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AMREIT  
Form 10QSB  
August 12, 2003

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2003

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

AMREIT  
(Name of Small Business Issuer in its Charter)

TEXAS  
(State or Other Jurisdiction of  
Incorporation or Organization)

76-0410050  
(I.R.S. Employer Identification No.)

8 GREENWAY PLAZA, SUITE 824  
HOUSTON, TX  
(Address of Principal Executive Offices)

77046  
(Zip Code)

Indicate by check mark whether the issuer (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. X Yes No

PART I - FINANCIAL INFORMATION  
Item 1. Financial Statements

AMREIT AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET  
June 30, 2003  
(unaudited)

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### ASSETS

#### Property:

Land	\$23,203,522
Buildings	28,820,964
Tenant improvements	306,043
Furniture, fixtures and equipment	229,018
	52,559,547
Accumulated depreciation	(2,525,907)
Total property, net	50,033,640

Net investment in direct financing leases 27,155,700

Cash and cash equivalents	736,434
Accounts receivable	286,892
Accounts receivable - related party	147,809
Escrow deposits	59,875
Prepaid expenses, net	443,717

#### Other assets:

Preacquisition costs	9,775
Loan acquisition cost, net of \$70,338 in accumulated amortization	281,642
Accrued rental income	439,909
Intangible lease cost, net of \$42,169 in accumulated amortization	215,430
Investment in non-consolidated affiliates	630,167
Total other assets	1,576,923

TOTAL ASSETS \$80,440,990

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### Liabilities:

Notes payable	\$40,996,381
Accounts payable	849,021
Accounts payable - related party	179,698
Security deposit	35,930
Prepaid rent	90,979
TOTAL LIABILITIES	42,152,009

Minority interest 800,570

#### 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, 2,894,876 shares issued	28,949
Class B Common shares, \$.01 par value, 3,000,000 shares authorized, 2,407,050 shares issued	24,071
Capital in excess of par value	47,182,617
Accumulated distributions in excess of earnings	(8,828,925)
Deferred compensation	(282,787)
Cost of treasury shares, 101,822 shares	(635,514)
TOTAL SHAREHOLDERS' EQUITY	37,488,411

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY \$80,440,990

See Notes to Condensed Consolidated Financial Statements.

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AMREIT AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

	Quarter ended June 30,	
	2003	2002
Revenues:		
Rental income from operating leases	\$ 1,265,235	\$ 677,614
Earned income from direct financing leases	670,608	437,169
Service fee income	848,863	52,378
Management fees	52,616	94,276
Income from non-consolidated affiliates	45,033	1,467
Interest and other income	1,991	208,303
Total revenues	2,884,346	1,471,207
Expenses:		
General operating and administrative	785,090	439,962
Legal and professional	545,942	161,998
Interest	593,905	410,032
Depreciation and amortization	209,404	126,822
Total expenses	2,134,341	1,138,814
Income before federal income taxes and minority interest in income of consolidated joint ventures	750,005	332,393
Federal income tax (expense) benefit for taxable REIT subsidiary	(57,700)	69,000
Minority interest in income of consolidated joint ventures	(43,161)	(140,100)
Net income	649,144	261,293
Distributions paid to class B shareholders	(439,124)	-
Net income available to class A shareholders	\$ 210,020	\$ 261,293
Net income per common share - basic	\$ 0.075	\$ 0.110
Weighted average common shares used to compute net income per share, basic	2,790,492	2,364,807

See Notes to Condensed Consolidated Financial Statements.

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AMREIT AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30  
(Unaudited)

