued as a liability of approximately $0.8 million.

In June 2016, the Company entered into an interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on $40.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 1.40%. This swap effectively converted $40.0 million of variable-rate borrowings to fixed-rate borrowings from August 1, 2016 to July 1, 2023. As of June 30, 2017, this interest rate swap was valued as an asset of approximately $1.2 million.

Companies are required to recognize all derivative instruments as either assets or liabilities at fair value on the balance sheet. The Company has designated these derivative instruments as cash flow hedges. As such, the effective portion of changes in the fair value of the derivatives designated and that qualify as cash flow hedges is recorded as a component of other comprehensive income (loss). The ineffective portion of the change in fair value of the derivative instrument is recognized directly in interest expense. For the three and six months ended June 30, 2017 and 2016, the Company has not recorded any hedge ineffectiveness in earnings. Amounts in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates that an additional $0.8 million will be reclassified as an increase to interest expense.

The Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (in thousands, except number of instruments):

| | Number of Instruments | | Notional | |
|---|---|---|---|---|
| | June 30, | December 31, | June 30, | December 31, |

| Interest Rate Derivatives | 2017 | 2016 | 2017 | 2016 |
|---|---|---|---|---|
| Interest Rate Swap | 5 | 5 | $184,685 | $ 185,044 |

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The table below presents the estimated fair value of the Company's derivative financial instruments, as well as their classification in the consolidated balance sheets (in thousands).

| | Asset Derivatives | | | |
|---|---|---|---|---|
| | June 30, 2017 | | December 31, 2016 | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives designated as cash flow hedges: | | | | |
| Interest Rate Swaps | Other Assets | $ 1,285 | Other Assets | $ 1,409 |

| | Liability Derivatives | | | |
|---|---|---|---|---|
| | June 30, 2017 | | December 31, 2016 | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives designated as cash flow hedges: | | | | |
| Interest Rate Swaps | Other Liabilities | $ 1,539 | Other Liabilities | $ 1,994 |

The table below displays the effect of the Company's derivative financial instruments in the consolidated statements of operations and other comprehensive loss for the three and six months ended June 30, 2017 and 2016 (in thousands).

| Derivatives in Cash Flow Hedging Relationships | Amount of Income/(Loss) Recognized in OCI on Derivative (Effective Portion) | | Location of Income/(Loss) Reclassifed from Accumulated OCI into Income (Effective Portion) | Amount of Income/(Loss) Reclassified from Accumulated OCI into Expense (Effective Portion) | |
|---|---|---|---|---|---|
| Three months ended June 30 | 2017 | 2016 | | 2017 | 2016 |
| Interest rate swaps | $ (411) | $ (1,677) | Interest Expense | $ (435) | $ (533) |
| Six months ended June 30 | | | | | |
| Interest rate swaps | $ 330 | $ (4,613) | Interest Expense | $ (900) | $ (1,058) |

**Credit-risk-related Contingent Features**

The Company has agreements with two of its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness.

As of June 30, 2017, the fair value of derivatives in a net liability position related to these agreements, which includes accrued interest but excludes any adjustment for nonperformance risk, was $1.4 million. As of June 30, 2017, the Company has not posted any collateral related to these net liability positions. If the Company had breached any of these provisions as of June 30, 2017, it could have been required to settle its obligations under the agreements at their termination value of $1.4 million.

Although the derivative contracts are subject to master netting arrangements, which serve as credit mitigants to both us and our counterparties under certain situations, we do not net our derivative fair values or any existing rights or obligations to cash collateral on the consolidated balance sheets.

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The table below presents a gross presentation of the effects of offsetting and a net presentation of the Company's derivatives as of June 30, 2017 and December 31, 2016. The gross amounts of derivative assets or liabilities can be reconciled to the Tabular Disclosure of Fair Values of Derivative Instruments above, which also provides the location that derivative assets and liabilities are presented on the consolidated balance sheets (in thousands):

Offsetting of Derivative Assets

As of June 30, 2017

| | | | | Gross Amounts Not Offset in the Statement of Financial Position | | |
|---|---|---|---|---|---|---|
| | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Assets presented in the statement of Financial Position | Financial Instruments | Cash Collateral Received | Net Amount |
| Derivatives | $ 1,285 | $ - | $ 1,285 | $ (83 ) | $ - | $ 1,202 |

Offsetting of Derivative Liabilities

As of June 30, 2017

| | | | | Gross Amounts Not Offset in the Statement of Financial Position | | |
|---|---|---|---|---|---|---|
| | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Liabilities presented in the statement of Financial Position | Financial Instruments | Cash Collateral Received | Net Amount |
| Derivatives | $ 1,539 | $ - | $ 1,539 | $ (83 ) | $ - | $ 1,456 |

