

Edgar Filing: AMREIT - Form 424B3

AMREIT
Form 424B3
December 23, 2003

AMREIT

Supplement No. One, Dated December 23, 2003
To Prospectus, Dated August 12, 2003

This Supplement is part of, and should be read in conjunction with, the Prospectus dated August 12, 2003. Capitalized terms used in this Supplement have the same meanings as in the Prospectus unless otherwise stated herein.

Information as to proposed properties for which AmREIT has entered into initial commitments to acquire and as to the number and types of properties acquired by AmREIT is presented as of December 11, 2003 and all references to commitments or property acquisitions should be read in that context. Proposed properties for which AmREIT enters into initial commitments to acquire, as well as property acquisitions that occur after December 11, 2003, will be reported in a subsequent Supplement.

RECENT DEVELOPMENTS

On November 17, 2003, AmREIT acquired San Felipe @ Winrock, a 2.0 acre tract of land located at the intersection of San Felipe and Winrock in the prestigious Tanglewood residential community in Houston, Texas. Situated on the property are 63 multifamily apartment units that are 50% occupied. All tenants are required to fully vacate the premise no later than December 31, 2003. Demolition and abatement of the apartment units is anticipated to begin January 15, 2004. Approximately 1.0 acre has been leased under a 20-year ground lease to Bank of America. The property was purchased for \$4,555,000 in cash. Additionally, a \$130,680 escrow was established for demolition and abatement, with any demolition and abatement costs in excess of that amount to be paid by the seller. Construction of the Bank of America branch is anticipated to begin during the first quarter of 2004.

The Bank of America ground lease, which encompasses approximately 45,000 square feet, is a 20-year lease and includes multiple 5-year extension options. The ground lease is anticipated to commence on October 15, 2004, upon construction completion, and initial annual rental payments will be \$214,000. AmREIT is currently marketing the remaining 1.0 acre to a number of tenants including other banks and financial institutions as well as multiple drug store and general retail operators.

On December 11, 2003, AmREIT acquired Uptown Plaza, consisting of a 12,000 square foot CVS pharmacy and a 16,000 square foot shopping center, anchored by The Grotto, a Landry's restaurant concept. This property, which was constructed in 2002, is located at the intersection of Loop 610 and Westheimer in Houston, Texas. This intersection is one of the most visible, highest traffic count intersections in Houston. The property was acquired for \$13 million in cash.

The CVS has a 22-year lease expiring in August 2025 and currently provides for annual rental payments of \$546,600. CVS occupies approximately 12,000 square feet in a free standing building on the direct corner of Loop 610 and Westheimer. The Grotto has a 10-year lease expiring in September 2012 and

Edgar Filing: AMREIT - Form 424B3

currently provides for annual rental payments of \$310,000. The Grotto occupies approximately 8,000 square feet on the southeast corner of the shopping center. IS Images, a women's clothing boutique, has a five-year lease expiring in March 2008. IS Images occupies approximately 1,600 square feet of the shopping center. Nextel, a leading cellular and wireless company, has a seven-year lease expiring in March 2009. Nextel occupies approximately 1,600 square feet of the shopping center. There is approximately 4,800 square feet of vacant space that is being marketed for lease. Each lease contains various provisions for lease extensions, ranging from three to five years each, at the then prevalent market rental rate.

Neither AmREIT nor any of its affiliates received any compensation or fees as a result of the acquisition of this property.

On 12/19/03 AmREIT purchased Terrace Shops, a 16,395 square foot shopping center anchored by Starbucks Coffee. The purchase price for this property is \$4,800,000, which will be payable \$2,000,000 in cash and the assumption of a \$2,800,000 loan held by Lehman Brothers. The loan is a non-recourse permanent loan which is secured by the property. The loan bears a fixed interest rate of 7.58% with a 10 year term and a 30 year debt amortization schedule. The center is located at the intersection of Westpark and Buffalo Speedway in Houston, Texas. This intersection is the gateway to the affluent West University residential community and within close proximity to the Texas Medical Center and Greenway Plaza business district. The table below summarizes the tenants and their respective lease terms:

Tenant	Square Footage	Lease Term	Expiration	Annual Rent
Starbucks Coffee	2,039	Ten Years	February 2011	\$ 59,131
Style Boutique	1,465	Five Years	January 2007	\$ 32,963
LeBon Cleaners	1,728	Ten Years	June 2010	\$ 44,928
Q Designer Nails	1,425	Five Years	May 2005	\$ 39,900
Sports Clips	1,443	Five Years	August 2005	\$ 36,537
Copy Dr.	2,979	Five Years	June 2005	\$ 78,944
Grand Panda	4,099	Ten Years	August 2011	\$106,574
Vacant	1,217	--	--	--

On October 10, 2003, our board of trust managers declared a quarterly distribution of \$.175 per share per class C common share, payable in equal monthly installments of \$.0583 on October 31, 2003, November 28, 2003, and December 31, 2003 to shareholders of record on October 20, 2003, November 20, 2003 and December 19, 2003, respectively.

Edgar Filing: AMREIT - Form 424B3

As of November 30, 2003, AmREIT had received subscriptions from this offering for approximately 885,485 class C common shares, totaling \$8,854,850 in gross proceeds. Of this amount, AmREIT has paid \$929,760 to AmREIT Securities Company, the dealer manager of this offering, pursuant to the terms of the dealer manager agreement between AmREIT and AmREIT Securities Company. Additionally, AmREIT Securities Company has paid out approximately \$708,000 in commissions to other non-affiliated NASD broker dealer firms. As of November 30, 2003, AmREIT had issued 5,442 class C common shares pursuant to the Reinvestment Plan relating to this offering.

SUMMARY OF THE OFFERING

Prior Offering Summary

The following paragraph updates and replaces the paragraph on page 9 of the Prospectus.

AmREIT's affiliates have previously sponsored three publicly offered and 12 privately placed real estate limited partnerships, all of which were on an unspecified property or "blind pool" basis. As of September 30, 2003, AmREIT and its affiliates have raised approximately \$82 million from 3,260 investors. The disclosure under the caption "Prior Performance" on page 43 of the Prospectus contains a discussion of the AmREIT program sponsored to date.

RISK FACTORS

Risks Associated with an Investment in AmREIT

AmREIT may increase its leverage without shareholder approval.

The following paragraph updates and replaces the second paragraph under this caption on page 13 of the Prospectus.

On September 30, 2003, AmREIT had outstanding debt totaling \$38.3 million of which \$19.2 million was unsecured. This debt represents approximately 47% of AmREIT's total assets.

AmREIT depends on a few major tenants.

The following sentence updates and replaces the fourth sentence under this caption on page 14 of the Prospectus.

3

IHOP, Corp. and Footstar, Inc. accounted for 32% and 13%, respectively, of AmREIT's total rental revenues for the year ended December 31, 2002 and 35.09% and 9.69%, respectively for the nine months ended September 30, 2003.

With the acquisition of Uptown Plaza, IHOP, Corp. and Footstar, Inc. are anticipated to account for approximately 29.91% and 8.77%, respectively, of AmREIT's total rental revenue as of December 31, 2003.

Anticipated Borrowing Creates Risks.

The following sentence updates and replaces the third sentence under this caption on page 20 of the Prospectus.

Edgar Filing: AMREIT - Form 424B3

We currently have a revolving line of credit in an aggregate amount of up to \$30 million to provide financing for the acquisition of assets, of which \$15 million was outstanding as of September 30, 2003.

4

BUSINESS AND PROPERTIES

General

The following sentence updates and replaces the last sentence of the first paragraph under this caption on page 30 of the Prospectus.

As of September 30, 2003, AmREIT has outstanding 2,812,502 million class A common shares, listed on the American Stock Exchange (AMEX: AMY), 2,384,002 million class B common shares, that are not listed on an exchange, which may be converted into class A common shares on a one-for-one basis at any time at the holder's option, and 339,455 class C common shares.

The following sentences update and replace the third, fourth and fifth sentences of the fourth paragraph under this caption on page 30 of the Prospectus.

Through a wholly-owned subsidiary, we also provide advisory services to twelve real estate limited partnerships. As of September 30, 2003, AmREIT and its affiliated investment funds owned 63 properties (50 properties owned directly by AmREIT or a majority-controlled subsidiary and 13 properties owned through affiliated-invested funds). AmREIT currently has 2,900 shareholders and 800 partners in the limited partnerships.

Properties

Description.

The following sentence updates and replaces the fifth sentence in the first paragraph under this caption on page 31 of the Prospectus.

