AMREIT
Form 10-Q
May 14, 2008

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-28378

(Name of registrant as specified its charter)

TEXAS (State or Other Jurisdiction of Incorporation or Organization)	76-0410050 (I.R.S. Employer Identification No.)
8 GREENWAY PLAZA, SUITE 1000 HOUSTON, TEXAS (Address of Principal Executive Offices)	77046 (Zip Code)

713-850-1400
(Registrant’s Telephone Number, Including Area Code)

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 issuer 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer x

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 May 9, 2008 there were 5,775,464 class A, 4,142,632 class C and 10,960,618 class D common shares of beneficial interest of AmREIT, $.01 par value per share, outstanding.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

AmREIT AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
March 31, 2008 and December 31, 2007
(in thousands, except share data)
(unaudited)

	March 31, 2008	December 31, 2007
ASSETS		
Real estate investments at cost:		
Land	$ 130,598	$ 130,563
Buildings	141,413	141,045
Tenant improvements	10,072	10,105
	282,083	281,713
Less accumulated depreciation and amortization	(16,858)	(15,626)
	265,225	266,087
Real estate held for sale and investment in direct financing leases held for sale, net		
	22,385	22,438
Net investment in direct financing leases held for investment	2,060	2,058
Intangible lease cost, net	12,407	13,096
Investment in merchant development funds and other affiliates	15,305	10,514
Net real estate investments	317,382	314,193
Cash and cash equivalents	468	1,221
Tenant receivables, net	4,782	4,398
Accounts receivable, net	1,485	1,251
Accounts receivable - related party	4,391	5,386
Notes receivable - related party	8,819	10,442
Deferred costs	2,390	2,472
Other assets	4,383	4,394
TOTAL ASSETS	$ 344,100	$ 343,757
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Notes payable	$ 173,905	$ 168,560
Notes payable, held for sale	12,692	12,811
Accounts payable and other liabilities	6,145	7,699
Below market leases, net	3,266	3,401
Security deposits	680	674
TOTAL LIABILITIES	196,688	193,145
Minority interest	1,185	1,179

Shareholders' equity:				
Preferred shares, $.01 par value, 10,000,000 shares authorized, none issued		-		-
Class A common shares, $.01 par value, 50,000,000 shares authorized, 6,634,489 and 6,626,559 shares issued, respectively		66		66
Class C common shares, $.01 par value, 4,400,000 shares authorized, 4,154,691 and 4,143,971 shares issued and outstanding, respectively		42		41
Class D common shares, $.01 par value, 17,000,000 shares authorized, 11,039,914 and 11,045,763 shares issued and outstanding, respectively		110		110
Capital in excess of par value		185,534		185,165
Accumulated distributions in excess of earnings		(35,639)		(33,365)
Cost of treasury shares, 520,879 and 337,308 Class A common shares, respectively		(3,886)		(2,584)
TOTAL SHAREHOLDERS' EQUITY		146,227		149,433
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	344,100	$	343,757

See Notes to Consolidated Financial Statements

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AmREIT AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three months ended March 31, 2008 and 2007
(in thousands, except per share data)
(unaudited)

	Three months ended March 31,	
	2008	2007
Revenues:		
Rental income from operating leases	$ 7,673	$ 7,054
Earned income from direct financing leases	60	59
Real estate fee income	170	694
Real estate fee income - related party	1,432	713
Construction revenues	432	97
Construction revenues - related party	904	876
Securities commission income - related party	525	993
Asset management fee income - related party	376	284
Total revenues	11,572	10,770
Expenses:		
General and administrative	2,423	2,153
Property expense	1,995	1,728
Construction costs	1,121	861
Legal and professional	443	292
Real estate commissions	37	421
Securities commissions	485	829
Depreciation and amortization	1,931	1,941
Total expenses	8,435	8,225
Operating income	3,137	2,545
Other income (expense):		
Interest and other income - related party	274	244
Loss from merchant development funds and other affiliates	(143)	(12)
Income tax benefit for taxable REIT subsidiary	71	148
Interest expense	(2,431)	(2,090)
Minority interest in income of consolidated joint ventures	17	8
Income before discontinued operations	925	843
	72	160

