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AMREIT  
Form 10QSB  
November 14, 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 September 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  
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As of September 30, 2003 there were 5,641,381 common shares of beneficial  
interest of AmREIT, \$.01 par value outstanding.

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PART I - FINANCIAL INFORMATION  
 Item 1. Financial Statements  
 AMREIT AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEET  
 September 30, 2003  
 (unaudited)

ASSETS	
Property:	
Land	\$21,531,368
Buildings	26,466,459
Tenant improvements	351,561
Furniture, fixtures and equipment	232,142
	48,581,530
Less accumulated depreciation	(2,731,637)
Net real estate held for investment	45,849,893
Real estate held for sale, net	8,850,670
Net investment in direct financing leases held for investment	22,048,739
Cash and cash equivalents	1,348,385
Accounts receivable	372,600
Accounts receivable - related party	150,432
Escrow deposits	257,925
Prepaid expenses, net	324,419
Other assets:	
Preacquisition costs	17,088
Loan acquisition cost, net of \$117,356 in accumulated amortization	328,230
Accrued rental income	498,802
Intangible lease cost, net of \$52,813 in accumulated amortization	204,786
Investment in non-consolidated affiliates	519,873
Total other assets	1,568,779
TOTAL ASSETS	\$80,771,842
LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities:	
Notes payable	\$38,308,124
Accounts payable	1,321,795
Accounts payable - related party	24,656
Security deposit	35,930
Prepaid rent	6,561
TOTAL LIABILITIES	39,697,066
Minority interest	821,380
Shareholders' equity:	
Preferred shares, \$.01 par value, 10,000,000 shares	

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authorized, none issued	-
Class A Common shares, \$.01 par value, 50,000,000 shares authorized, 2,917,924 shares issued	29,179
Class B Common shares, \$.01 par value, 3,000,000 shares authorized, 2,384,002 shares issued	23,840
Class C Common shares, \$.01 par value, 4,400,000 shares authorized, 339,455 shares issued	3,395
Capital in excess of par value	50,058,297
Accumulated distributions in excess of earnings	(8,935,391)
Deferred compensation	(267,330)
Cost of treasury shares, 105,422 shares	(658,594)
	40,253,396
TOTAL SHAREHOLDERS' EQUITY	40,253,396
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$80,771,842

See Notes to Condensed Consolidated Financial Statements.

### AMREIT AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Quarter ended September 30, 2003	2002	Year to 2003
<b>Revenues:</b>			
Rental income from operating leases	\$1,243,067	\$ 1,007,891	\$3,575,9
Earned income from direct financing leases	681,309	594,429	1,950,6
Service fee income	944,530	725,967	2,004,3
Management fees	78,302	50,910	188,5
Income from non-consolidated affiliates	7,138	-	92,4
Gain on sales of real estate acquired for resale	237,579	(37,061)	237,5
Interest and other income	1,459	542	5,2
Total revenues	3,193,384	2,342,678	8,054,8
<b>Expenses:</b>			
General operating and administrative	869,675	648,849	2,407,3
Legal and professional	864,535	365,400	1,597,2
Interest	598,189	519,665	1,743,5
Depreciation and amortization	216,375	226,049	617,9
Deferred merger costs	-	1,904,370	
Total expenses	2,548,774	3,664,333	6,366,0
Income (loss) before federal income taxes and minority interest in income of consolidated joint ventures	644,610	(1,321,655)	1,688,8

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Federal income tax expense for taxable REIT subsidiary	(15,300)	(75,000)	
Minority interest in income of consolidated joint ventures	(45,841)	(35,339)	(128,7
	<hr/>	<hr/>	<hr/>
Income from continuing operations	583,469	(1,431,994)	1,560,0
Income from discontinued operations	75,531	\$ 61,966	205,9
Net income (loss)	\$ 659,000	\$ (1,370,028)	\$1,765,9
Distributions paid to class B and class C shareholders	(457,343)	(423,732)	(1,349,0
	<hr/>	<hr/>	<hr/>
Net income (loss) available to class A shareholders	\$ 201,657	\$ (1,793,760)	\$ 416,9
	<hr/>	<hr/>	<hr/>
Basic income (loss) from continuing operations per common share	\$ 0.045	\$ (0.769)	\$ 0.0
	<hr/>	<hr/>	<hr/>
Net income (loss) per common share - basic and diluted	\$ 0.072	\$ (0.744)	\$ 0.1
	<hr/>	<hr/>	<hr/>
Weighted average common shares used to compute net income per share, basic and diluted	2,805,753	2,412,544	2,788,3
	<hr/>	<hr/>	<hr/>

See Notes to Condensed Consolidated Financial Statements.