	Quarter		Year to
	2003	2002	2003
	----	----	----
<b>Cash flows from operating activities:</b>			
Net income	\$ 649,144	\$ 261,293	\$1,106,981
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	237,319	126,822	467,016
Amortization of deferred compensation	15,457	15,457	75,385
Minority interest in net income of consolidated joint ventures	43,161	140,100	82,949
(Increase) Decrease in accounts receivable	(151,253)	138,387	(113,233)
(Increase) decrease in accounts receivable-related party	( 22,966)	12,530	( 78,875)
Increase in prepaid expense, net	( 30,536)	(103,256)	( 16,459)
Cash receipts from direct financing leases (less) more than income recognized	( 4,265)	( 72,505)	12,795
Increase in accrued rental income	( 30,328)	( 18,992)	( 79,847)
(Increase) decrease in other assets	( 76,447)	(130,284)	6,644
Increase (decrease) in accounts payable	270,726	( 7,263)	(277,198)
Increase (decrease) in accounts payable - related party	7,561	( 25,000)	( 26,425)
Increase in prepaid rent	84,802	7,438	84,802
Decrease in security deposit	-	( 15,050)	-
	992,375	329,677	1,244,535
<b>Cash flows used in investing activities:</b>			
Improvements to real estate	( 121,806)	( 126,057)	( 277,569)
Acquisitions of real estate	( 7,233,907)	( 9,811,015)	( 9,922,064)
Additions to furniture, fixtures and equipment	( 17,553)	( 236)	( 41,593)
(Investment in) distributions from joint ventures	80,939	( 8,035)	( 80,832)
Proceeds from sale of property	1,898,356	-	1,898,356
Decrease (Increase) in preacquisitions costs	18,703	( 58,647)	( 8,010)
	( 5,375,268)	(10,003,990)	( 8,431,712)
<b>Cash flows used in financing activities:</b>			
Proceeds from notes payable	6,892,959	9,127,257	9,260,758
Payments of notes payable	( 1,749,299)	( 24,461)	(1,850,462)
Loan acquisitions costs	-	15,408	-
(Purchase) issuance of treasury stock	( 75,425)	-	( 391,144)
Common dividends paid	( 749,437)	( 169,637)	(1,509,059)
Contributions from minority interests	-	609,000	-
Distributions to minority interests	( 25,031)	( 149,574)	( 93,350)
	4,293,767	9,407,993	5,416,743

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Net (decrease) increase in cash and cash equivalents	( 89,126)	( 266,320)	(1,770,434)
Cash and cash equivalents, beginning of period	825,560	679,302	2,506,868
	-----	-----	-----
Cash and cash equivalents, end of period	\$ 736,434	\$ 412,982	\$ 736,434
	=====	=====	=====

Supplemental schedule of cash flow information:

Cash paid during the year for:

Interest	603,232	358,725	1,127,421
Income taxes	-	-	31,103

See Notes to Financial Statements.

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### AMREIT AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002 (Unaudited)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB and include all of the disclosures required by accounting principles generally accepted in the United States of America. The condensed consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, necessary to present a fair statement of results for the six-month periods ended June 30, 2003 and 2002.

The consolidated financial statements of AmREIT contained herein should be read in conjunction with the consolidated financial statements included in the Company's annual report on Form 10-KSB for the year ended December 31, 2002.

#### DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

AmREIT, formerly AmREIT, Inc. or American Asset Advisers Trust, Inc. (the "Company"), was organized in the state of Maryland in August 1993, is a real estate investment trust ("REIT") based in Houston, Texas and is listed on the American Stock Exchange (AMEX). AmREIT was re-organized in the state of Texas on December 22, 2002, and is a sponsor of real estate direct participation programs to the financial planning community. For more than 18 years, the Company (and its predecessors) has established a track record of investing in commercial real estate leased to parent companies in the retail, financial services and banking, medical and restaurant sectors. AmREIT's real estate team focuses on development, management, brokerage and ownership of freestanding credit tenant leased ("CTL") and frontage shopping centers ("FSC") that are located contiguous to major thoroughfares and traffic generators. AmREIT's customer list includes national and regional tenants such as: Walgreens, Goodyear Tire, Washington Mutual, IHOP, McDonald's, Herman Hospital, Radio Shack,

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Coldwell Banker, Guaranty Federal, Bennigan's, Chili's, Texas Children's Pediatric Associates, Discount Tire, etc.

AmREIT owns a real estate portfolio that consists of 50 properties located in 20 states. Its properties include single-tenant, free standing credit tenant leased projects and multi-tenant frontage projects. The single tenant projects are located coast to coast and are primarily leased to corporate tenants where the lease is the direct obligation of the parent companies. In so doing, the dependability of the lease payments are based on the strength and viability of the entire company, not just that location. The multi-tenant projects are situated primarily throughout Texas. Supporting the real estate portfolio is an operating company subsidiary of AmREIT that provides a complete range of services including development, construction management, property management, brokerage and leasing.