Information concerning the properties owned solely by AmREIT as of September 30, 2003, is presented in the following table:

AMREIT WHOLLY-OWNED PROPERTY INFORMATION

PROPERTY (LOCATION) -----	DATE ACQUIRED -----	PURCHASE PRICE -----	LEASEABLE AREA -----	CURRENT ANNUAL RENT -----
Radio Shack (Dallas, Texas).....	06/15/94	\$1,062,000	5,200	\$108,900
Wherehouse Entertainment (Independence, MO)	11/14/94	1,550,000	14,047	187,655
Copperfield Medical Plaza (Houston, TX)	07/01/95	1,680,000	14,000	201,072
Wherehouse Entertainment (Wichita, KS)	09/12/95	1,700,000	15,158	206,833

Edgar Filing: AMREIT - Form 424B3

FootStar, Inc. (Tucson, AZ)	09/11/96	3,351,000	19,550	419,026
Washington Mutual (The Woodlands, TX)	09/23/96	500,000	3,685	59,461

5

PROPERTY (LOCATION) -----	DATE ACQUIRED -----	PURCHASE PRICE -----	LEASEABLE AREA -----	CURRENT ANNUAL RENT -----
Washington Mutual (Houston, TX)	12/11/96	828,000	3,685	97,861
FootStar, Inc. (Baton Rouge, LA)	06/09/97	2,806,000	20,575	300,539
Hollywood Video (Lafayette, LA)	10/31/97	1,124,000	7,488	134,709
Hollywood Video (Ridgeland, MS)	12/30/97	1,208,000	7,488	138,453
OfficeMax (Dover, DE)	04/14/98	2,548,000	23,500	264,679
Woodlands Plaza (The Woodlands, TX).....	06/03/98	3,542,000	16,922	(1)
Sugar Land Plaza (Sugar Land, TX)	07/01/98	3,635,000	16,922	330,875
Dardin (Peachtree City, GA) ...	12/18/98	738,000	Land Lease	75,000
IHOP, Corp. (Sugarland, TX)	9/30/99	1,608,000	4,020	165,180
IHOP, Corp. (Topeka, KS)	9/30/99	1,335,000	4,020	137,340
Foodmaker (Dallas, TX)	7/23/02 (2)	715,100	2,238	68,998
Baptist Memorial Health (Memphis, TN).....	7/23/02 (2)	2,079,200	15,000	204,375
Payless Shoes (Austin, TX).....	7/23/02 (2)	698,300	4,000	82,000
Golden Corral (Houston, TX).....	7/23/02 (2)	1,811,800	12,000	182,994
Golden Corral (Houston, TX).....	7/23/02 (2)	1,843,400	12,000	181,688
TGI Friday's (Houston, TX).....	7/23/02 (2)	2,036,900	8,500	180,500
Goodyear Tire (Houston, TX).....	7/23/02 (2)	535,900	5,209	51,756
Guitar Center (Minneapolis, MN).....	7/23/02 (2)	2,541,700	15,000	246,750
AFC, Inc. (Popeye's Chicken) (Atlanta, GA)...	7/23/02 (2)	1,113,900	2,583	105,563
Memorial Herman Hospital (Houston, TX).....	7/23/02 (2)	1,816,800	15,000	171,360
Blockbuster Video (Oklahoma City, OK).....	7/23/02 (2)	973,800	15,000	92,610
Pier One				

Edgar Filing: AMREIT - Form 424B3

(Longmont, CO).....	7/23/02 (2)	1,423,600	8,014	135,560
IHOP. Corp.				
(Grand Prairie, TX)	4/15/03	1,940,400	4,020	174,332

6

PROPERTY (LOCATION) -----	DATE ACQUIRED -----	PURCHASE PRICE -----	LEASEABLE AREA -----	CURRENT ANNUAL RENT -----
IHOP. Corp. (Bridgeton, MO)	4/15/03	1,846,800	4,020	182,593
IHOP. Corp. (Merriville, IN)	4/15/03	1,665,900	4,020	157,106
TGI Friday's (Hanover, MD)	9/16/03	1,474,700	8,500	134,962
TOTAL		\$53,733,200	311,364	\$5,180,730

- (1) Due to the bankruptcy of Just For Feet, this property is being remodeled to accommodate multiple tenants with approximately 70% of the property currently leased.
- (2) These properties were acquired as part of the merger of the affiliated partnerships (Funds IX, X and XI) on July 23, 2002. The purchase price reflects the pro-rata portion of the negotiated price allocated to the properties that AmREIT paid the partnerships, in common shares.

The following paragraphs are inserted following the first paragraph on page 33 of the Prospectus.

Recent Acquisitions and Dispositions.

On November 17, 2003, AmREIT acquired San Felipe @ Winrock, a 2.0 acre tract of land located at the intersection of San Felipe and Winrock in the prestigious Tanglewood residential community in Houston, Texas. Situated on the property are 63 multifamily apartment units that are 50% occupied. All tenants are required to fully vacate the premise no later than December 31, 2003. Demolition and abatement of the apartment units is anticipated to begin January 15, 2004. Approximately 1.0 acre has been leased under a 20-year ground lease to Bank of America. The property was purchased for \$4,555,000 in cash. Additionally, a \$130,680 escrow was established for demolition and abatement, with any demolition and abatement costs in excess of that amount to be paid by the seller. Construction of the Bank of America branch is anticipated to begin during the first quarter of 2004.

The Bank of America ground lease, which encompasses approximately 45,000 square feet, is a 20-year lease and includes multiple 5-year extension options. The ground lease is anticipated to commence on October 15, 2004, upon

Edgar Filing: AMREIT - Form 424B3

construction completion, and initial annual rental payments will be \$214,000. AmREIT is currently marketing the remaining 1.0 acre to a number of tenants including other banks and financial institutions as well as multiple drug store and general retail operators.

On December 11, 2003, AmREIT acquired Uptown Plaza, consisting of a 12,000 square foot CVS pharmacy and a 16,000 square foot shopping center, anchored by The Grotto, a Landry's restaurant concept. This property, which was constructed in 2002, is located at the intersection of Loop 610 and Westheimer in Houston, Texas. This intersection is one of the most visible, highest traffic count intersections in Houston. The property was acquired for \$13 million in cash.

7

The CVS has a 22-year lease expiring in August 2025 and currently provides for annual rental payments of \$546,600. CVS occupies approximately 12,000 square feet in a free standing building on the direct corner of Loop 610 and Westheimer. The Grotto has a 10-year lease expiring in September 2012 and currently provides for annual rental payments of \$310,000. The Grotto occupies approximately 8,000 square feet on the southeast corner of the shopping center. IS Images, a women's clothing boutique, has a five-year lease expiring in March 2008. IS Images occupies approximately 1,600 square feet of the shopping center. Nextel, a leading cellular and wireless company, has a seven-year lease expiring in March 2009. Nextel occupies approximately 1,600 square feet of the shopping center. There is approximately 4,800 square feet of vacant space that is being marketed for lease. Each lease contains various provisions for lease extensions, ranging from three to five years each, at the then prevalent market rental rate.

AmREIT has contracted to purchase Terrace Shops, a 16,395 square foot shopping center anchored by Starbucks Coffee. This acquisition, which is expected to close on or about December 19, 2003, is subject to a number of closing conditions, including common area maintenance agreements and reconfiguration of parking lot to allow for additional parking spaces. The purchase price for this property is \$4,800,000, which will be payable \$2,000,000 in cash and the assumption of a \$2,800,000 loan held by Lehman Brothers. The loan is a non-recourse permanent loan which is secured by the property. The loan bears a fixed interest rate of 7.58% with a 10 year term and a 30 year debt amortization schedule. The center is located at the intersection of Westpark and Buffalo Speedway in Houston, Texas. This intersection is the gateway to the affluent West University residential community and within close proximity to the Texas Medical Center and Greenway Plaza business district. The table below summarizes the tenants and their respective lease terms:

Tenant	Square Footage	Lease Term	Expiration	Annual Rent
Starbucks Coffee	2,039	Ten Years	February 2011	\$ 59,131
Style Boutique	1,465	Five Years	January 2007	\$ 32,963
LeBon Cleaners	1,728	Ten Years	June 2010	\$ 44,928
Q Designer Nails	1,425	Five Years	May 2005	\$ 39,900
Sports Clips	1,443	Five Years	August 2005	\$ 36,537
Copy Dr.	2,979	Five Years	June 2005	\$ 78,944
Grand Panda	4,099	Ten Years	August 2011	\$106,574

Edgar Filing: AMREIT - Form 424B3

Vacant 1,217 -- -- --

8

In August AmREIT Fidelity Corporation, a wholly owned subsidiary of AmREIT, sold an IHOP property located in Milwaukee, Wisconsin. The property was purchased in April 2003 and has a net book value of approximately \$1,780,000. In August 2003 the property was sold for approximately \$2,017,000 net of all closing and financing costs, resulting in a net profit to AmREIT Fidelity Corporation of approximately \$237,000.