AMREIT AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

	Quarter ended September 30,	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	\$ 659,000	\$ (1,370,028)
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment in real estate acquired for resale	-	-
Proceeds from sales of real estate acquir	2,049,627	-
(Gain) loss on sales of real estate acquired for resale	(237,579)	37,061
Depreciation and amortization	241,521	241,275

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Amortization of (increase in) deferred compensation	15,457	15,457
Minority interest in net income of consolidated joint ventures	45,841	35,339
Deferred merger costs	-	1,904,370
(Increase) decrease in accounts receivable	(85,708)	256,697
(Increase) decrease in accounts receivable - related party	(2,623)	821,982
Increase (decrease) in prepaid expenses, net	39,138	65,519
Cash receipts from direct financing leases (less) more than income recognized	(3,476)	(81,282)
Increase in accrued rental income	(79,431)	(14,683)
(Increase) decrease in other assets	(199,550)	105,554
Increase (decrease) in accounts payable	452,309	256,568
Decrease in accounts payable- related party	(155,042)	(121,440)
(Decrease) increase in prepaid rent	(84,418)	(7,438)
Decrease in security deposits	-	4,857
Net cash provided by (used in) operating activities	2,655,066	2,149,808
Cash flows from investing activities:		
Improvements to real estate	(45,518)	(71,107)
Acquisition of investment properties	(1,474,694)	(8,217,958)
Additions to furniture, fixtures and equipment	(3,124)	(8,329)
(Investment in) distributions from non-consolidating affiliates	110,294	(91,001)
Proceeds from sale of investment property	-	1,097,562
Increase in preacquisition costs	(7,313)	(204,056)
Net cash provided by (used in) investing activities	(1,420,355)	(7,494,889)
Cash flows from financing activities:		
Proceeds from notes payable	1,900,000	7,885,573
Payments of notes payable	(4,588,257)	(1,440,734)
Loan acquisition costs	-	(46,584)
(Purchase) issuance of treasury shares	(23,080)	(8,442)
Issuance of common shares	3,393,764	(2,000)
Issuance costs	(514,689)	-
Common dividends paid	(765,467)	(680,898)
Contributions from minority interests	-	11,542
Distributions to minority interests	(25,031)	(35,339)
Net cash (used in) provided by financing	(622,760)	5,683,118
Net increase (decrease) in cash and cash equiv	611,951	338,037
Cash and cash equivalents, beginning of period	736,434	412,982
Cash and cash equivalents, end of period	\$ 1,348,385	\$ 751,019

Supplemental schedule of noncash investing and financing activities On July 23, 2002, the Company merged 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. In conjunction with the merger, the Company acquired \$23,890,318 worth of property and issued 2,589,179 shares of Class B common shares.

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Supplemental schedule of cash flow information:

Cash paid during the year for:			
Interest		490,828	384,132
Income taxes		15,884	-

See Notes to Condensed Consolidated Financial Statements.

### AMREIT AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 three month and nine-month periods ended September 30, 2003 and 2002.

The condensed 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. and previously 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, is listed on the American Stock Exchange (AMY) and re-organized in the state of Texas in December 2002. AmREIT is both an owner of net-leased properties and 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 primarily to parent companies of 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 ("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, Sprint, Radio Shack, Coldwell Banker, Guaranty Federal, Bannigan'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

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corporate tenants where the lease is the direct obligation of the parent companies. As a result, the dependability of lease payments is 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 these 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 exercised their dissenters' rights. 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 September 30, 2002
Revenues	
Rental income and earned income	\$ 1,750,489
Other income	768,699
Total Revenues	2,519,188
 Total expenses	 3,756,895
Proforma income before minority interest in income of consolidated joint ventures	(1,237,707)
Federal income tax benefit from taxable REIT subsidiary	(75,000)
Minority interest in income of consolidated joint ventures	(9,795)
 Pro forma net income (loss)	 \$ (1,322,502)

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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	<u>\$ 25,011,688</u>
Liabilities	132,630
Net assets acquired	<u>\$ 24,879,058</u>
Class B common stock issued	24,118,648
Subordinated notes issued	760,410

In August 2003 the Company began selling class C common shares. The offering is a \$44 million offering, issued on a best efforts basis through the independent financial broker dealer community. The Company will primarily use the proceeds for the acquisition of new properties and to pay down existing debt. At September 30, 2003, the Company had issued approximately 339 thousand shares, representing approximately \$3.4 in proceeds from selling class C shares.