Offsetting of Derivative Assets

As of December 31, 2016

| | | | | Gross Amounts Not Offset in the Statement of Financial Position | | |
|---|---|---|---|---|---|---|
| | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Assets presented in the statement of Financial Position | Financial Instruments | Cash Collateral Received | Net Amount |
| Derivatives | $ 1,409 | $ - | $ 1,409 | $ (50 ) | $ - | $ 1,359 |

Offsetting of Derivative Liabilities

As of December 31, 2016

| | | | | Gross Amounts Not Offset in the Statement of Financial Position | | |
|---|---|---|---|---|---|---|
| | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Liabilities presented in the statement of Financial Position | Financial Instruments | Cash Collateral Received | Net Amount |
| Derivatives | $ 1,994 | $ - | $ 1,994 | $ (50 ) | $ - | $ 1,944 |

Note 8 – Discontinued Operations

There were no properties classified as discontinued operations for the three and six months ended June 30, 2017.

**AGREE REALTY CORPORATION**

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**(Unaudited)**

Note 9 – Fair Value Measurements

Assets and Liabilities Measured at Fair Value

The Company accounts for fair values in accordance with FASB Accounting Standards Codification Topic 820 *Fair Value Measurements and Disclosure* (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls, is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

*Derivative Financial Instruments*

Currently, the Company uses interest rate swap agreements to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves.

To comply with the provisions of ASC 820, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2017, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

**AGREE REALTY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

**(Unaudited)**

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 (in thousands):

| | Balance Sheet Location | Total Fair Value | Level 2 |
|---|---|---|---|
| June 30, 2017 | | | |
| Derivative assets - interest rate swaps | Other assets | $ 1,285 | $ 1,285 |
| Derivative liabilities - interest rate swaps | Other liabilities | $ 1,539 | $ 1,539 |
| | | | |
| December 31, 2016 | | | |
| Derivative assets - interest rate swaps | Other assets | $ 1,409 | $ 1,409 |
| Derivative liabilities - interest rate swaps | Other liabilities | $ 1,994 | $ 1,994 |

The carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities are reasonable estimates of their fair values because of the short maturity of these financial instruments.

The Company estimated the fair value of our debt based on our incremental borrowing rates for similar types of borrowing arrangements with the same remaining maturity and on the discounted estimated future cash payments to be made for other debt. The discount rate used to calculate the fair value of debt approximates current lending rates for loans and assumes the debt is outstanding through maturity. Since such amounts are estimates that are based on limited available market information for similar transactions, there can be no assurance that the disclosed value of any financial instrument could be realized by immediate settlement of the instrument.

Fixed rate debt (including variable rate debt swapped to fixed through derivatives) with carrying values of $385.7 million and $386.9 million as of June 30, 2017 and December 31, 2016, respectively, had fair values of approximately $401.6 million and $401.4 million, respectively. Variable rate debt's fair value is estimated to be equal to the carrying values of $48.0 million and $14.0 million as of June 30, 2017 and December 31, 2016, respectively.

Note 10 – Equity Incentive Plan

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

As of June 30, 2017, there was $7.7 million of total unrecognized compensation costs related to the outstanding restricted stock, which is expected to be recognized over a weighted average period of 3.7 years. The Company used 0% for both the discount factor and forfeiture rate for determining the fair value of restricted stock.

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

Restricted stock activity is summarized as follows:

| | Shares Outstanding | Weighted Average Grant Date Fair Value |
|---|---|---|
| Unvested restricted stock at December 31, 2016 | 227,532 | $ 33.02 |
| Restricted stock granted | 75,038 | $ 48.62 |
| Restricted stock vested | (72,923) | $ 30.47 |
| Restricted stock forfeited | - | |
| Unvested restricted stock at June 30, 2017 | 229,647 | $ 38.92 |

**AGREE REALTY CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

**(Unaudited)**

Note 11 – Subsequent Events

In connection with the preparation of its financial statements, the Company has evaluated events that occurred subsequent to June 30, 2017 through the date on which these financial statements were available to be issued to determine whether any of these events required disclosure in the financial statements.

On July 5, 2017, Matthew M. Partridge voluntarily submitted his resignation, effective on or around August 4, 2017, from his positions as Executive Vice President, Chief Financial Officer and Secretary of the Company.

Also on July 5, 2017, the Company appointed Kenneth R. Howe to serve as the Company's interim Chief Financial Officer, effective as of the date of Mr. Partridge's departure. Mr. Howe served as the Company's Chief Financial Officer from April 1994 until his retirement from that position in November 2010; and on an interim basis from August 2015 to January 2016. From November 2010 to August 2015 and since January 2016, Mr. Howe served as the Company's Director of Tax.