In December 2003, AmREIT sold an OfficeMax property located in Dover, Delaware. The property was purchased in April 1998 by AmREIT and has a net book value of approximately \$2,570,000. In December 2003, the property was sold for approximately \$3,112,000 net of all closing and financing costs, resulting in a net profit to AmREIT of approximately \$542,000.

AmREIT has contracted to sell a Goodyear Tire Store property located in Houston, Texas during January, 2004. The property was purchased in March 1994 and has a net book value of approximately \$523,000. Estimated sales proceeds net of all closing and financing costs are anticipated to be \$525,000, including a \$135,000 lease buyout by Goodyear, resulting in a net profit to AmREIT of approximately \$2,000.

AmREIT Fidelity Corporation has contracted to sell an IHOP property located in Merriville, Indiana during December 2003. The property was purchased in April 2003 and has a net book value of approximately \$1,666,000. Estimated sales proceeds net of all closing and financing costs are anticipated to be \$2,154,000, resulting in a net profit to AmREIT of approximately \$488,000. Closing of this sale is subject to customary closing conditions.

Renovation and Improvements.

The following sentence updates and replaces the penultimate sentence of the paragraph under this caption on page 33 of the Prospectus.

Through September 30, 2003, approximately \$147,000 thousand had been spent on renovation.

Significant Tenants.

The following sentence updates and replaces the first paragraph under this caption on page 35 of the Prospectus.

IHOP, Corp. and Footstar, Inc. individually accounted for 32% and 13%, respectively, of AmREIT's total rental revenues for the year ended December 31, 2002 and 35% and 10% for the nine months ended September 30, 2003.

Following the acquisition of Uptown Plaza, IHOP, Corp. and Footstar, Inc. are expected to individually account for approximately 29% and 9%, respectively, of AmREIT's total rental revenues as of December 31, 2003.

PRICE RANGE OF CLASS A COMMON SHARES

The following sentence updates and replaces the first sentence under this caption on page 56 of the Prospectus.

Edgar Filing: AMREIT - Form 424B3

As of November 30, 2003, there were approximately 807 record holders of 2,832,733 class A common shares, net of 104,567 shares held in treasury.

9

The following sentences update and replace the Third Quarter presentation under "2003" in the table appearing under this caption on page 56 of the Prospectus.

	High	Low	Dividend
Third Quarter.....	\$6.55	\$6.15	\$0.1120
Fourth Quarter (through December 1,2003).....	\$6.57	\$6.30	\$0.0758

SELECTED HISTORICAL FINANCIAL DATA

The following sentence updates and replaces the third sentence in the first paragraph under this caption on page 58 of the Prospectus.

The selected historical operating balance sheet and cash flow data for AmREIT for the nine months ended September 30, 2003 and 2002 are derived from AmREIT's unaudited financial statements and include, in management's opinion, all adjustments necessary to present fairly the data for such periods.

The following table updates and replaces the table under this caption on pages 59 and 60 of the Prospectus.

10

AmREIT
Selected Historical
Consolidated Financial and Other Data

	December 31, 2002	December 31, 2001	Dec
Balance sheet data (at end of period)			
Total Property	\$47,979,848	\$ 30,726,025	\$ 3
Accumulated depreciation	(2,136,376)	(2,066,067)	(
Total Property Held For Sale.....	-	-	
Cash and cash equivalents	2,506,868	227,117	
Total assets	73,975,753	38,828,393	3
Notes payable	33,586,085	16,971,549	1
Total liabilities	34,958,534	18,399,279	1
Minority interest	810,971	5,075,333	
Shareholders' equity	38,206,248	15,353,781	1

Edgar Filing: AMREIT - Form 424B3

- (1) AmREIT 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. FFO should not be considered an alternative to cash flows from operating, investing and financing activities in accordance with general accepted accounting principles and is not necessarily indicative of cash available to meet cash needs. AmREIT'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 AmREIT's performance, or of cash flows as a measure of liquidity. Please see the reconciliation of Net Income to FFO on page 15.
- (2) Based on the adherence to the NAREIT definition of FFO, we have not added back the \$1.90 million charge to earnings in the third quarter of 2002 resulting from shares issued to Mr. Taylor as deferred merger cost stemming from the sale of his advisory company to AmREIT in June 1998. Adding this \$1.90 million charge back to earnings would result in Adjusted FFO of \$1.91 million.

11

AmREIT Selected Historical Consolidated Financial and Other Data (3)

	December 31, 2002 (revised) (3)	December 31, 2001 (revised) (3)
Operating Data		
Revenues:		
Rental income and earned income from DFL	\$ 5,193,147	\$ 3,009,330
Interest income	4,206	10,555
Service fee, other income, and gain and loss on sale of property.....	2,691,260	2,650,113
Total revenues	7,888,613	5,669,998
Expenses:		
General operating, administrative, legal and professional	4,134,134	2,956,061
Reimbursements and fees to related party.....	-	-
Interest	1,774,973	1,063,574
Depreciation and amortization	611,084	413,583
Merger related acquisition costs	-	-
Bad debts	-	-
Merger costs	-	-
Deferred merger costs.....	1,904,370	-
Potential acquisition costs	-	-

Edgar Filing: AMREIT - Form 424B3

Total expense	8,424,561	4,433,218
Income (loss) before federal income taxes and minority interest in net income of consolidated joint ventures	(535,948)	1,236,780
Federal income tax expense	60,656	144,420
Minority interest in net income of consolidated joint ventures	(308,010)	(527,571)
Income from continuing operations.....	(904,614)	564,789
Income from discontinued operations (3).....	245,841	225,719
Net income (loss)	(658,773)	\$ 790,508
Less distributions to class B & C shareholders.....	(865,293)	-
Net income (loss) available to class A shareholders.....	(1,524,066)	790,508
Basic and diluted income (loss) from continuing operations per share.....	\$ (0.72)	\$ 0.24
Net income (loss) per common share - basic and diluted.....	(0.62)	\$ 0.34
Distributions per share - class A	\$ 0.34	\$ 0.26
Weighted average number of Series A common shares outstanding	2,469,725	2,354,572
Weighted average number of common shares plus dilutive potential common shares	2,469,725	2,354,572

	December 31, 1998 (revised) (3)	"Un-Audited September 30, 2003	S
Operating Data			
Revenues:			
Rental income and earned income from DFL	\$ 2,544,964	\$ 5,526,601	\$ 3
Interest income	98,692	5,289	
Service fee, other income, and gain and loss on sale of property.....	187,577	2,522,994	1
Total revenues	2,831,233	8,054,884	5
Expenses:			
General operating, administrative, legal and professional	562,110	4,004,549	2
Reimbursements and fees to related party.....	40,607	-	
Interest	402,707	1,743,535	1
Depreciation and amortization	388,278	617,946	
Merger related acquisition costs	-	-	
Bad debts	-	-	
Merger costs	2,427,658	-	
Deferred merger costs.....	-	-	1
Potential acquisition costs	464,303	-	
Total expense	4,285,663	6,366,030	6
Income (loss) before federal income taxes and minority			

Edgar Filing: AMREIT - Form 424B3

interest in net income of consolidated joint ventures	(1,454,430)	1,688,854	
Federal income tax expense	-	-	
Minority interest in net income of consolidated joint ventures	(518,559)	(128,790)	
Income from continuing operations.....	(1,972,989)	1,560,064	(1
Income from discontinued operations (3).....	167,203	205,917	
Net income (loss)	\$ (1,805,786)	\$ 1,765,981	\$
Less distributions to class B & C shareholders.....	-	(1,349,010)	
Net income (loss) available to class A shareholders.....	(1,805,786)	416,971	(1
Basic and diluted income (loss) from continuing operations per share.....	(0.89)	0.08	
Net income (loss) per common share - basic and diluted.....	(0.81)	0.15	
Distributions per share - class A	\$ 0.71	\$ 0.33	\$
Weighted average number of Series A common shares outstanding	2,226,403	2,788,303	2
Weighted average number of common shares plus dilutive potential common shares	2,226,403	2,788,303	2

(3) In accordance with Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" issued by the Financial Accounting Standards Board, the consolidated statement of operations have been revised from those originally reported for the years ended December 31, 2002, 2001, 2000, 1999 and 1998 to reflect separately the results of discontinued operations for properties held for sale during the nine months ended September 30, 2003. The revision had no impact on the consolidated balance sheet data, statements of shareholders' equity or statements of cash flows. The revisions had no impact on net earnings or net earnings per share for the years ended December 31, 2002, 2001, 2000, 1999 and 1998.