#### REAL ESTATE HELD FOR SALE

Properties are classified as real estate held for sale if the properties were purchased with intent to hold the properties for less than a year or if the properties are listed for sale. At September 30, 2003, AmREIT owned five properties that are classified as real estate held for sale. The five properties have a combined carrying value of \$8.85 million. Three of the properties have separate notes payable, which have a one year term and a combined balance of \$3.46 million at September 30, 2003.

#### 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



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provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and did not have a material effect on our consolidated financial position, results of operations, or cash flows.

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, 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 adopted SFAS 148 and the adoption of SFAS 148 did 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 implementation of the Interpretation has been delayed until periods ending after December 15, 2003. 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 believes it 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 on our consolidated financial position, results of operations, or cash flows.

### RECLASSIFICATION

Certain amounts in the interim unaudited 2002 and 2003 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 loss or shareholders' equity.

### 2. NOTES PAYABLE

In September 2003, the Company renewed its unsecured credit facility (the

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"Credit Facility"), which is being used to provide funds for the acquisition of properties and working capital. Under the Credit Facility, which has a term of one year, the Company may borrow up to \$20 million subject to the value of unencumbered assets. 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 and fixed charge coverage ratios and allow the lender to approve all distributions. At September 30, 2003, the Company was in compliance with all financial covenants. The Credit Facility's annual interest rate varies depending upon leverage, from LIBOR plus a spread of 1.40% to LIBOR plus 2.35%. As of September 30, 2003, the interest rate was LIBOR plus 2.0%. As of September 30, 2003, \$15.0 million was outstanding under the Credit Facility. Thus the Company has approximately \$5.0 million available under its line of credit, subject to Lender approval on the use of the proceeds.

### 3. MAJOR TENANTS

As of September 30, 2003, there have been 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 available to class A shareholders 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:

	Quarter	
	2003	2002
	----	----
<b>BASIC EARNINGS PER SHARE</b>		
Weighted average class A common shares outstanding	2,805,753	2,412,544
Basic earnings (loss) per share	\$ 0.072	\$ (0.744)
<b>EARNINGS (LOSS) FOR BASIC COMPUTATION</b>		
Net income (loss) available to class A common shareholders (basic earnings (loss) per share computation)	\$ 201,657	\$ (1,793,760)

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

### 5. DISCONTINUED OPERATIONS

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The operations of two properties listed as held for sale at September 30, 2003 were reported as discontinued operations. The following is a summary of our discontinued operations:

	Three Months Ended 9/30/2003 -----	Three Months Ended 9/30/2002 -----	Nine Months Ended 9/30/2002 -----
Rental revenue	\$82,540	\$77,192	\$247,192
Depreciation and amortization	-	(15,226)	(30,452)
Property expenses	(7,009)	-	(11,000)
	\$ 75,531	\$61,966	\$205,740
Income from discontinued operations			
Basic income from discontinued operations per common share	\$ 0.027	\$ 0.026	\$ 0.026

### 6. COMMITMENTS

In June 1998, the AmREIT shareholders approved the acquisition of an advisory company then owned by H. Kerr Taylor's, President and CEO of AmREIT. In conjunction with this acquisition, Mr. Taylor agreed to defer a portion of the consideration owed to him, which would be paid based on a specified formula as if and when the Company raised additional equity to grow AmREIT's equity and assets. As of September 30, 2003, Mr. Taylor is eligible to receive an additional 384 thousand class A shares as the Company raises additional equity. Based on equity raised through the class C common share offering subsequent to September 30, 2003, and equity anticipated to be raised through December 31, 2003, Mr. Taylor will be issued between 150 thousand and 170 thousand of these additional class A shares, valued at market price on the date of issuance. Upon issuance of these shares, based on the terms of the deferred consideration agreement which expires June 2006, approximately 234 thousand to 214 thousand shares remain available to be issued to Mr. Taylor.

As of September 30, 2003, AmREIT has contracted for approximately \$22.4 million of single tenant and multi-tenant real estate projects that are anticipated to close during the fourth quarter 2003 and first quarter 2004.

Item 2. Management's Discussion and Analysis of Financial Condition and 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 these forward-looking statements are based upon reasonable assumptions,

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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.

### CRITICAL ACCOUNTING POLICIES

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.