Income from discontinued operations, net of taxes				
Gain on sales of real estate acquired for resale, net of taxes		-		-
Income from discontinued operations		72		160
Net income		997		1,003
Distributions paid to class B, C and D shareholders		(2,498)		(2,705)
Net loss available to class A shareholders	$	(1,501)	$	(1,702)
Net loss per class A common share - basic and diluted				
Loss before discontinued operations	$	(0.25)	$	(0.29)
Income from discontinued operations	$	0.01	$	0.03
Net loss	$	(0.24)	$	(0.26)
Weighted average class A common shares used to				
compute net loss per share, basic and diluted		6,216		6,320

See Notes to Consolidated Financial Statements.

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AmREIT AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the three months ended December 31, 2008
(in thousands, except share data)
(unaudited)

	Common Shares Amount	Capital in excess of par value	Accumulated distributions in excess of earnings	Cost of treasury shares	Total
Balance at December 31, 2007	$ 217	$ 185,165	$ (33,365)	$ (2,584)	$ 149,433
Net income	-	-	997	-	997
Deferred compensation issuance of restricted shares, Class A		208	-	(208)	-
Issuance of common shares, Class A	-	78	-	-	78
Repurchase of common shares, Class A	-	-	-	(1,094)	(1,094)
Amortization of deferred compensation	-	96	-	-	96
Issuance of common shares, Class C	1	430	-	-	431
Retirement of common shares, Class C	-	(325)	-	-	(325)
Issuance of common shares, Class D	(1)	1,101	-	-	1,100
Retirement of common shares, Class D	1	(1,219)	-	-	(1,218)
Distributions	-	-	(3,271)	-	(3,271)
Balance at March 31, 2008	$ 218	$ 185,534	$ (35,639)	$ (3,886)	$ 146,227

See Notes to Consolidated Financial Statements.

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AmREIT AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share data)
(unaudited)

	Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net income	$ 997	$ 1,003
Adjustments to reconcile net income to net cash provided by operating activities:		
Proceeds from sales of real estate acquired for resale	-	1,398
Income from merchant development funds and other affiliates	143	12
Cash receipts related to deferred related party fees	59	-
Depreciation and amortization	1,871	1,928
Amortization of deferred compensation	96	169
Minority interest in income of consolidated joint ventures	31	41
Distributions from merchant development funds and other affiliates	10	20
Increase in tenant receivables	(384)	(150)
(Increase) decrease in accounts receivable	(234)	1,069
(Increase) decrease in accounts receivable - related party	995	(817)
Cash receipts from direct financing leases more than income recognized	51	4
Decrease in other assets	136	468
Decrease in accounts payable and other liabilities	(1,555)	(4,227)
Increase in security deposits	6	10
Net cash provided by operating activities	2,222	928
Cash flows from investing activities:		

Improvements to real estate	(471)	(898)
Acquisition of investment properties	-	(9,157)
Loans to affiliates	(1,466)	(1,165)
Payments from affiliates	3,089	-
Additions to furniture, fixtures and equipment	(48)	(10)
Investment in merchant development funds and other affiliates	(5,068)	-
Distributions from merchant development funds and other affiliates	65	55
Decrease in preacquisition costs	(30)	(21)
Net cash used in investing activities	(3,929)	(11,196)
Cash flows from financing activities:		
Proceeds from notes payable	17,901	52,257
Payments of notes payable	(12,615)	(34,738)
Increase in deferred costs	(8)	(223)
Purchase of treasury shares	(1,094)	-
Issuance of common shares	81	-
Retirement of common shares	(1,543)	(1,201)
Issuance costs	(3)	(2)
Common dividends paid	(1,740)	(1,941)
Distributions to minority interests	(25)	(25)
Net cash provided by financing activities	954	14,127
Net increase (decrease) in cash and cash equivalents	(753)	3,859
Cash and cash equivalents, beginning of period	1,221	3,415
Cash and cash equivalents, end of period	$ 468	$ 7,274
Supplemental schedule of cash flow information:		
Cash paid during the year for:		
Interest	$ 2,694	$ 2,299
Income taxes	49	-
Supplemental schedule of noncash investing and financing activities		

During 2008 and 2007, 0 and 30,000 class B common shares, respectively, were converted to class A common shares. Additionally, during 2008 and 2007, we issued class C common and D common shares with a value of $1.5 million and $1.6 million respectively, in satisfaction of dividends through the dividend reinvestment program.