12

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following sentence updates and replaces the first sentence of the second paragraph under this caption on page 61 of the Prospectus.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Form 10-KSB for the fiscal year ended December 31, 2002 and Form 10-QSB for the fiscal quarter ended September 30, 2003 and the selected financial data appearing elsewhere in this Prospectus.

The following sentence updates and replaces the first sentence of the third paragraph under this caption on page 61 of the Prospectus.

Edgar Filing: AMREIT - Form 424B3

AmREIT, a Texas real estate investment trust, is listed on the American Stock Exchange (AMY), owns a portfolio of 50 properties, 27 tenants located in 20 states, and a sponsor of high quality real estate investment opportunities to the financial planning community.

Liquidity and Capital Resources

The following paragraphs update and replace the second, third and fourth paragraphs under this caption on pages 61-62 of the Prospectus.

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.

13

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.

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

Edgar Filing: AMREIT - Form 424B3

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.

The following paragraphs update and replace the eleventh, twelfth, thirteenth, and fourteenth paragraphs under this caption on pages 63-64 of the Prospectus.

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

Edgar Filing: AMREIT - Form 424B3

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.

Funds From Operations

The following sentences update and replace the third sentence of the first paragraph under this caption on page 64 of the Prospectus.

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.

The following tables updates and replaces the second and fourth table on page 65 of the Prospectus, which reconciles net income to funds from operations and presents cash flows from operating activities, investing activities and financing activities.

Below is the reconciliation of net income to funds from operations in thousands for the three and nine months ended September 30:

	2003	Quarter 2002	Year 2003

Net income (loss)	\$ 659	\$ (1,370)	\$ 1,7
Depreciation and amortization:			
Continuing operations	215	216	6
Discontinued operations	-	15	
Total funds from operations *	\$ 874	\$ (1,139)	\$ 2,4

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

* 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

Edgar Filing: AMREIT - Form 424B3

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.

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 2003	2002		Year 2003
Operating activities	\$ 2,655	\$ 2,150		\$ (1,435)
Investing activities	\$ (1,420)	\$ (7,495)		\$ (4,517)
Financing activities	\$ (623)	\$ 5,683	\$	4,794

Results of Operations

The following paragraphs update and replace the first two paragraphs under this caption on page 66 of the Prospectus.

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

Edgar Filing: AMREIT - Form 424B3

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

16

\$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.

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 merger costs of \$1.9 million, which is attributable to the deferred payment of merger related expenses that was expensed in 2002.

DESCRIPTION OF AMREIT'S CAPITAL SHARES

General

The following sentence updates and replaces the second sentence under this caption on page 83 of the Prospectus.

As of November 30, 2003, AmREIT had outstanding 2,832,733 class A common shares, 2,364,770 class B common shares, 887,885 class C common shares and no preferred shares.

EXPERTS

General

The following paragraph updates and replaces the first paragraph under this caption on page 115 of the Prospectus.

The consolidated financial statements and schedule of AmREIT, Inc. and subsidiaries as of and for the year ending December 31, 2002, and the historical summary of gross income and direct operating expenses of 610 Westheimer-2000 for the period from September 29, 2002 (commencement of operations) to December 31, 2002 have been included herein in reliance upon the reports of KPMG LLP, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

AMREIT AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS FOR THE THREE AND NINE
MONTHS ENDED SEPTEMBER 30, 2003 AND 2002:

Consolidated Balance Sheet as of September 30,2003 (unaudited).....

Consolidated Statements of Operations for the three and nine months
ended September 30,2003 and 2002 (unaudited).....

Consolidated Statements of Cash Flows for the three and nine months
ended September 30,2003 and 2002 (unaudited).....

Notes to Consolidated Financial Statements for the three and nine months
ended September 30,2003 and 2002.....

FINANCIAL STATEMENTS FOR THE YEARS
ENDED DECEMBER 31, 2002 AND 2001:

Independent Auditors' Report.....

Independent Auditors' Report.....

Consolidated Balance Sheet, December 31,2002.....

Consolidated Statements of Operations for the Years Ended
December 31,2002 and 2001.....

Consolidated Statements of Shareholders' Equity
for the Years Ended December 31,2002 and 2001.....

Consolidated Statements of Cash Flows for the Years Ended
December 31,2002 and 2001.....

Notes to Consolidated Financial Statements for the Years Ended
December 31,2002 and 2001.....

Edgar Filing: AMREIT - Form 424B3

FINANCIAL STATEMENT SCHEDULE:

Schedule III Consolidated Real Estate Owned and Accumulated
Depreciation for the Year Ended December 31,2002.....

18

610 WESTHEIMER - 2000 HISTORICAL SUMMARY OF GROSS INCOME AND DIRECT OPERATING
EXPENSES FOR THE PERIOD SEPTEMBER 29, 2002 (COMMENCEMENT OF OPERATIONS)
THROUGH DECEMBER 31, 2002 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2003
(Unaudited)

Independent Auditors' Report.....

Historical Summary of Gross Income and Direct Operating Expenses for the
Period September 29,2002 (commencement of operations) through
December 31,2002 and the Nine Months Ended September 30,2003
(Unaudited).....

Notes to Historical Summary of Gross Income and Direct Operating Expenses
for the Period September 29,2002 (commencement of operations) through
December 31,2002 and the Nine Months Ended September 30, 2003
(Unaudited).....

All other financial statement schedules are omitted as the required
information is either inapplicable or is included in the financial statements
or related notes.

19

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

ASSETS

Property:

Land

\$21,531,368

Buildings

26,466,459

Edgar Filing: AMREIT - Form 424B3

Tenant improvements	351,561
Furniture, fixtures and equipment	232,142
	<hr/>
	48,581,530
Less accumulated depreciation	(2,731,637)
	<hr/>
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
	<hr/>
Total other assets	1,568,779
	<hr/>
TOTAL ASSETS	\$80,771,842
	<hr/>
	<hr/>
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
	<hr/>
TOTAL LIABILITIES	39,697,066
	<hr/>
Minority interest	821,380
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, 2,917,924 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)
	<hr/>
TOTAL SHAREHOLDERS' EQUITY	40,253,396

Edgar Filing: AMREIT - Form 424B3

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$80,771,842
--	--------------

See Notes to Condensed Consolidated Financial Statements.

20

AMREIT AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Quarter ended September 30, 2003	2002	Year to 2003
Revenues:			
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
	<u>3,193,384</u>	<u>2,342,678</u>	<u>8,054,8</u>
Expenses:			
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	
	<u>2,548,774</u>	<u>3,664,333</u>	<u>6,366,0</u>
Income (loss) before federal income taxes and minority interest in income of consolidated joint ventures	644,610	(1,321,655)	1,688,8
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
	<u>583,469</u>	<u>(1,431,994)</u>	<u>1,560,0</u>
Income from discontinued operations	75,531	\$ 61,966	205,9
Net income (loss)	\$ 659,000	\$ (1,370,028)	\$1,765,9

Edgar Filing: AMREIT - Form 424B3

Distributions paid to class B and class C shareholders	(457,343)	(423,732)	(1,349,0
Net income (loss) available to class A shareholders	\$ 201,657	\$ (1,793,760)	\$ 416,9
Basic income (loss) from continuing operations per common share	\$ 0.045	\$ (0.769)	\$ 0.0
Net income (loss) per common share - basic and diluted	\$ 0.072	\$ (0.744)	\$ 0.1
Weighted average common shares used to compute net income per share, basic and diluted	2,805,753	2,412,544	2,788,3

See Notes to Condensed Consolidated Financial Statements.

21

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
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

Edgar Filing: AMREIT - Form 424B3

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
	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)
	(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)
	(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
	\$ 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.

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.