There were no other reportable subsequent events or transactions.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

### Cautionary Note Regarding Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and includes this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "anticipate," "estimate," "should," "expect," "believe," "intend," "may," "will," "seek," "could," "project," or similar expressions. Forward-statements in this report include information about possible or assumed future events, including, among other things, discussion and analysis of our future financial condition, results of operations, our strategic plans and objectives, occupancy and leasing rates and trends, liquidity and ability to refinance our indebtedness as it matures, anticipated expenditures of capital, and other matters. You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect actual results, performances or achievements. Factors which may cause actual results to differ materially from current expectations, include, but are not limited to: the global and national economic conditions and changes in general economic, financial and real estate market conditions; changes in our business strategy; risks that our acquisition and development projects will fail to perform as expected; the potential need to fund improvements or other capital expenditures out of operating cash flow; financing risks, such as the inability to obtain debt or equity financing on favorable terms or at all; the level and volatility of interest rates; our ability to re-lease space as leases expire; loss or bankruptcy of one or more of our major tenants; a failure of our properties to generate additional income to offset increases in operating expenses; our ability to maintain our qualification as a real estate investment trust ("REIT") for federal income tax purposes and the limitations imposed on our business by our status as a REIT; and legislative or regulatory changes, including changes to laws governing REITs. The factors included in this quarterly report, including the documents incorporated by reference, and documents the Company subsequently files with the SEC and incorporates by reference, are not exhaustive and additional factors could adversely affect its business and financial performance. For a discussion of additional risk factors, see the factors included under the caption "Risk Factors" in the Company's most recent Annual Report on Form 10-K. All forward-looking statements are based on information that was available, and speak only, as of the date on which they were made. Except as required by law, the Company disclaims any obligation to review or update these forward–looking statements to reflect events or circumstances as they occur.

### Overview

The Company is a fully integrated REIT primarily focused on the ownership, acquisition, development and management of retail properties net leased to industry leading tenants. The Company was founded in 1971 by its

current Executive Chairman, Richard Agree, and our common stock was listed on the New York Stock Exchange (“NYSE”) in 1994. The Company’s assets are held by, and all of its operations are conducted through, directly or indirectly, Agree Limited Partnership (the “Operating Partnership”), of which the Company is the sole general partner and in which it held a 98.8% interest as of June 30, 2017.

As of June 30, 2017, the Company’s portfolio consisted of 413 properties located in 43 states and totaling approximately 7.9 million square feet of gross leasable area. As of June 30, 2017, the portfolio was approximately 99.6% leased and had a weighted average remaining lease term of approximately 10.6 years. Substantially all of the Company’s tenants are subject to net lease agreements. A net lease typically requires the tenant to be responsible for minimum monthly rent and property operating expenses including property taxes, insurance and maintenance.

*Second Quarter 2017 Highlights*

During the three months ended June 30, 2017, the Company acquired 36 retail net lease assets for approximately $131.2 million, which includes acquisition and closing costs. These properties are located in 19 states and are 100% leased to 31 different tenants operating in 18 diverse retail sectors for a weighted average lease term of approximately 12.7 years. The underwritten weighted average capitalization rate on the Company's second quarter 2017 acquisitions was approximately 7.7%.

During the three months ended June 30, 2017, the Company sold real estate properties for net proceeds of $11.7 million and a net gain of $4.8 million (net of any expected losses on real estate held for sale).

Recent Accounting Pronouncements

Refer to Note 2 to the June 30, 2017 Interim Consolidated Financial Statements.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires the Company's management to use judgment in the application of accounting policies, including making estimates and assumptions. Management bases estimates on the best information available at the time, its experience, and on various other assumptions believed to be reasonable under the circumstances. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. If management's judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, it is possible that different accounting principles would have been applied, resulting in a different presentation of the interim consolidated financial statements. From time to time, the Company may re-evaluate its estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. A summary of the Company's critical accounting policies is included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. The Company has not made any material changes to these policies during the periods covered by this quarterly report.

**Results of Operations**

Comparison of Three Months Ended June 30, 2017 to Three Months Ended June 30, 2016

Total rental income increased $5.3 million, or 26%, to $25.2 million for the three months ended June 30, 2017, compared to $19.9 million for the three months ended June 30, 2016. The increase was attributable to the acquisition and develop of additional net lease properties, which was partially offset by a small reduction in minimum rental income related to properties that were sold and other minimum rental income adjustments.

Percentage rents remained consistent with prior periods.