On July 23, 2002, the Company completed a merger with three of its affiliated partnerships, AAA Net Realty Fund IX, Ltd., AAA Net Realty Fund X, Ltd., and AAA Net Realty Fund XI, Ltd. With the merger of the affiliated partnerships, AmREIT increased its real estate assets by approximately \$24.3 million and issued approximately 2.6 million class B common shares to the limited partners in the affiliated partnerships. Approximately \$760 thousand in 8 year, interest only, subordinated notes were issued to limited partners of the affiliated partnerships who dissented against the merger. The acquired properties are unencumbered, single tenant, free standing properties on lease to national and regional tenants, where the lease is the direct obligation of the parent company. The following selected unaudited pro forma consolidated statement of operations for AmREIT and subsidiaries gives effect to the merger with its three affiliated partnerships, which assumes that the merger occurred on January 1, 2002. Additionally, we have presented a summary of assets acquired and liabilities assumed as of the date of the merger, July 23, 2002.

### Pro Forma Consolidated Operating Information

(Unaudited)

	Three Months Ended June 30, 2002	Six
Revenues		
Rental income and earned income	\$1,546,110	
Other income	306,366	
Total Revenues	1,852,476	
Total Expense	1,281,707	
Proforma income before minority interest in income of consolidated joint ventures	570,769	
Federal income tax benefit from non-qualified subsidiary	69,000	
Minority interest in income of consolidated joint ventures	(8,303)	
Pro forma net income	\$ 631,466	

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### Summary of Assets Acquired and Liabilities Assumed As of July 23, 2002,

#### Assets

Buildings	\$ 16,330,088
Land	7,560,231
Accounts receivable	1,105,612
Prepaid expenses	15,757
Total Assets	\$ 25,011,688
Liabilities	132,630
Net assets acquired	\$ 24,879,058
Class B common stock issued	24,118,648
Subordinated notes issued	760,410

#### BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of AmREIT, and its wholly or majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

#### NEW ACCOUNTING STANDARDS

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and did not have a material effect on the Company's consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15,

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2002, however, these disclosure modifications are not applicable to the Company as the Company does not have stock based compensation other than restricted stock grants. The Company has not adopted SFAS No. 148 because it was anticipated that the adoption of SFAS 148 would not have a material impact on our consolidated financial position, results of operations, or cash flows.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The application of this Interpretation did not have a material effect on the Company's consolidated financial statements. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. The Company has no variable interest entities which would require consolidation or disclosure.

In May 2003, the Financial Accounting Standards Board issued Statement No. 150 ("Statement 150") "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". Statement 150 requires certain financial instruments that have characteristics of both liabilities and equity to be classified as a liability on the balance sheet. Statement 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Statement 150 will be effected by reporting the cumulative effect of a change in accounting principle for contracts created before the issuance date and still existing at the beginning of that interim period. The adoption of Statement 150 did not have an impact in the Company consolidated financial statements.

### RECLASSIFICATION

Certain amounts in the interim unaudited 2002 condensed consolidated financial statements have been reclassified to conform to the presentation used in the interim unaudited 2003 condensed consolidated financial statements. Such reclassifications had no effect on previously reported net income or shareholders' equity.

### 2. NOTES PAYABLE

In November 1998, the Company entered into an unsecured credit facility (the "Credit Facility"), which is being used to provide funds for the acquisition of properties and working capital, and repaid all amounts outstanding under the Company's prior credit facility. Under the Credit Facility, which had an original term of one year, and has been extended through August 2003, the Company may borrow up to \$20 million subject to the value of unencumbered assets. The Lender has given AmREIT a commitment to extend the Credit Facility for a period of 12 months from the date of execution. The Company and Lender are currently finalizing the documentation of the Credit Facility. The Credit Facility contains covenants which, among other restrictions, require the Company to maintain a minimum net worth, a maximum leverage ratio, specified interest coverage



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and fixed charge coverage ratios and allow the lender to approve all distributions. At June 30, 2003, the Company was in compliance with all applicable financial covenants. The Credit Facility bears interest at an annual rate of LIBOR plus a spread of 2.00%. As of June 30, 2003, \$14.6 million was outstanding under the Credit Facility. Thus the Company has approximately \$5.4 million available under its line of credit, subject to Lender approval on the use of the proceeds.

### 3. MAJOR TENANTS

There were no significant changes in the tenant make-up from year end December 31, 2002.

### 4. EARNINGS PER SHARE

Basic earnings per share has been computed by dividing net income by the weighted average number of class A common shares outstanding. Diluted earnings per share has been computed by dividing net income (as adjusted) by the weighted average number of class A common shares outstanding plus dilutive potential common shares.