Edgar Filing: AMREIT - Form 424B3

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 (AMEX) 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, 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. 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

Edgar Filing: AMREIT - Form 424B3

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

23

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)

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

Assets	
Buildings	\$ 16,330,088
Land	7,560,231

Edgar Filing: AMREIT - Form 424B3

Accounts receivable	1,105,612
Prepaid expenses	15,757
	<hr/>
Total Assets	\$ 25,011,688
Liabilities	132,630
	<hr/>
Net assets acquired	\$ 24,879,058
	<hr/>
Class B common stock issued	24,118,648
Subordinated notes issued	760,410

24

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 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

Edgar Filing: AMREIT - Form 424B3

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.

25

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 "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

Edgar Filing: AMREIT - Form 424B3

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.

26

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	2,805,753	2,412,544
Basic earnings (loss) per share	\$ 0.072 =====	\$ (0.744) =====
EARNINGS (LOSS) FOR BASIC COMPUTATION		
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

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	Three Months	Nin Mon
--	-----------------	-----------------	------------

Edgar Filing: AMREIT - Form 424B3

	Ended 9/30/2003 -----	Ended 9/30/2002 -----	End 9/30 -----
Rental revenue	\$82,540	\$77,192	\$247
Depreciation and amortization	-	(15,226)	(30)
Property expenses	(7,009)	-	(11)
	\$ 75,531	\$61,966	\$205
Income from discontinued operations			
Basic income from discontinued operations per common share	\$ 0.027	\$ 0.026	\$ 0

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 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.

27

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, 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

Edgar Filing: AMREIT - Form 424B3

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.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations has been the principal source of capital to fund

Edgar Filing: AMREIT - Form 424B3

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 million in proceeds from selling class C shares .

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 \$591 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 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

Edgar Filing: AMREIT - Form 424B3

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.

30

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

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

Edgar Filing: AMREIT - Form 424B3

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

31

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:

	2003 ----	Quarter 2002 ----	200 ----
Net income (loss)	\$ 659	\$ (1,370)	\$ 1,7
Depreciation and amortization:			
Continuing operations	215	216	6
Discontinued operations	-	15	
 Total funds from operations *	 \$ 874 =====	 \$ (1,139) =====	 \$ 2,4 =====
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

* 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

Edgar Filing: AMREIT - Form 424B3

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.

32

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.

During the nine months ended September 30, 2003 and September 30, 2002,

Edgar Filing: AMREIT - Form 424B3

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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND FINANCIAL STATEMENT SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2002

AMREIT AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT

To the Board of Trust Managers
AmREIT:

We have audited the accompanying consolidated balance sheet of AmREIT and subsidiaries (the "Company") as of December 31, 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 2002. In connection with our audit of the consolidated financial statements, we have also audited the related financial statement schedule. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmREIT and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The consolidated financial statements of AmREIT and subsidiaries for 2001 prior to their restatement as required under Financial Accounting Standards Board Statement No. 144 (Statement 144) as described in Note 10 to the consolidated financial statements, were audited by other auditors whose report is presented separately herein. We audited the reclassifications that were applied to revise the 2001 financial statements. In our opinion, such reclassifications are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of AmREIT and subsidiaries other than with respect to

Edgar Filing: AMREIT - Form 424B3

such reclassifications and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

KPMG LLP

Houston, Texas
March 31, 2003, except for the 5th paragraph of
Note 1, Item 5 of Note 6 and Note 10,
which are as of December 17, 2003.

35

INDEPENDENT AUDITORS' REPORT

To the Board of Trust Managers
AmREIT

We have audited the consolidated statements of operations, shareholders' equity and cash flows of AmREIT (formerly AmREIT, Inc.) and subsidiaries (the "Company") for the year ended December 31, 2001 (none of which are presented herein in their original format). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, AmREIT and subsidiaries results of operations and cash flows for the year ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America

DELOITTE & TOUCHE LLP

Houston, Texas
March 15, 2002

AMREIT AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2002

ASSETS

Property:

Land

\$18,

Buildings

28,

Furniture, fixtures and equipment

Accumulated depreciation

47,

(2,

Total property, net

45,

Net investment in direct financing leases

23,

Cash and cash equivalents

2,

Accounts receivable

Accounts receivable - related party

Escrow deposits

Prepaid expenses, net

Other assets:

Preacquisition costs

Loan acquisition cost, net of \$85,579 in accumulated amortization

Accrued rental income

Intangible lease cost

Investment in non-consolidated affiliates

Total other assets

1,

TOTAL ASSETS

\$73,

=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Notes payable

\$33,

Accounts payable

1,

Accounts payable - related party

Security deposit

Prepaid rent

TOTAL LIABILITIES

34,

Edgar Filing: AMREIT - Form 424B3

Minority interest

Shareholders' equity:

Preferred stock, \$.01 par value, 10,001,000 shares authorized, none issued
 Class A Common stock, \$.01 par value, 100,010,000 shares authorized,
 2,772,340 shares issued and outstanding
 Class B Common stock, \$.01 par value, 3,000,000 shares authorized,
 2,464,207 shares issued and outstanding
 Capital in excess of par value
 Accumulated distributions in excess of earnings
 Deferred compensation
 Cost of treasury stock, 65,379 shares

TOTAL SHAREHOLDERS' EQUITY

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

47,
(8,
(
(

38,

\$73,
====

See Notes to Consolidated Financial Statements.

37

AMREIT AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended De 2002
Revenues:	
Rental income from operating leases	\$ 3,386,030
Earned income from direct financing leases	1,807,117
Service fees and other income	2,041,999
Management fees	279,910
Income from non-consolidated affiliates	416,904
(Loss) gain on sale of property	(47,553)
Interest income	4,206
Total revenues	<hr/> 7,888,613 <hr/>
Expenses:	
General operating and administrative	2,801,946
Legal and professional	1,332,188
Interest	1,774,973
Depreciation	611,084
Deferred merger costs	1,904,370
Total expenses	<hr/> 8,424,561 <hr/>
(Loss) income before federal income taxes and minority interest in net income of consolidated joint ventures	<hr/> (535,948) <hr/>

Edgar Filing: AMREIT - Form 424B3

Federal income tax expense for taxable REIT subsidiary	60,656
Minority interest in net income of consolidated joint ventures	(308,010)
	<hr/>
(Loss) income from continuing operations	(904,614)
Income from discontinued operations	245,841
	<hr/>
Net (loss) income	(658,773)
Distributions paid to Class B shareholders	(865,293)
	<hr/>
Net (loss) income available to Class A shareholders	\$ (1,524,066)
	=====
Basic and diluted (loss) income from continuing operations per share	(0.72)
Net (loss) income per common share, basic and diluted	(0.62)
	=====
Common shares used to compute net (loss) and income per share, basic and diluted	2,469,725
	=====

See Notes to Consolidated Financial Statements.

AMREIT AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years ended December 31, 2002 and 2001

	Common Shares Number	Am
Balance at December 31, 2000	2,384,117	\$ 23
Net income	-	
Repurchase of common shares, Class A (24,723 shares)	-	

Edgar Filing: AMREIT - Form 424B3

Distributions	-	-
Balance at December 31, 2001	<u>2,384,117</u>	<u>23</u>
Net loss	-	
Issuance of common shares Class A	388,200	3
Issuance of common shares Class B, net of 124,750 that converted to Class A	2,464,207	24
Issuance of restricted shares Class A	-	
Repurchase of common shares Class A (46,069 shares)	-	
Distributions	-	
Balance at December 31, 2002	<u>5,236,524</u> =====	<u>\$52</u> ==

	Accumulated distributions in excess of earnings	Defered Compensation Obligation
Balance at December 31, 2000	\$ (6,223,523)	\$ -
Net income	790,508	-
Repurchase of common shares Class A (24,723 shares)	-	-
Distributions	<u>(604,742)</u>	<u>-</u>
Balance at December 31, 2001	<u>(6,037,757)</u>	<u>-</u>
Net loss	(658,773)	-
Issuance of common shares, Class A	-	-
Issuance of common shares, Class B, net of 124,750 that converted to Class A	-	-
Issuance of restricted shares Class A	-	(205,353)
Repurchase of common shares Class A (46,069 shares)	-	-
Distributions	<u>(1,730,316)</u>	<u>-</u>

Edgar Filing: AMREIT - Form 424B3

Balance at December 31, 2002

\$ (8,426,846)

\$ (205,353)

=====

=====

See Notes to Consolidated Financial Statements.