Operating cost reimbursements increased $1.0 million, or 49%, to $2.9 million for the three months ended June 30, 2017, compared to $1.9 million for the three months ended June 30, 2016. Operating cost reimbursements increased primarily due to higher levels of recoverable property operating expenses, including real estate taxes, acquisition, disposition and development activity. The portfolio recovery rate increased to 98% for the three months ended June 30, 2017 compared to 82% for the three months ended June 30, 2016 due to reconciliations of property operating expenses and reimbursements.

Other income remained consistent with prior periods.

Real estate taxes increased $0.6 million, or 41%, to $2.0 million for the three months ended June 30, 2017, compared to $1.4 million for the three months ended June 30, 2016. The increase was due to the ownership of additional properties in the second quarter of 2017 compared to the second quarter of 2016 for which we remit real estate taxes and are subsequently reimbursed by tenants.

Property operating expenses remained consistent with prior periods. The periods ended June 30, 2017 and 2016 totaled approximately $0.9 million. The neutral impact of any such anticipated increase was due to the payment timing of property maintenance, utilities and insurance expenses. Our tenants subsequently reimburse us for the majority of these expenses.

Land lease payments remained generally consistent with prior periods. The quarters ended June 30, 2017 and 2016 totaled approximately $0.2 million.

General and administrative expenses increased $0.6 million, or 26%, to $2.6 million for the three months ended June 30, 2017, compared to $2.0 million for the three months ended June 30, 2016. The increase is primarily the result of increased employee count and associated professional costs, and timing of other general and administrative expenses. General and administrative expenses as a percentage of total revenue decreased to 9.2% for the three months ended June 30, 2017 from 9.3% for the three months ended June 30, 2016.

Depreciation and amortization increased $2.0 million, or 36%, to $7.7 million for the three months ended June 30, 2017, compared to $5.7 million for the three months ended June 30, 2016. The increase was due to the ownership of additional properties for the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

Interest expense increased $0.9 million, or 26%, to $4.4 million for the three months ended June 30, 2017, compared to $3.5 million for the three months ended June 30, 2016. The increase in interest expense is primarily a result of additional debt issuance since June 30, 2016, including the $40.0 million unsecured term loan facility entered into in July 2016 and the $60.0 million senior unsecured notes issued in July 2016.

Gains on the sale of assets increased $2.1 million, to $4.8 million for the three months ended June 30, 2017, compared to $2.7 million for the three months ended June 30, 2016. The increase was a result of more properties being sold during the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

Net income increased $4.2 million, to $15.1 million for the three months ended June 30, 2017, compared to $10.8 million for the three months ended June 30, 2016 for the reasons set forth above.

Comparison of Six Months Ended June 30, 2017 to Six Months Ended June 30, 2016

Total rental income increased $10.8 million, or 28%, to $49.2 million for the six months ended June 30, 2017, compared to $38.4 million for the six months ended June 30, 2016. The increase was attributable to the acquisition and develop of additional net lease properties, which was partially offset by a small reduction in minimum rental income related to properties that were sold and other minimum rental income adjustments.

Percentage rents remained consistent with prior periods. The six-month periods ended June 30, 2017 and 2016 totaled approximately $0.2 million.

Operating cost reimbursements increased $1.7 million, or 48%, to $5.2 million for the six months ended June 30, 2017, compared to $3.5 million for the six months ended June 30, 2016. Operating cost reimbursements increased primarily due to higher levels of recoverable property operating expenses, including real estate taxes, acquisition, disposition and development activity. The portfolio recovery rate increased to 94% for the six months ended June 30, 2017 compared to 87% for the six months ended June 30, 2016 due to reconciliations of property operating expenses and reimbursements.

Other income remained consistent with prior periods.

Real estate taxes increased $1.2 million, or 50%, to $3.8 million for the six months ended June 30, 2017, compared to $2.6 million for the six months ended June 30, 2016. The increase was due to the ownership of additional properties in the first and second quarter of 2017 compared to the first and second quarter of 2016 for which we remit real estate taxes and are subsequently reimbursed by tenants.

Property operating expenses increased by $0.2 million, or 14%, to $1.7 million for the six months ended June 30, 2017, compared to $1.5 million for the six months ended June 30, 2016. The increase was due to the ownership of additional properties in the first and second quarter of 2017 compared to the first and second quarter of 2016 as well as the payment timing of property maintenance, utilities and insurance expenses.

Land lease payments remained consistent with prior periods. The six-month periods ended June 30, 2017 and 2016 totaled approximately $0.3 million.

General and administrative expenses increased $1.1 million, or 27%, to $5.2 million for the six months ended June 30, 2017, compared to $4.1 million for the six months ended June 30, 2016. The increase is primarily the result of increased employee count and associated professional costs. General and administrative expenses as a percentage of total revenue decreased to 9.5% for the six months ended June 30, 2017 from 9.7% for the six months ended June 30, 2016.