### GENERAL

AmREIT, a Texas real estate investment trust, is listed on the American Stock Exchange (AMY), and is committed to providing our shareholders with an opportunity to earn dependable, monthly income through investing in high-quality commercial retail real estate. Our strategy is to acquire or develop high-quality properties that are leased to strong national or regional parent companies. Today, AmREIT owns a portfolio of 50 properties, leased to 27 different tenants located in 20 states. As our capital base continues to expand, we are forming additional relationships in the real estate community, identifying investment opportunities that fit our approach, and carrying out our pledge to our shareholders to deliver dependable monthly income.

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: Walgreens, Goodyear Tire, Washington Mutual, IHOP, McDonald's, Herman Hospital, Radio Shack, Sprint, Coldwell Banker, Guaranty Federal, Bennigan's, Chili's, Texas Children's Pediatric Associates and Discount Tire.

AmREIT, or an affiliate, has previously sponsored 14 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

Cash flow from operations has been the principal source of capital to fund the Company's ongoing operations. The Company's issuance of common shares and the use of the Company's credit facility have been the principal sources of capital required to fund its growth. 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.

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

Net cash provided by operating activities increased \$505 thousand for the three months ended September 30, 2003 when compared with the three months ended September 30, 2002. The increase in cash provided by operating activities was due primarily to the following: (1) a \$2.05 million increase in proceeds from the sale of real estate acquired for resale, from \$0 in 2002 to \$2.05 million in 2003; (2) net income increased \$2.03 million, from a \$1.37 million loss in 2002 to net income of \$659 thousand in 2003. The increase in net income is primarily due to a non-cash charge of \$1.9 million, representing deferred merger costs that were incurred in 2002, therefore, the transaction has no net effect on the cash flow; (3) accounts payable increased by \$297 thousand in 2003, compared to a \$135 thousand increase in 2002. The above increases in cash are offset by the following: (1) accounts receivable increased by \$88 thousand in 2003, compared to a \$1.079 million decrease in 2002; (2) other assets decreased \$200 thousand in 2003, compared to a \$106 thousand increase in 2002.

Net cash used in investing activities decreased \$6.07 million for the three month period ended September 30, 2003 when compared to the three month period ended September 30, 2002. The decrease in cash used in investing activities was primarily due to a \$6.75 million decrease in cash used for acquisitions of investment properties, from \$8.22 million in 2002 to \$1.47 million in 2003. This decrease in cash used is offset by a decrease in proceeds from the sale of investment properties of \$1.1 million, from \$1.1 million in 2002 to \$0 in 2003.

Net cash used in financing activities increased \$6.31 million for the three month period ended September 30, 2003 compared to the three month period ended September 30, 2002. The increase was primarily due to a \$5.99 million decrease in proceeds from notes payable, from \$7.89 million in 2002 to \$1.9 million in 2003. This increase in cash is offset by a \$3.15 million increase in payments of notes payable, from \$1.44 million in 2002 to \$4.59 million in 2003.

In August 2003 the Company began selling class C common shares. The offering is a \$44 million offering, issued on a best efforts basis through the independent financial broker dealer community. The Company will primarily use the proceeds for the acquisition of new properties and pay down existing debt. At September 30, 2003, the Company had issued approximately 339 thousand shares, representing approximately \$3.4 in proceeds from selling class C shares .

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Comparison of the Nine Months Ended September 30, 2003 to September 30, 2002:

Net cash used in operating activities increased \$4.05 million for the nine months ended September 30, 2003 when compared to the nine months ended September 30, 2002. The increase in cash used in operating activities was

primarily due to the following: (1) investment in real estate acquired for sale increased \$7.23 million, from \$0 in 2002 to \$7.23 million in 2003; (2) accounts receivable increased by \$280 thousand in 2003, compared to a \$1.72 million decrease in 2002. The above increases in cash used are offset by the following: (1) a \$2.69 million increase in net income, from a loss of \$926 thousand in 2002 to net income of \$1.76 million in 2003. The increase in net income is primarily due to a non-cash charge of \$1.9 million, representing deferred merger costs that were incurred in 2002, therefore, the transaction has no net effect on the cash flow; (2) an increase in proceeds from the sale of real estate acquired for resale of \$3.95 million, from \$0 in 2002 to \$3.95 million in 2003; (3) a decrease in accounts payable of \$6 thousand in 2003, compared to a decrease of \$654 thousand in 2002.