39

AMREIT AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash flows from operating activities:

Net (loss) income
Adjustments to reconcile net (loss) income to net cash
provided by operating activities:
Loss (gain) on sale of property
Depreciation and amortization
Increase in minority interest in net income of consolidated
joint ventures
Deferred merger costs
Decrease (increase) in accounts receivable
Decrease (increase) in accounts receivable - related party
Increase in prepaid expenses, net
(Decrease) increase in accounts payable
Increase in accounts payable- related party
Cash receipts from direct financing leases
less than income recognized
Decrease (increase) in accrued rental income
Increase in prepaid rent
Increase in other assets
Increase in deferred compensation

Net cash provided by operating activities

Cash flows from investing activities:

Improvements to real estate
Acquisitions of real estate
Additions to furniture, fixtures and equipment
Distributions from (investment in) joint ventures
Proceeds from sale of property
Decrease (increase) in preacquisition costs

Net cash used in investing activities

Cash flows from financing activities:

Proceeds from notes payable
Payments of notes payable
Loan acquisition costs
Issuance of treasury stock
Purchase of treasury stock
Issuance of common stock

Edgar Filing: AMREIT - Form 424B3

Retirement of common stock
Common dividends paid
Contributions from minority interests
Distributions to minority interests

Net cash provided by (used in) financing activities

Net increase (decrease) in cash and cash equivalents

Cash and cash equivalents at January 1

Cash and cash equivalents at December 31

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 \$23,890,319 worth of property and issued 2,589,179 shares of Class B common stock.

Supplemental schedule of cash flow information: Cash paid during the year for:

Interest
Income taxes

See Notes to Consolidated Financial Statements.

40

AMREIT AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

AmREIT, ("AmREIT" or the "Company") formally AmREIT, Inc., which was incorporated 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 organized in the state of Texas on December 22, 2002 and is a pre-eminent sponsor of real estate direct participation programs to the financial planning community. For more than 17 years, the Company 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

Edgar Filing: AMREIT - Form 424B3

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, 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 over 46 properties located in 18 states. Its properties include single-tenant; free standing credit tenant leased projects and multi-tenant frontage projects. The single tenant projects are located from 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.

Through AmREIT's direct participation programs, it creates new investment entities that buy and develop commercial real estate with proceeds raised from third-party investors. AmREIT has extensive experience and long-term relationships in the commercial real estate market - the basis of its ability to sponsor real estate investment opportunities while creating fee income and carried interests for AmREIT and its shareholders.

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

41

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. This merger transaction triggered a payment under the deferred consideration agreement between AmREIT and H. Kerr Taylor, President and Chief Executive Officer. The deferred consideration agreement was approved by the shareholders in 1998 as part of the sale of Mr. Taylor's advisory company to AmREIT. In the agreement, Mr. Taylor would receive additional class A common shares, in exchange for the sale of his advisory company, as AmREIT issued additional capital. Mr. Taylor was issued approximately 302 thousand Class A common shares, which resulted in a deferred merger expense of \$1.9 million in the third quarter 2002. Under the deferred consideration agreement, approximately 384 thousand shares remain to be issued to Mr. Taylor in the event the Company issues additional shares prior to June 4, 2004, the expiration date of the agreement.

In accordance with Statement of Financial Accounting Standard ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" issued by the Financial Accounting Standards Board, the consolidated statements of operations have been restated from those originally reported for the years ended December

Edgar Filing: AMREIT - Form 424B3

31, 2002 and 2001 to reflect separately the results of discontinued operations for properties held for sale during the nine-months ended September 30, 2003. The restatement had no impact on the consolidated balance sheets, consolidated statement of shareholders equity or statements of cash flows. The restatement had no impact on net (loss) income or net (loss) income per share for the years ended December 31, 2002 and 2001, see Note 10.

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.

BASIS OF ACCOUNTING

The financial records of the Company are maintained on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when incurred.

CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of demand deposits at commercial banks and money market funds.

PROPERTY

Property is leased to others, primarily on a net lease basis, whereby the operating expenses related to the properties, including property taxes, insurance and common area maintenance are the responsibility of the tenant. The leases are accounted for under the operating method or the direct financing method in accordance with generally accepted accounting principles. Under the operating lease method, the properties are recorded at cost. Rental income is

42

recognized ratably over the life of the lease and depreciation is charged based upon the estimated useful life of the property. Under the direct financing lease method, properties are recorded at their net investment. Unearned income is deferred and amortized to income over the life of the lease so as to produce a constant periodic rate of return.

Expenditures related to the development of real estate are carried at cost plus capitalized carrying charges, acquisition costs and development costs. Carrying charges, primarily interest and loan acquisition costs, and direct and indirect development costs related to buildings under construction are capitalized as part of construction in progress. The Company capitalizes acquisition costs once the acquisition of the property becomes probable. Prior to that time, the Company expenses these costs as acquisition expense.

Management reviews its properties for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, including accrued rental income, may not be recoverable through operations. Management

Edgar Filing: AMREIT - Form 424B3

determines whether an impairment in value occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the residual value of the property, with the carrying cost of the individual property. If impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value.

DEPRECIATION

Buildings are depreciated using the straight-line method over an estimated useful life of 39 years. Leasehold estate properties, where the Company owns the building and improvements but not the related ground, therefore there is no residual value beyond the lease, are depreciated over the life of the lease.

INVESTMENT IN NON-CONSOLIDATED AFFILIATES

AmREIT invested \$250 thousand as a limited partner and \$1,000 as a general partner in AmREIT Opportunity Fund, Ltd. ("AOF"), which is accounted for using the equity method. The limited partners have the right to remove and replace the general partner by a vote of the limited partners owning two-thirds of the outstanding units. AmREIT currently owns a 10.5% limited partner interest in AOF. AOF was formed to develop, own, manage, and hold for investment and, or resell property and to make or invest in loans for the development or construction of property. Liquidation of AOF commenced in July of 2002. Based on the general partner's analysis of owned real estate as of December 31, 2002, none of the assets owned or in liquidation by AOF are impaired.

AmREIT invested \$200 thousand as a limited partner and \$1,000 as a general partner in AmREIT Income & Growth Fund, Ltd. ("AIG") that is accounted for using the equity method. The limited partners have the right to remove and replace the general partner by a vote of the limited partners owning a majority of the outstanding units. AmREIT currently owns an approximately 3.9% limited partner interest in AIG. AIG was formed to develop, own, manage, and hold for investment and, or resell property and to make or invest in loans for the development or construction of property.

AmREIT invested \$70 thousand as a limited partner in AmREIT CDP #27, LP that is accounted for using the equity method. AmREIT CDP #27, LP was formed to acquire

commercial real property and to develop, operate, lease, manage, and or sell real property. AmREIT CDP #27, LP purchased two IHOP properties in 2001 located in Memphis, Tennessee and Tupelo, Mississippi. The Memphis, Tennessee property was sold for a profit in the first quarter of 2002.

ARIC invested \$122 thousand as a limited partner in AmREIT CDP SPE #33, Ltd. that is accounted for using the equity method. AmREIT CDP SPE #33, Ltd. was formed to acquire commercial real property and to develop, operate, lease, manage, and or sell real property. In December 2001, AmREIT CDP #33, Ltd. purchased three IHOP leasehold estate properties located in Houston, Texas, Orem, Utah, and Hagerstown, Maryland.

AmREIT invested \$330 thousand as a member in AmREIT CDP #31, LLC ("CDP 31") that is accounted for using the equity method. CDP 31 was formed to acquire

Edgar Filing: AMREIT - Form 424B3

commercial real property and to develop, operate, lease, manage, and or sell real property. CDP 31 purchased two IHOP properties in 2001 located in Cookeville, Tennessee and Scottsdale, Arizona. Both properties were sold during the first quarter 2002, and CDP 31 does not own any real property as of December 31, 2002.

OTHER ASSETS

Other assets include loan acquisition costs, net of accumulated amortization, of \$250 thousand. Loan acquisitions costs are incurred in obtaining property financing and are amortized to interest expense on the effective interest method over the term of the debt agreements. Accumulated amortization related to loan acquisition costs as of December 31, 2002 totaled \$86 thousand.

DEFERRED COMPENSATION

Deferred compensation includes stock grants to employees as a form of long term compensation. The stock grants vest over a period of time not to exceed four years. This allows the Company to align the interest of its employees with the interest of our shareholders. As the stock grants vest, the Company will amortize the vested portion to compensation expense. The expense will be calculated by taking the number of shares vested multiplied by the market price per share as determined on the vesting dates.

Effective January 1, 2003, AmREIT will adopt SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123".

STOCK ISSUANCE COSTS

Issuance costs incurred in the raising of capital through the sale of common stock are treated as a reduction of shareholders' equity.