Depreciation and amortization increased $3.9 million, or 37%, to $14.7 million for the six months ended June 30, 2017, compared to $10.8 million for the six months ended June 30, 2016. The increase was due to the ownership of additional properties for the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Interest expense increased $1.4 million, or 20%, to $8.5 million for the six months ended June 30, 2017, compared to $7.1 million for the six months ended June 30, 2016. The increase in interest expense is primarily a result of additional debt issuance since June 30, 2016, including the $40.0 million unsecured term loan facility entered into in July 2016 and the $60.0 million senior unsecured notes issued in July 2016.

Gains on the sale of assets increased $6.8 million, to $9.5 million for the six months ended June 30, 2017, compared to $2.7 million for the six months ended June 30, 2016. The increase was a result of more properties being sold during the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Net income increased $11.4 million, to $29.8 million for the six months ended June 30, 2017, compared to $18.4 million for the six months ended June 30, 2016 for the reasons set forth above.

Liquidity and Capital Resources

The Company’s principal demands for funds include payment of operating expenses, payment of principal and interest on its outstanding indebtedness, distributions to its shareholders and future property acquisitions and development.

We expect to meet our short term liquidity requirements through cash provided from operations and borrowings under our senior unsecured revolving credit facility. As of June 30, 2017, $48.0 million was outstanding on our senior unsecured revolving credit facility and $202.0 million was available for future borrowings, subject to our compliance with covenants. We anticipate funding our long term capital needs through cash provided from operations, borrowings under our revolving credit facility, the issuance of debt and the issuance of common or preferred equity or other instruments convertible into or exchangeable for common or preferred equity.

We continually evaluate alternative financing and believe that we can obtain financing on reasonable terms. However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to us.

**Capitalization**

As of June 30, 2017, the Company's total market capitalization was approximately $1.8 billion. Market capitalization consisted of $1.3 billion of common equity (based on the June 30, 2017 closing price on the NYSE of $45.87 per common share and assuming the conversion of operating partnership units in the Operating Partnership ("OP units") and $436.5 million of total gross debt, including (i) $68.8 million of mortgage notes payable; (ii) $159.7 million of unsecured term loans; (ii) $160.0 million of senior unsecured notes; and (iii) $48.0 million of borrowings under our revolving credit facility. Our ratio of total debt to total market capitalization was 24.7% at June 30, 2017.

At June 30, 2017, the non-controlling interest in the Operating Partnership represented ownership of 1.2% of the Operating Partnership. The OP Units may, under certain circumstances, be exchanged for shares of common stock on a one-for-one basis. The Company, as sole general partner of the Operating Partnership, has the option to settle exchanged OP Units held by others for cash based on the current trading price of its shares. Assuming the exchange of all OP Units, there would have been 28,984,799 shares of common stock outstanding at June 30, 2017.

**Debt**

During the year ended December 31, 2016, the Company issued $60.0 million of senior unsecured notes. On July 8, 2016, the Company entered into a note purchase agreement with institutional purchasers. Pursuant to the note purchase agreement, the Operating Partnership completed a private placement of $60.0 million aggregate principal amount of our 4.42% senior unsecured notes due July 28, 2028. The senior unsecured notes were only sold to institutional investors and did not involve a public offering in reliance on the exemption from registration in Section 4(a)(2) of the Securities Act.

*Unsecured Term Loan Facilities*

The amended and restated credit agreement described below extended the maturity dates of the $65.0 million unsecured term loan facility and $35.0 million unsecured term loan facility (together, the "2024 Term Loan Facilities") to January 2024. In connection with entering into the amended and restated credit agreement, the prior notes evidencing the existing $65.0 million unsecured term loan facility and $35.0 million unsecured term loan facility were canceled and new notes evidencing the 2024 Term Loan Facilities were executed. Borrowings under the unsecured term loan facility bear interest at a variable LIBOR plus 1.65% to 2.35%, depending on our leverage ratio. We utilized existing interest rate swaps to effectively fix the LIBOR rate (see "Note 7 - Derivative and Hedging Activities").

In July 2016, the Company completed a $40.0 million unsecured term loan facility that matures in July 2023. Borrowings under the unsecured term loan facility are priced at LIBOR plus 165 to 225 basis points, depending on our leverage. We entered into an interest rate swap to fix LIBOR at 1.40% until maturity. As of June 30, 2017, $40.0 million was outstanding under the unsecured term loan facility, which is subject to an all-in interest rate of 3.05%.