In 2007, we issued 131,000 restricted shares to employees and trust managers as part of their compensation arrangements. The restricted shares vest over a four and three year period, respectively. We recorded $1.1 million in deferred compensation related to the issuance of the restricted shares.

See Notes to Consolidated Financial Statements.

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AmREIT AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008
(unaudited)

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

We are an established real estate company that has elected to be taxed as a real estate investment trust ("REIT") for federal income tax purposes. Our business model is similar to an institutional advisory company that is judged by its investor partners on the returns we are able to deliver to reach specified long-term results. Our primary objective is to build long-term shareholder value and continue to build and enhance the net asset value ("NAV") of us and our advised funds.

We seek to create value and drive net operating income ("NOI") growth on the properties owned in our institutional-grade portfolio of Irreplaceable Corners™ and those owned by a series of closed-end, merchant development funds. We also seek to support a growing advisory business that raises capital through an extensive independent broker-dealer channel as well as through institutional joint venture partners.

Our direct predecessor, American Asset Advisers Trust, Inc. ("AAA"), was formed as a Maryland corporation in 1993. Prior to 1998, AAA was externally advised by American Asset Advisors Corp. which was formed in 1985. In June 1998, AAA merged with its advisor and changed its name to AmREIT, Inc. In December 2002, AmREIT, Inc. reorganized as a Texas real estate investment trust and became AmREIT.

Our class A common shares are traded on the American Stock Exchange under the symbol "AMY." Our offices are located at 8 Greenway Plaza, Suite 1000 Houston, Texas 77046. Our telephone number is 713.850.1400 and we maintain an internet site at www.amreit.com.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Our financial records are maintained on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when incurred. The consolidated financial statements include our accounts as well as the accounts of any wholly- or majority-owned subsidiaries in which we have a controlling financial interest. Investments in joint ventures and partnerships where we have the ability to exercise significant influence but do not exercise financial and operating control, are accounted for using the equity method, unless such entities qualify as variable interest entities, and thus are considered for consolidation under applicable accounting literature related to consolidation. All significant inter-company accounts and transactions have been eliminated in consolidation.

REVENUE RECOGNITION

We lease space to tenants under agreements with varying terms. The majority of the leases are accounted for as operating leases with revenue being recognized on a straight-line basis over the terms of the individual leases. Accrued rents are included in tenant receivables. Revenue from tenant reimbursements of taxes, maintenance expenses and insurance is recognized in the period the related expense is recorded. Additionally, certain of the lease agreements contain provisions that grant additional rents based on tenants' sales volumes (contingent or percentage rent). Percentage rents are recognized when the tenants achieve the specified targets as defined in their lease agreements. We recognize lease termination fees in the period that the lease is terminated and collection of the fees is reasonably assured. During the three months ended March 31, 2008 and 2007, we did not recognize any lease termination fees. Lease termination fees are included in rental income from operating leases. The terms of certain leases require that the building/improvement portion of the lease be accounted for under the direct financing method which treats the building as if we had sold it to the lessee and entered into a long-term financing arrangement with such lessee. This accounting method is appropriate when the lessee has all of the benefits and risks of property ownership that they otherwise would if they owned the building versus leasing it from us.

We have been engaged to provide various real estate services, including development, construction, construction management, property management, leasing and brokerage. The fees for these services are recognized as services are provided and are generally calculated as a percentage of revenues earned or to be earned or of property cost, as appropriate. Revenues from fixed-price construction contracts are recognized on the percentage-of-completion method, measured by the physical completion of the structure. Revenues from cost-plus-percentage-fee contracts are recognized on the basis of costs incurred during the period plus the percentage fee earned on those costs. Construction management contracts are recognized only to the extent of the fee revenue.

Construction contract costs include all direct material and labor costs and any indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from any contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Any profit incentives are included in revenues when their realization is reasonably assured. An amount equal to contract co