REVENUE RECOGNITION

Properties are primarily leased on a net lease basis. Revenue is recognized on a straight-line basis over the terms of the individual leases. Service fees are recognized when earned.

FEDERAL INCOME TAXES

AmREIT is qualified as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, and is, therefore, not subject to Federal income taxes to the extent of dividends paid, provided it meets all conditions specified by the Internal Revenue Code for retaining its REIT status, including the requirement that at least 90% of its real estate investment trust taxable income is distributed by March 15 of the following year.

AmREIT Realty Investment Corporation ("ARIC"), a wholly owned subsidiary of AmREIT, is treated as a taxable REIT subsidiary for Federal income tax purposes. As such, ARIC and its consolidated subsidiaries have recorded a Federal income tax expense at December 31, 2002 of \$61 thousand, which

Edgar Filing: AMREIT - Form 424B3

represents the Federal income tax obligations on the consolidated taxable REIT subsidiary's taxable net income. Additionally, in 2002, a deferred tax liability of \$28 thousand was established to record the taxes on certain real estate assets of ARIC.

EARNINGS PER SHARE

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

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

	For the Years
BASIC AND DILUTED EARNINGS PER SHARE	2002
Weighted average common shares outstanding (in thousands)	2,470
Basic and diluted (loss)/earnings per share *	\$ (0.62) -----
EARNINGS FOR BASIC AND DILUTED COMPUTATION	
(Loss) earnings to Class A common shareholders (in thousands) *	\$ (1,524) =====

* For 2002, the loss of \$1.524 million includes the charge taken against earnings during the third quarter of \$1.9 million, which was the market value of the Class A common shares issued to H. Kerr Taylor, President & CEO, related to the sale of his advisory company to AmREIT in 1998. The charge was for the deferred merger cost due from this sale that was triggered by the issuance of additional common stock as part of the merger with AmREIT's affiliated partnerships during the third quarter of 2002.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Edgar Filing: AMREIT - Form 424B3

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's consolidated financial instruments consist primarily of cash, cash equivalents, accounts receivable and accounts and notes payable. The carrying value of cash, cash equivalents, accounts receivable and accounts payable are representative of their respective fair values due to the short-term maturity of these instruments. The Company's total debt obligations are \$33.6 million, of which \$13.42 million has variable rate terms and therefore, the fair value is representative of its carry value. Approximately \$20.18 million has fixed rate terms, of which approximately \$15.5 million was entered into during 2002. Based on the dates that the debt obligations were entered into and the pricing on current debt obligations, the Company believes that the fair value of its fixed rate debt obligations is materially representative of its carry value.

NEW ACCOUNTING STANDARDS

On June 29, 2001, SFAS No. 141, "Business Combinations" was approved by the Financial Accounting Standards Board ("FASB"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Goodwill and certain intangible assets will remain on the balance sheet and not be amortized. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write-downs may be necessary. The Company implemented SFAS No. 141 on July 1, 2001. The adoption of this Statement had no effect on the Company's consolidated financial position or results of operations.

On June 29, 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was approved by the FASB. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of this statement. The Company implemented SFAS No. 142 on January 1, 2002. The adoption of SFAS No. 142 did not have a material impact on our consolidated financial position, results of operations, or cash flows.

In June 2001, FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which is effective for fiscal years beginning after June 15, 2002. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The adoption of SFAS No. 143 did not have a material impact on our consolidated financial position, results of operations, or cash flows.

On January 1, 2002, the company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses accounting

and reporting for the impairment or disposal of a segment of a business. More specifically, this statement broadens the presentation of discontinued operations to include a component of an entity whose operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The adoption of SFAS No. 144 did not

Edgar Filing: AMREIT - Form 424B3

have a material impact on our consolidated financial position, results of operations, or cash flows.

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 are not expected to 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, 2002, however, these disclosure modifications are not applicable to the Company and adoption of SFAS 148 is not anticipated to 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 is not expected to have a material effect on the Company's 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.

Reclassification

Certain amounts in the 2001 consolidated financial statements have been reclassified to conform to the presentation used in the 2002 consolidated financial statements.

2. OPERATING LEASES

A summary of minimum future rentals to be received, exclusive of any renewals, under noncancellable operating leases in existence at December 31, 2002 is as follows:

Edgar Filing: AMREIT - Form 424B3

2003	4,342,650
2004	4,260,343
2005	4,015,934
2006	3,994,020
2007	3,754,100
2008-2027	15,285,089

	\$35,652,136

3. NET INVESTMENT IN DIRECT FINANCING LEASES

The Company's net investment in its direct financing leases at December 31, 2002 included:

Minimum lease payments receivable	\$ 61,306,182
Unguaranteed residual value	3,858,403
Less: Unearned income	(41,759,261)

	\$ 23,405,324

A summary of minimum future rentals, exclusive of any renewals, under the noncancellable direct financing leases follows:

2003	2,444,944
2004	2,453,682
2005	2,462,421
2006	2,471,778
2007	2,605,857
2008 - 2027	48,867,500

Total	\$61,306,182
	=====

4. INVESTMENT IN NON-CONSOLIDATED AFFILIATES

AmREIT owns interests in 5 limited liability companies or limited partnerships, which are accounted for under the equity method since AmREIT exercises significant influence. Our interests in these joint ventures and limited partnerships range from 2% to 40%, which are primarily single and multi-tenant net lease retail real estate assets. Combined condensed financial information of these ventures (at 100%) is summarized as follows:

Combined Balance Sheet

Assets

Property, net
 Cash
 Other assets

 TOTAL ASSETS

Liabilities and partners' capital

Notes payable
 Other liabilities
 Partners capital

TOTAL LIABILITIES AND PARTNERS' CAPITAL

Combined Statement of Operations

Total Revenue	\$ 2,62	20
Expense		
Interest		35
Depreciation and amortization		18
Other		18

TOTAL EXPENSE		73

NET INCOME	\$ 1,88	=====

5. 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 April 2003, the Company may borrow up to \$20 million subject to the value of unencumbered assets. The Company is negotiating with the Lender for an extension of the Credit Facility, which would extend the maturity of the Credit Facility beyond December 31, 2003. The Credit Facility contains covenants, which among other restrictions, require the Company to maintain a minimum net worth and a maximum

Edgar Filing: AMREIT - Form 424B3

leverage ratio. As of December 31, 2002, the Lender had waived these financial covenants. The Credit Facility bears interest at an annual rate of LIBOR plus a spread of 2.0% (3.4375% as of December 31, 2002). On December 31, 2002, \$11.76 million was outstanding under the Credit Facility. Thus the Company has approximately \$8.24 million available under its line of credit subject to use of proceeds by the lender.

49

In March 1999, the Company entered into a ten-year mortgage note, amortized over 30 years, for \$1 million with \$968 thousand being outstanding at December 31, 2002. The interest rate is fixed at 8.375% with payments of principal and interest due monthly. The note matures April 1, 2009 and as of December 31, 2002 the Company is in compliance with all terms of the agreement. The note is collateralized by a first lien mortgage on property with an aggregate carrying value of \$1.179 million, net of \$107 thousand of accumulated depreciation.

In February 2001, the Company entered into a ten-year mortgage note, amortized over 20 years, for \$1.35 million with \$1.3 million being outstanding at December 31, 2002. The interest rate is fixed at 8.25% with payments of principal and interest due monthly. The note matures February 28, 2011 and as of December 31, 2002 the Company is in compliance with all terms of the agreement. The note is collateralized by a first lien mortgage on property, which is accounted for as a direct financing lease with a net investment in direct financing lease of \$1 million and land of \$741 thousand.

In October 2001, the Company entered into a ten-year mortgage note amortized over 30 years, for \$2.4 million with \$2.378 million being outstanding at December 31, 2002. The interest rate is fixed at 7.60% with payments of principal and interest due monthly. The note matures November 1, 2011 and as of December 31, 2002 the Company is in compliance with all terms of the agreement. The note is collateralized by a first lien mortgage on property with an aggregate carrying value of \$3.967 million, net of \$330 thousand of accumulated depreciation.

In October 2001, the Company entered into a note payable for \$1.658 million with \$1.658 million being outstanding at December 31, 2002. The interest rate is equal to the thirty day LIBOR rate plus 280 basis points, but in no event lower than 6.75%, which equated to 6.75% at December 31, 2002. The note matures November 1, 2004 and as of December 31, 2002 the Company is in compliance with all terms of the agreement. The note is collateralized by a first lien mortgage on property, which is accounted for as a direct financing lease with a net investment in direct financing lease of \$1.33 million and land of \$564 thousand.