In August 2016, the Company entered into a $20.3 million unsecured amortizing term loan that matures in May 2019. Borrowings under the unsecured amortizing term loan are priced at LIBOR plus 170 basis points. In order to fix LIBOR on the unsecured amortizing term loan at 1.92% until maturity, we have an interest rate swap agreement in place, which was assigned by the lender under the prior secured facility to the lender under the unsecured amortizing term loan. As of June 30, 2017, $19.7 million was outstanding under the unsecured amortizing term loan bearing an all-in interest rate of 3.62%.

*Senior Unsecured Revolving Credit Facility*

In December 2016, the Company amended and restated the credit agreement that governs our senior unsecured revolving credit facility and unsecured term loan facility to increase the aggregate borrowing capacity to $350.0 million. The agreement provides for a $250.0 million unsecured revolving credit facility, a $65.0 million unsecured term loan facility and a $35.0 million unsecured term loan facility. The unsecured revolving credit facility matures in January 2021 with options to extend the maturity date to January 2022. The unsecured term loan facilities mature in January 2024. We have the ability to increase the aggregate borrowing capacity under the credit agreement up to $500.0 million, subject to lender approval. Borrowings under the revolving credit facility bear interest at LIBOR plus 1.30% to 1.95%, depending on our leverage ratio. Additionally, we are required to pay an unused commitment fee at an annual rate of 0.15% or 0.25% of the unused portion of the revolving credit facility, depending on the amount of borrowings outstanding. The credit agreement contains certain financial covenants, including a maximum leverage ratio, a minimum fixed charge coverage ratio and a maximum percentage of secured debt to total asset value.

*Mortgage Notes Payable*

As of June 30, 2017, the Company had total mortgage indebtedness of $68.8 million, with a weighted average term to maturity of 3.9 years. Including our mortgages that have been swapped to a fixed interest rate, our weighted average interest rate on mortgage debt was 3.9%.

| | Interest | | Principal Amount Outstanding | |
|---|---|---|---|---|
| Mortgage Note Payable | Rate (1) | Maturity | June 30, 2017 | December 31, 2016 |
| Secured Term Loan due 2018 | 2.49 % | April 2018 | 25,000 | 25,000 |
| Portfolio Mortgage Loan due 2020 | 6.90 % | January 2020 | 4,357 | 5,114 |
| Single Asset Mortgage Loan due 2020 | 6.24 % | February 2020 | 3,006 | 3,049 |
| CMBS Portfolio Loan due 2023 | 3.60 % | January 2023 | 23,640 | 23,640 |
| Single Asset Mortgage Loan due 2023 | 5.01 % | September 2023 | 5,213 | 5,294 |
| Portfolio CTL due 2026 | 6.27 % | July 2026 | 7,604 | 7,910 |
| Total | | | $ 68,820 | $ 70,007 |

*(1) Includes the effects of variable interest rates that have been swapped to fixed interest rates.*

We have entered into mortgage loans which are secured by multiple properties and contain cross-default and cross-collateralization provisions. Cross-collateralization provisions allow a lender to foreclose on multiple properties in the event that we default under the loan. Cross-default provisions allow a lender to foreclose on the related property in the event a default is declared under another loan.

**Contractual Obligations**

The following table summarizes our contractual obligations as of June 30, 2017 (in thousands):

| | Total | Remainder of 2017 | 2018-2019 | 2020-2021 | Thereafter |
|---|---|---|---|---|---|
| Mortgage Notes Payable | $68,820 | $ 1,225 | $ 30,326 | $ 4,865 | $ 32,404 |
| Revolving Credit Facility | 48,000 | - | | 48,000 | - |
| Unsecured Term Loans | 159,685 | 377 | 19,308 | - | 140,000 |
| Senior Unsecured Notes | 160,000 | - | - | - | 160,000 |
| Land Lease Obligations | 10,662 | 320 | 1,275 | 1,220 | 7,847 |
| Estimated Interest Payments on Mortgage Notes Payable, Unsecured Term Loans and Senior Unsecured Notes | 116,622 | 8,649 | 31,504 | 28,406 | 48,063 |
| Total | $563,789 | $ 10,571 | $ 82,413 | $ 82,491 | $ 388,314 |

Estimated interest payments are based on (i) the stated rates for mortgage notes payable, including the effect of interest rate swaps; (ii) the stated rates for unsecured term loans, including the effect of interest rate swaps and assuming the interest rate in effect for the most recent quarter remains in effect through the respective maturity dates; and (iii) the stated rates for senior unsecured notes.

**Dividends**

During the quarter ended June 30, 2017, we declared a quarterly dividend of $0.505 per share. The cash dividend was paid on July 14, 2017 to holders of record on June 30, 2017.