The following table presents information necessary to calculate basic and diluted earnings per share for the periods indicated:

	2003	Quarter 2002
BASIC EARNINGS PER SHARE		
Weighted average class A common shares outstanding	2,790,492	2,364,807
Basic earnings per share	\$ 0.075	\$ 0.110
EARNINGS FOR BASIC COMPUTATION		
Net income available to class A common shareholders (basic earnings per share computation)	\$ 210,020	\$ 261,293

Diluted earnings per share information is not disclosed due to the accretive nature of the common class B shares.

### 5. SUBSEQUENT EVENTS

On August 7, 2003, the Company filed Amendment No. 1 to its registration statement on Form S-11 (the "Registration Statement") with the Securities and Exchange Commission ("SEC"). Additionally, the Company filed for an acceleration of effectiveness with the SEC, requesting that the Registration Statement become effective on or before August 12, 2003. The Registration Statement, among other things, registers to issue \$44 million of class C common shares through the NASD broker dealer community, pursuant to the terms and conditions described in the Registration Statement.

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

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Results of Operations.

### FORWARD-LOOKING STATEMENTS

Certain information presented in this Form 10-QSB constitutes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, the Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference include the following: changes in general economic conditions, changes in real estate market conditions, continued availability of proceeds from the Company's debt or equity capital, the ability of the Company to locate suitable tenants for its properties and the ability of tenants to make payments under their respective leases.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto. Historical results and trends which might appear should not be taken as indicative of future operations. The results of operations and financial condition of the Company, as reflected in the accompanying statements and related footnotes, are subject to management's evaluation and interpretation of business conditions, retailer performance, changing capital market conditions and other factors, which could affect the ongoing viability of the Company's tenants. Management believes the most critical accounting policies in this regard are the accounting for lease revenues (including the straight-line rent), the regular evaluation of whether the value of a real estate asset has been impaired and the allowance for doubtful accounts. Each of these issues requires management to make judgments that are subjective in nature. Management relies on its experience, collects historical data and current market data, and analyzes these assumptions in order to arrive at what it believes to be reasonable estimates.

AmREIT, a Texas real estate investment trust, is listed on the American Stock Exchange (AMY), owns a portfolio of 50 properties, leased to 27 different tenants located in 20 states and is a sponsor of high quality real estate investment opportunities to the financial planning community. The Company researches, identifies and participates in real estate opportunities and works hand in hand with the broker-dealer community to sponsor real estate investment products and services.

For 18 years we have established a track record of investing in commercial real estate leased primarily to corporate tenants in the retail, financial services and banking, medical and restaurant sectors. AmREIT's real estate team focuses on development, management, brokerage and ownership of freestanding credit tenant leased and frontage shopping center properties that are located contiguous to major thoroughfares and traffic generators. AmREIT's real estate customer list includes national and regional tenants such as: Walgreen's, Goodyear Tire, Washington Mutual, IHOP, McDonald's, Herman Hospital, Radio Shack, Sprint, Coldwell Banker, Guaranty Federal, Bennigan's, Chili's, Texas Children's Hospital, Discount Tire, etc.

AmREIT, or an affiliate, has previously sponsored 14 affiliated investment funds through the NASD broker-dealer community. It is currently both a limited partner and general partner in three of these funds. Through this ownership, AmREIT receives commissions, fees and a carried interest in the profits and cash flows of these investment funds. Although this carried interest is not currently reflected in the balance sheet or statement of operations of AmREIT, it is anticipated to generate profits and cash flows to AmREIT as certain returns are met for the investors in these affiliated investment funds.

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### LIQUIDITY AND CAPITAL RESOURCES

Comparison of the Three Months Ended June 30, 2003 to June 30, 2002: Cash flow from operations has been the principal source of capital to fund the Company's ongoing operations. The Company's issuance of common stock and the use of the Company's credit facility have been the principal sources of capital required to fund its growth. Net cash provided by operating activities increased for the three months ended June 30, 2003 and June 30, 2002 from \$330 thousand in 2002 to \$992 thousand in 2003. The increase in cash provided by operating activities was due primarily to the following components: (1) an increase in net income of \$388 thousand, from \$261 thousand in 2002 to \$649 thousand in 2003, and (2) a net increase in accounts payable, including related party accounts payable, of \$311 thousand, from a paydown of accounts payable of \$32 thousand in 2002 to an increase of \$278 thousand in 2003.