Net cash used in investing activities decreased \$12.92 million for the nine months ended September 30, 2003 when compared to the nine months ended September 30, 2002. The decrease in cash used was primarily due to a decrease in acquisitions of investment properties of \$13.87 million, from \$18.03 million in 2002 to \$4.16 million in 2003. This decrease in cash used is offset by a \$1.1 million decrease in proceeds from the sale of investment properties, from \$1.1 million in 2002 to \$0 in 2003.

Net cash provided by financing activities decreased \$10.55 million for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. The decrease was primarily due to the following components: (1) a decrease in proceeds from notes payable of \$6.22 million, from \$17.38 million in 2002 to \$11.16 in 2003; (2) an increase in payments of notes payable of \$4.96 million; (3) an increase in common dividends paid of \$1.26 million, from \$1.01 million in 2002 to \$2.27 million in 2003; (4) a decrease in contributions from minority interests of \$621 thousand; (5) an increase in the purchase of treasury shares of \$591 thousand. The above decreases in cash are offset by a \$3.40 million increase in the issuance of common shares.

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

	Quarter		Year to date	
	2003	2002	2003	2002
Operating activities	\$ 2,655	\$ 2,150	\$(1,435)	\$ 2,617
Investing activities	\$(1,420)	\$(7,495)	\$(4,517)	\$(17,435)
Financing activities	\$ (623)	\$ 5,683	\$ 4,794	\$ 15,342

On July 23, 2002, the Company completed a merger with three of its 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 exercised their dissenters rights. The

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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 September 2003, the Company renewed its unsecured credit facility (the "Credit Facility"), which is being used to provide funds for the acquisition of properties and working capital. Under the Credit Facility, which has a term of one year, the Company may borrow up to \$20 million subject to the value of unencumbered assets. 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 and fixed charge coverage ratios and allow the lender to approve all distributions. At September 30, 2003, the Company was in compliance with all applicable financial covenants. The Credit Facility's annual interest rate varies depending upon leverage, from LIBOR plus a spread of 1.4% to LIBOR plus 2.35%. As of September 30, 2003, the interest rate was LIBOR plus 2.0%. As of September 30, 2003, \$15.0 million was outstanding under the Credit Facility. Thus the Company has approximately \$5.0 million available under its line of credit, subject to lender approval on the use of the proceeds.

As of September 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 September 30, 2003 and 2002, the Company's cash and cash equivalents totaled \$1.348 million and \$751 thousand respectively.

The Company paid aggregate cash dividends to the holders of its class A, class B and class C common shares, for the three months ended of September 30, 2003 and 2002 of \$765 thousand and \$681 thousand, respectively.

INFLATION

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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 \$2.013 million to \$874 thousand for the three months ended September 30, 2003 from \$(1.139) million for the three months ended September 30, 2002. For the nine month period ended September 30, 2003 FFO increased \$2.871 million, from \$(463) thousand in 2002 to \$2.408 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 in thousands for the three and nine months ended September 30:

	Quarter		
	2003	2002	200
	----	----	---
Net income (loss)	\$ 659	\$ (1,370)	\$ 1,7
Depreciation and amortization:			
Continuing operations	215	216	6
Discontinued operations	-	15	
<b>Total funds from operations *</b>	<b>\$ 874</b>	<b>\$ (1,139)</b>	<b>\$ 2,4</b>
Cash distributions paid to class A, B and C shareholders	\$ 765	\$ 681	\$ 2,2
FFO in excess of (less than) distributions*	\$ 109	\$ (1,820)	\$ 1



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\* Based on adherence to the NAREIT definition of FFO, we did not add back the \$1.904 million charge to earnings in the third quarter 2002 resulting from shares issued to Mr. Taylor, president of the Company. Adding this \$1.904 million charge to earnings back to earnings would result in adjusted funds from operations of \$765 thousand for the three months ended September 30, 2002 and \$1.441 million for the nine months ended September 30, 2002, respectively. Adding the charge to earnings would also result in dividends paid being less than adjusted FFO of \$84 thousand for the three months ended September 30, 2002 and \$429 thousand for the nine months ended September 30, 2002.

### RESULTS OF OPERATIONS

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

During the three months ended September 30, 2003 and September 30, 2002, the Company earned \$1.9 million and \$1.6 million, respectively, in rental income from operating leases and earned income from direct financing leases. Additional property purchases resulted in the increased income from rents and earned income from direct financing leases. Service fee income increased \$219 thousand, from \$726 thousand in 2002 to \$945 thousand in 2003. The increase in service fee income was primarily due to an increase in commission income from an increase in equity raised in our real estate investment sponsorship activities. Gain on sale of real estate acquired for resale increased \$275 thousand, from a loss of \$37 thousand in 2002 to a \$238 thousand gain in 2003. The gain recorded in 2003 is related to the sale of an IHOP property in Milwaukee, WI.