Inflation

The Company’s leases typically contain provisions to mitigate the adverse impact of inflation on its results of operations. Tenant leases generally provide for limited increases in rent as a result of fixed increases or increases in the consumer price index. Certain Company’s leases contain clauses enabling it to receive percentage rents based on tenants’ gross sales, which generally increase as prices rise. During times when inflation is greater than increases in rent, rent increases will not keep up with the rate of inflation.

Substantially all of the Company’s properties are leased to tenants under long-term net leases, which require the tenant to pay certain operating expenses for a property, thereby reducing the Company’s exposure to operating cost increases resulting from inflation. Inflation may have an adverse impact on the Company’s tenants.

Funds from Operations

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

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

Adjusted Funds from Operations

Adjusted Funds from Operations (“AFFO”) is a non-GAAP financial measure of operating performance used by many companies in the REIT industry. AFFO further adjusts FFO for certain non-cash items that reduce or increase net income in accordance with GAAP. Management considers AFFO a useful supplemental measure of the Company’s performance, however, AFFO should not be considered an alternative to net income as an indication of the Company’s performance, or to cash flow as a measure of liquidity or ability to make distributions. The Company’s computation of AFFO may differ from the methodology for calculating AFFO used by other equity REITs, and therefore may not be comparable to such other REITs. Note that, during the year ended December 31, 2015, the Company adjusted its calculation of AFFO to exclude non-recurring capitalized building improvements and to include non-real estate related depreciation and amortization. Management believes that these changes provide a more useful measure of operating performance in the context of AFFO.

The following table provides a reconciliation from net income to FFO for the three and six months ended June 30, 2017 and 2016 (in thousands):

| Reconciliation from Net Income to Funds from Operations | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Net income | $15,067 | $10,828 | $29,836 | $18,415 |
| Depreciation of real estate assets | 4,700 | 3,595 | 9,185 | 6,957 |
| Amortization of leasing costs | 40 | 24 | 80 | 47 |
| Amortization of lease intangibles | 2,939 | 2,028 | 5,412 | 3,712 |
| Gain on sale of assets | (4,780) | (2,718) | (9,521) | (2,718) |
| Funds from Operations | $17,966 | $13,757 | $34,992 | $26,413 |
| | | | | |
| Funds from Operations Per Share - Diluted | $0.67 | $0.61 | $1.32 | $1.22 |
| | | | | |
| Weighted average shares and OP units outstanding | | | | |
| Basic | 26,737,322 | 22,533,144 | 26,520,349 | 21,663,160 |
| Diluted | 26,804,959 | 22,612,758 | 26,587,839 | 21,732,717 |

The following table provides a reconciliation from net income to AFFO for the three and six months ended June 30, 2017 and 2016 (in thousands):

| Reconciliation from Net Income to Adjusted Funds from Operations | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Net income | $15,067 | $ 10,828 | $29,836 | $ 18,415 |
| Cumulative adjustments to calculate FFO | 2,899 | 2,929 | 5,156 | 7,998 |
| Funds from Operations | $17,966 | $ 13,757 | $34,992 | $ 26,413 |
| Straight-line accrued rent | (877) | (656) | (1,685) | (1,306) |
| Deferred revenue recognition | - | (116) | - | (232) |
| Stock based compensation expense | 594 | 601 | 1,276 | 1,309 |
| Amortization of financing costs | 142 | 122 | 284 | 239 |
| Non-real estate depreciation | 25 | 18 | 51 | 35 |
| Adjusted Funds from Operations | $17,850 | $ 13,726 | $34,918 | $ 26,458 |
| | | | | |
| Adjusted Funds from Operations Per Share - Diluted | $0.67 | $ 0.61 | $1.31 | $ 1.22 |
| | | | | |
| Additional supplemental disclosure | | | | |
| Scheduled principal repayments | $776 | $ 728 | $1,545 | $ 1,448 |
| Capitalized interest | $87 | $ 6 | $154 | $ 13 |
| Capitalized building improvements | $27 | $ 29 | $43 | $ 29 |

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**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to interest rate risk primarily through borrowing activities. There is inherent roll-over risk for borrowings as they mature and are renewed at current market rates. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and our future financing requirements.

Our interest rate risk is monitored using a variety of techniques. The table below presents the principal payments and the weighted average interest rates on outstanding debt, by year of expected maturity, to evaluate the expected cash flows and sensitivity to interest rate changes.