Net cash used in investing activities decreased \$4.6 million for the three month period ended June 30, 2003 when compared to the three month period ended June 30, 2002. The decrease in cash used was primarily due to a decrease in acquisitions of real estate of \$2.6 million, from \$9.8 million in 2002 to \$7.2 million in 2003. In addition, proceeds from the sale of property increased \$1.9 million, from \$0 in 2002 to \$1.9 million in 2003.

Net cash provided by financing activities decreased \$5.1 million for the three month period ended June 30, 2003 compared to the three month period ended June 30, 2002. The decrease was primarily due to proceeds from notes payable, which totaled \$9.1 million in 2002, compared to \$6.9 million in 2003. Additionally, payments of notes payable increased from \$24 thousand in 2002 to \$1.7 million in 2003. Common dividends paid also increased \$580 thousand from 2002 and contributions from minority interests decreased \$609 thousand.

Comparison of the Six Months Ended June 30, 2003 to June 30, 2002:

Net cash provided by operating activities increased for the six months ended June 30, 2003 and June 30, 2002 from \$467 thousand in 2002 to \$1.2 million in 2003. The increase in cash provided by operating activities was primarily due to the following components: (1) an increase in net income of \$663 thousand, from \$444 thousand in 2002 to \$1.1 million in 2003, (2) a decrease in the paydown of accounts payable, including related party accounts payable, of \$486 thousand, from \$789 thousand in 2002 to \$304 thousand in 2003, and (3) an increase in depreciation and amortization of \$202 thousand, from \$254 thousand in 2002 to \$456 thousand in 2003. The above increases are offset somewhat by a decrease in accounts receivable collections of \$829 thousand.

Net cash used in investing activities decreased \$1.5 million for the six months ended June 30, 2003 when compared to the six months ended June 30, 2002. The decrease in cash used was primarily due to an increase in proceeds from the sale of property of \$1.9 million, from \$0 in 2002 to \$1.9 million in 2003.

Net cash provided by financing activities decreased \$4.2 million for the six months ended June 20, 2003 compared to the six months ended June 30, 2002. The decrease was primarily due to the following components: (1) payments of notes payable, which totaled \$1.9 million in 2003, compared to

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\$39 thousand in 2002, (2) an increase in common dividends paid, which was \$331 thousand in 2002, compared to \$1.5 million in 2003, (3) a decrease in contributions from minority interests, from \$609 thousand in 2002 to \$0 in 2003, and (4) purchase of treasury shares of \$391 thousand in 2003, compared to an issuance of treasury shares of \$185 thousand in 2002.

In order to continue to expand and develop its portfolio of properties and other investments, the Company intends to finance future acquisitions and growth through the most advantageous sources of capital available to the Company at the time. Such capital sources may include proceeds from public or private offerings of the Company's debt or equity securities, secured or unsecured borrowings from banks or other lenders, a merger with certain affiliated partnerships or other unrelated companies, or the disposition of assets, as well as undistributed funds from operations.

On July 23, 2002, the Company completed a merger with the Affiliated Partnerships, which increased the Company's real estate assets by approximately \$24.3 million. Pursuant to the merger, the Company issued approximately 2.6 million class B common shares to the limited partners in the Affiliated Partnerships. Approximately \$760 thousand in 8 year, interest only, subordinated notes were issued to limited partners of the Affiliated Partnerships who dissented against the merger. The acquired properties are unencumbered, single tenant, free standing properties on lease to national and regional tenants, where the lease is the direct obligation of the parent company. The Company's leases typically provide that the tenant bears responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including utilities, property taxes and insurance. In addition, the Company's leases generally provide that the tenant is responsible for roof and structural repairs. Some of the tenant's leases require the Company to be responsible for roof and structural repairs. In these instances, the Company normally requires warranties, and/or guarantees from the related vendors, suppliers and/or contractors, to mitigate the potential costs of repairs during the primary terms of the leases. Because many of the properties which are subject to leases that place these responsibilities on the Company are recently constructed, management anticipates that capital demands to meet obligations with respect to these properties will be minimal for the foreseeable future and can be met with funds from operations and working capital. The Company may be required to use bank borrowings or other sources of capital in the event of unforeseen significant capital expenditures.