During the three months ended September 30, 2003 and September 30, 2002, the Company's expenses were \$2.5 million and \$3.7 million, respectively. The \$1.2 million decrease in expenses is primarily attributable to a non-recurring charge in 2002 of \$1.9 million, which was a deferred payment of merger related expenses. This decrease in expense was partially offset by the following increases: (1) an increase in general operating and administrative expense of \$221 thousand, from \$649 thousand in 2002 to \$870 thousand in 2003, which was primarily attributable to an increase in salary expense due to additional positions; and (2) an increase in legal and professional fees of \$500 thousand, from \$365 thousand in 2002 to \$865 thousand in 2003, which was primarily due to an increase in commissions paid to third party security brokerage companies.

Comparison of the Nine Months Ended September 30, 2003 to September 30, 2002:

During the nine months ended September 30, 2003 and September 30, 2002, the Company earned \$5.5 million and \$3.5 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 \$539 thousand, from \$1.466 million in 2002 to \$2.004 million in 2003. The increase is primarily due to an increase in commission income, which is partially offset by a decrease in advisory fee income. Gain on sale of real estate acquired for resale increased \$275 thousand, from a loss of \$37 thousand in 2002 to a \$238 gain in 2003. The gain recorded in 2003 is related to the sale of an IHOP property in Milwaukee, WI.

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During the nine months ended September 30, 2003 and September 30, 2002, the Company's expenses were \$6.37 million and \$6.13 million, respectively. The \$234 thousand increase in expenses is primarily due to (1) an increase in legal and professional fees of \$902 thousand, from \$695 thousand in 2002 to \$1.6 million in 2003. The increase in legal and professional fees is primarily attributable to increased commission expense paid to third party security brokerage companies; (2) an increase in interest expense of \$560 thousand, from \$1.2 million in 2002 to \$1.7 million in 2003. The increase in interest expense is due to additional debt used to finance the acquisition of additional properties; (3) an increase in general operating and administrative expenses of \$513 thousand, from \$1.9 million in 2002 to \$2.4 million in 2003, which is due to an increase in salary expense due to additional positions. These increases in expense are offset by a decrease in deferred acquisition costs of \$1.9 million, which is attributable to the deferred payment of merger related expenses that was expensed in 2002.

### Discontinued Operations

The operations of two properties listed as held for sale at September 30, 2003 were reported as discontinued operations. The following is a summary of our discontinued operations:

	Three Months Ended 9/30/2003 -----	Three Months Ended 9/30/2002 -----	Nine Months Ended 9/30/2003 -----
Rental revenue	\$82,540	\$77,192	\$247,618
Depreciation and amortization	-	(15,226)	(30,136)
Property expenses	(7,009)	-	(11,565)
	\$75,531	\$61,966	\$205,917
Income from discontinued operations			
Basic income from discontinued operations per common share	\$ 0.027	\$ 0.026	\$ 0.074

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

NONE

#### Item 2. Changes in Securities and Use of Proceeds

NONE

#### Item 3. Defaults Upon Senior Securities

NONE

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

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NONE

Item 5. Other Information

NONE

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 31.1 Chief Executive Officer Section 302 Certification
- 31.2 Chief Financial Officer Section 302 Certification
- 32.1 Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Chief Financial Officer certification pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On November 12, 2003, AmREIT (the "Company") issued a press release announcing its consolidated financial results for the quarter ended September 30, 2003.

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.

AmREIT

-----  
(Issuer)

November 13, 2003

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Date

/s/ H. Kerr Taylor

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H. Kerr Taylor, President

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November 13, 2003

/s/ Chad C. Braun

-----  
Date

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Chad C. Braun, (Principal Accounting Officer)

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 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

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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: November 13, 2003

By:

-----  
H. Kerr Taylor, Chief Executive Officer

### 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

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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: November 13, 2003

By:

-----  
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

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In connection with the Quarterly Report of AmREIT (the "Company") on Form 10-QSB for the period ended September 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

H. Kerr Taylor  
Chief Executive Officer  
November 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

In connection with the Quarterly Report of AmREIT (the "Company") on Form 10-QSB for the period ended September 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.

Chad C. Braun  
Chief Financial Officer  
November 13, 2003