($ in thousands)

| | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Mortgage Notes Payable | $1,225 | $27,576 | $2,750 | $3,867 | $998 | $32,404 | $68,820 |
| Average Interest Rate | 6.59 % | 2.87 % | 6.59 % | 6.21 % | 6.02 % | 3.31 % | |
| Unsecured Revolving Credit Facility | $- | $- | $- | $- | $48,000 | $- | $48,000 |
| Average Interest Rate | | | | | 2.40 % | | |
| Unsecured Term Loans | $377 | $761 | $18,547 | $- | $- | $140,000 | $159,685 |
| Average Interest Rate | 3.62 % | 3.62 % | 3.62 % | | | 3.57 % | |
| Senior Unsecured Notes | $- | $- | $- | $- | $- | $160,000 | $160,000 |
| Average Interest Rate | | | | | | 4.29 % | |

The fair value is estimated at $68.8 million, $159.7 million and $160.0 million for mortgage notes payable, unsecured term loans and senior unsecured notes, respectively, as of June 30, 2017.

The table above incorporates those exposures that exist as of June 30, 2017; it does not consider those exposures or positions which could arise after that date. As a result, our ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period and interest rates.

We seek to limit the impact of interest rate changes on earnings and cash flows and to lower the overall borrowing costs by closely monitoring our variable rate debt and converting such debt to fixed rates when we deem such conversion advantageous. From time to time, we may enter into interest rate swap agreements or other interest rate hedging contracts. While these agreements are intended to lessen the impact of rising interest rates, they also expose us to the risks that the other parties to the agreements will not perform. We could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail

to qualify as highly-effective cash flow hedges under GAAP guidance.

In April 2012, the Company entered into an amortizing forward-starting interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on $22.3 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 1.92%. This swap effectively converted $22.3 million of variable-rate borrowings to fixed-rate borrowings from July 1, 2013 to May 1, 2019. As of June 30, 2017, this interest rate swap was valued as a liability of approximately $0.1 million.

In December 2012, the Company entered into interest rate swap agreements to hedge against changes in future cash flows resulting from changes in interest rates on $25.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 0.89%. This swap effectively converted $25.0 million of variable-rate borrowings to fixed-rate borrowings from December 6, 2012 to April 4, 2018. As of June 30, 2017, this interest rate swap was valued as an asset of approximately $0.1 million.

In September 2013, the Company entered into an interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on $35.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 2.20%. This swap effectively converted $35.0 million of variable-rate borrowings to fixed-rate borrowings from October 3, 2013 to September 29, 2020. As of June 30, 2017, this interest rate swap was valued as a liability of approximately $0.6 million.

In July 2014, the Company entered into interest rate swap agreements to hedge against changes in future cash flows resulting from changes in interest rates on $65.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 2.09%. This swap effectively converted $65.0 million of variable-rate borrowings to fixed-rate borrowings from July 21, 2014 to July 21, 2021. As of June 30, 2017, this interest rate swap was valued as a liability of approximately $0.8 million.

In June 2016, the Company entered into an interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on $40.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on 1 month LIBOR and pays to the counterparty a fixed rate of 1.40%. This swap effectively converted $40.0 million of variable-rate borrowings to fixed-rate borrowings from August 1, 2016 to July 1, 2023. As of June 30, 2017, this interest rate swap was valued as an asset of approximately $1.2 million.

We do not use derivative instruments for trading or other speculative purposes and we did not have any other derivative instruments or hedging activities as of June 30, 2017.

As of June 30, 2017, a 100 basis point increase in interest rates on the portion of our debt bearing interest at variable rates would result in an increase in interest expense of approximately $0.5 million.

## ITEM 4. Controls and Procedures

### *Disclosure Controls and Procedures*

At the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

### *Changes in Internal Control over Financial Reporting*

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

**PART II Other Information**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

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

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

| | |
|---|---|
| 10.1 | Underwriting Agreement, dated as of June 13, 2017, among Agree Realty Corporation and Agree Limited Partnership, on the one hand, and Raymond James & Associates, Inc. and Wells Fargo Securities, LLC as representatives of the several underwriters listed on Schedule I attached thereto, on the other hand (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K, filed June 19, 2017). |
| 10.2 | Form of Equity Distribution Agreement (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K, filed April 28, 2017). |
| *31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Joel N. Agree, Chief Executive Officer |
| *31.2 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Matthew M. Partridge, Chief Financial Officer |
| *32.1 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Joel N. Agree, Chief Executive Officer |
| *32.2 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Matthew M. Partridge, Chief Financial Officer |
| *101 | The following materials from Agree Realty Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income and Comprehensive Income, (iii) the Consolidated Statement of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) related notes to these consolidated financial statements. |

*Filed herewith.

**SIGNATURES**

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

**Agree Realty Corporation**

/s/ JOEL N. AGREE
Joel N. Agree
President and Chief Executive Officer

/s/ MATTHEW M. PARTRIDGE
Matthew M. Partridge
Chief Financial Officer, Executive Vice President and Secretary

Date: July 24, 2017

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