In November 1998, the Company entered into an unsecured credit facility (the "Credit Facility"), which is being used to provide funds for the acquisition of properties and working capital, and repaid all amounts outstanding under the Company's prior credit facility. Under the Credit Facility, which had an original term of one year, and has been extended through August 2003, the Company may borrow up to \$20 million subject to the value of unencumbered assets. The Lender has given AmREIT a commitment to extend the Credit Facility for a period of 12 months from the date of execution. The Company and Lender are currently finalizing the documentation of the Credit Facility and expect that it will be completed prior to September. The Credit Facility contains covenants, which among other restrictions, require the Company to maintain a minimum net worth, a maximum leverage ratio, and specified interest coverage and fixed charge coverage ratios. At June 30, 2003, the Company was in compliance with all applicable financial covenants. The Credit Facility bears interest at an annual rate of LIBOR plus a spread of 2.00. As of June 30, 2003, \$14.6 million was outstanding under the Credit Facility. The Company has

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approximately \$5.4 million availability under its line of credit, subject to use of proceeds approval by the lender.

As of June 30, 2003, the Company owned 50 properties directly and, since its inception, had invested \$79 million, exclusive of any minority interests, including certain acquisition expenses related to the Company's investment in these properties. These expenditures resulted in a corresponding decrease in the Company's liquidity.

Until properties are acquired by the Company, cash is held in short-term, highly liquid investments that the Company believes to have appropriate safety of principal. This investment strategy has allowed, and continues to allow, high liquidity to facilitate the Company's use of these funds to acquire properties at such time as properties suitable for acquisition are located. At June 30, 2003, the Company's cash and cash equivalents totaled \$736 thousand.

The Company paid aggregate cash dividends to the holders of its class A and class B common shares, for the three months ended of June 30, 2003 and 2002 of \$749 thousand and \$170 thousand, respectively.

Inflation has had very little effect on income from operations. Management expects that increases in store sales volumes due to inflation as well as increases in the Consumer Price Index (C.P.I.), may contribute to capital appreciation of the Company properties. These factors, however, also may have an adverse impact on the operating margins of the tenants of the properties.

### FUNDS FROM OPERATIONS

Funds from operations (FFO) increased \$489 thousand or 126% to \$877 thousand for the three months ended June 30, 2003 from \$388 thousand for the three months ended June 30, 2002. For the six month period ended June 30, 2003 FFO increased \$873 thousand, from \$697 thousand in 2002 to \$1.57 million in 2003. Management considers FFO to be an appropriate measure of operating performance for an equity REIT. The Company has adopted the National Association of Real Estate Investment Trusts (NAREIT) definition of FFO. FFO is calculated as net income (computed in accordance with generally accepted accounting principles) excluding gains or losses from sales of depreciable operating property, depreciation and amortization of real estate assets, and excluding results defined as "extraordinary items" under generally accepted accounting principles. We believe that in order to facilitate a clear understanding of our historic operating results, FFO should be examined in conjunction with net income as presented in the consolidated statement of operations and data included elsewhere in this report. FFO should not be considered an alternative to cash flows from operating, investing and financing activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to meet cash needs. The Company's computation of FFO may differ from the methodology for calculating FFO utilized by other equity REITs and, therefore, may not be comparable to such other REITs. FFO is not defined by generally accepted accounting principles and should not be considered an alternative to net income as an indication of the Company's performance. Below is the reconciliation of net income to funds from operations for the three and six months ended June 30:

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	Quarter		Year to
	2003	2002	2003
Net income	\$ 649,144	\$ 261,293	\$ 1,106,981
Plus depreciation	228,053	126,822	462,689
 Total funds from operations	 \$ 877,197	 \$ 388,115	 \$ 1,569,670
Cash distributions paid	\$ 749,437	\$ 169,637	\$ 1,509,059
FFO in excess of distributions	\$ 127,760	\$ 218,478	\$ 60,611

Cash flows provided by (used in) operating activities, investing activities, and financing activities for the three and six months ended June 30 are presented below:

	Quarter		Year to
	2003	2002	2003
Operating activities	\$ 992,375	\$ 329,677	\$ 1,244,535
Investing activities	\$ (5,375,268)	\$ (10,003,990)	\$ (8,431,712)
Financing activities	\$ 4,293,767	\$ 9,407,993	\$ 5,416,743

### RESULTS OF OPERATIONS

Comparison of the Three Months Ended June 30, 2003 to June 30, 2002:

During the three months ended June 30, 2003 and June 30, 2002, the Company earned \$1.9 million and \$1.1 million, respectively, in rental income from operating leases and earned income from direct financing leases.

Additional property purchases as well as the newly merged properties from the three affiliated partnerships resulted in the increased income from rents and earned income from direct financing leases. Service fee income increased \$796 thousand, from \$52 thousand in 2002 to \$849 thousand in 2003. The increase in service fee income was primarily due to an increase in commission income, and fee income that was recognized related to a transaction brokered between third parties.

During the three months ended June 30, 2003 and June 30, 2002, the Company's expenses were \$2.1 million and \$1.1 million, respectively. The \$1 million increase in expenses is primarily attributable to (1) an increase in general operating and administrative expense of \$345 thousand, from \$440 thousand in 2002 to \$785 thousand in 2003, which was primarily due to an increase in salary expense due to additional positions; (2) an increase in legal and professional fees of \$384 thousand, from \$162 thousand in 2002 to \$546 thousand in 2003, which was primarily attributable to an increase in commission expense paid to third party security brokerage companies; and (3) an increase in interest expense of \$184 thousand, from \$410 thousand in 2002 to \$594 thousand in 2003. The increase in interest expense is due to additional debt used to finance the acquisition of additional properties.

Comparison of the Six Months Ended June 30, 2003 to June 30, 2002:

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During the six months ended June 30, 2003 and June 30, 2002, the Company earned \$3.8 million and \$2.0 million, respectively, in rental income from operating leases and earned income from direct financing leases. Additional property purchases as well as the merged properties from the three affiliated partnerships resulted in the increased income from rents and earned income from direct financing leases. Service fee income increased \$528 thousand, from \$531 thousand in 2002 to \$1.06 million in 2003. The increase is primarily due to fee income recognized related to a transaction brokered between third parties.

During the six months ended June 30, 2003 and June 30, 2002, the Company's expenses were \$3.9 million and \$2.5 million, respectively. The \$1.4 million increase in expenses is primarily due to (1) an increase in interest expense of \$482 thousand, from \$664 thousand in 2002 to \$1.145 million in 2003. The increase in interest expense is due to additional debt used to finance the acquisition of additional properties; (2) an increase in general operating and administrative expenses of \$339 thousand, from \$1.20 million in 2002 to \$1.54 million in 2003, which is due to an increase in salary expense due to additional positions, and (3) an increase in legal and professional fees of \$361 thousand, from \$372 thousand in 2002 to \$733 thousand in 2003, which is primarily attributable to increased commission expense paid to third party security brokerage companies.

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

NONE

#### Item 2. Changes in Securities

NONE

#### Item 3. Defaults Upon Senior Securities

NONE

#### Item 4. Submission of Matters to a Vote of Security Holders

NONE

#### Item 5. Other Information

NONE

### SIGNATURES

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

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AmREIT

\_\_\_\_\_  
(Issuer)

August 13, 2003

/s/ H. Kerr Taylor

Date

\_\_\_\_\_  
H. Kerr Taylor, President

August 13, 2003

/s/ Chad C. Braun

Date

\_\_\_\_\_  
Chad C. Braun (Principal Accounting Officer)

Item 6. Exhibits

(a) Exhibits

31.1 Chief Executive Officer Section 302 Certification

31.2 Chief Financial Officer Section 302 Certification

32.1Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.1

FORM OF SARBANES-OXLEY SECTION 302(a) CERTIFICATION

I, H. Kerr Taylor, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of AmREIT;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such



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statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures presented in this report, our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2003

By: /s/

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H. Kerr Taylor, Chief Executive Officer

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### Exhibit 31.2

#### FORM OF SARBANES-OXLEY SECTION 302(a) CERTIFICATION

I, Chad C. Braun, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of AmREIT;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures presented in this report, our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record,

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process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2003

By: /s/

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Chad C. Braun, Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AmREIT (the "Company") on Form 10-QSB for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. Kerr Taylor, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ H. Kerr Taylor

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H. Kerr Taylor  
Chief Executive Officer  
August 13, 2003

EXHIBIT 32.2

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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In connection with the Quarterly Report of AmREIT (the "Company") on Form 10-QSB for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Chad C. Braun, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Chad C. Braun

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Chad C. Braun  
Chief Financial Officer  
August 13, 2003