Beginning in April 2002, AAA CTL Notes, Ltd., a majority owned subsidiary of AmREIT, began entering into non-recourse ten-year mortgages, amortized over 20 years, related to the purchase of seventeen IHOP properties. The following table summarizes the terms of loan agreements and the property collateralizing the non-recourse notes. As of December 31, 2002 the Company is in compliance with all terms of the agreement. The non-recourse notes have cross-collateralization and default provisions with each other.

Edgar Filing: AMREIT - Form 424B3

50

Location	Original loan amount (in thousands)	Loan amount at December 31, 2002 (in thousands)	Fixed interest rate	Date loan matures
Shawnee, KS	\$ 751	\$ 741	7.82%	May 1, 2012
El Paso, TX	760	751	7.82%	May 1, 2012
Beaverton, OR	887	876	7.82%	May 1, 2012
Rochester, NY	951	939	7.82%	May 1, 2012
Baton Rouge, LA	1,250	1,235	7.82%	May 1, 2012
Charlottesville, VA	630	622	7.82%	May 1, 2012
Albuquerque, NM	767	747	7.82%	May 1, 2012
Springfield, MO	1,030	1,019	7.82%	June 1, 2012
Salem, OR	621	614	7.82%	June 1, 2012
Roanoke, VA	712	706	7.89%	July 1, 2012
Alexandria, LA	716	711	7.89%	Aug. 1, 2012
Centerville, UT	1,242	1,233	7.89%	Aug. 1, 2012
Memphis, TN	1,342	1,333	7.89%	Aug. 1, 2012
La Verne, CA	745	741	7.89%	Sept. 1, 2012
El Paso, TX	894	890	7.89%	Sept. 1, 2012
Memphis, TN	777	773	7.89%	Sept. 1, 2012
Parker, CO	835	831	7.89%	Sept. 1, 2012
Total	\$14,910	\$14,762		

In July of 2002, the Company issued thirteen, 8 year subordinated, 5.47% interest-only notes totaling \$760 thousand, maturing July 2010. The notes, which are callable by the Company at par plus accrued interest, were issued to partners who dissented against the Company's merger with three affiliated public partnerships.

Aggregate annual maturity of the notes payable for each of the following five years ending December 31 are as follows:

(in thousands)	
2003	\$ 12,172
2004	447
2005	483
2006	522
2007	565
Thereafter	19,397

	\$ 33,586

Edgar Filing: AMREIT - Form 424B3

51

6. MAJOR TENANTS

The following schedule summarizes rental income by lessee for 2002 and 2001 (in thousands):

	2002	2001
International House of Pancakes	\$ 1,784	\$ 5
Footstar, Inc.	735	7
OfficeMax, Inc. (5)	509	5
Wherehouse Entertainment	381	3
Hollywood Entertainment Corp.	273	2
Sugar Land Imaging Affiliates Ltd.	264	2
Mattress Giant, Inc.	168	1
Washington Mutual	158	1
Radio Shack	109	1
Golden Corral (4)	167	
Texas Children's Pediatrics (2)	137	
Don Pablos	78	
One Care Health Industries, Inc. (1)	57	2
Comp USA (4)	123	
Baptist Memorial Hospital (4)	102	
TGI Friday's (4)	83	
Dr. Pucillo (4)	87	
Pier 1	62	
America's Favorite Chicken Co. (3) (4)	55	
Blockbuster (4)	42	
Waldenbooks (4)	38	
Jack in the Box (4)	34	
Goodyear (4) (5)	25	
Skewers	18	
Hope Rehab	5	
	-----	-----
Total	\$ 5,494	\$ 3,2
	=====	=====

- (1) One Care Health Industries, Inc. was a tenant at Copperfield Medical Plaza. In April of 2002, AmREIT negotiated a lease buy out agreement with One Care for approximately \$190 thousand. As a result, AmREIT immediately released approximately 75% of the available space to Texas Children's Pediatrics and the Company has negotiated a lease for balance of the space.
- (2) Texas Children's Pediatrics entered into a long-term lease with AmREIT, beginning in May 2002, at Copperfield Medical Plaza. The lease was entered into as a result of the negotiated lease buy out by AmREIT and One Care Health Industries, Inc.
- (3) The America's Favorite Chicken Co. restaurant located in Atlanta was sold by AmREIT during the first quarter 2001.
- (4) Properties were purchased from three affiliated partnerships in July 2002.

Edgar Filing: AMREIT - Form 424B3

- (5) In accordance with Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" issued by the Financial Accounting Standards Board, the rental income from the Office Max located in Dover, DE (2002 and 2001) and the Goodyear Tire Store located in Houston, TX (2002) have been restated to reflect separately the results from discontinued operations for these properties, which were held for sale during the nine months ended September 30, 2003. Accordingly, the above table reflects income from continuing operations and discontinued operations.

52

7. FEDERAL INCOME TAXES

The differences between net income for financial reporting purposes and taxable income before distribution deductions relate primarily to temporary differences, merger costs and potential acquisition costs which are expensed for financial reporting purposes.

For income tax purposes, distributions paid to shareholders consist of ordinary income, capital gains and return of capital as follows (in thousands):

	2002 -----	2001 -----
Ordinary income	\$ -	\$ 6
Return of capital	1,730	143
Capital gain	-	456
	-----	-----
	\$ 1,730	\$ 605
	=====	=====

8. RELATED PARTY TRANSACTIONS

See Note 4 regarding investments in non-consolidated affiliates.

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. AmREIT accounted for this merger as a purchase, whereby the assets of the partnerships have been recorded at fair market value. AmREIT increased its real estate assets by approximately \$24.3 million and issued approximately 2.6 million shares of Class B common stock to the limited partners in the affiliated partnerships as a result of the merger. Approximately \$760 thousand in 8 year, 5.47% interest only, subordinated notes were issued to limited partners of the affiliated partnerships who dissented to 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. A deferred merger expense stemmed from stock issued to H. Kerr Taylor, President and Chief Executive

Edgar Filing: AMREIT - Form 424B3

Officer, based on a deferred consideration that was approved by the stockholders in 1998. Mr. Taylor was issued 302 thousand shares of Class A common stock, which resulted in a \$1.9 million charge to earnings in the third quarter 2002. As the Company raises additional equity, Mr. Taylor is eligible to receive up to an additional 384 thousand shares of Class A common stock pursuant to the deferred consideration agreement approved by the stockholders in 1998 related to the sale of Mr. Taylor's advisory company to AmREIT.

The Company provides property acquisition, leasing, administrative and management services for ten affiliated real estate limited partnerships that are under common management (the "Partnerships"). The president and director of the Company owns between 45% and 100% of the stock of the companies that serve as the general partner of the Partnerships. Service fees of \$245 thousand and \$335 thousand were paid by the Partnerships to the Company for 2002 and 2001 respectively.

53

As a sponsor of real estate investment opportunities to the NASD financial planning broker dealer community, the Company maintains a 1% general partner interest in the investment funds that it sponsors. The funds are typically structured such that the limited partners receive 99% of the available cash flow until 100% of their original invested capital has been returned and a preferred return has been met. Once this has happened, then the general partner begins sharing in the available cash flow at various promoted levels. The Company also assigns a portion of this general partner interest in these investment funds to its employees as long term, contingent compensation. In so doing, the Company believes that it will align the interest of management with that of the shareholders, while at the same time allowing for a competitive compensation structure in order to attract and retain key management positions without increasing the overhead burden.

On March 20, 2002, the Company formed AAA CTL Notes, Ltd. ("AAA"), a majority owned subsidiary which is consolidated in the financial statements of AmREIT, through which the Company purchased fifteen IHOP leasehold estate properties and two IHOP fee simple properties.

Locke Liddell and Sapp, LLP acts as the Company's corporate attorneys. Bryan Goolsby is the managing director of Locke Liddell and Sapp LLP and is a member of the Company's board of trust managers. During 2002 and 2001, the Company paid Locke Liddell and Sapp LLP approximately \$777 thousand and \$133 thousand, respectively, for legal services rendered.

9. PROPERTY ACQUISITIONS AND DISPOSITIONS

During the third quarter, the Company purchased seventeen IHOP restaurant properties. Fifteen of the properties are leasehold estate properties, whereby the Company owns the physical improvements, but does not own the underlying land. Two of the properties were purchased in fee simple. The total purchase price was \$17.25 million. The properties were purchased utilizing \$2.34 million cash and \$14.91 million non-recourse, 10-year debt with an average interest rate of 7.85%. Each lease agreement extends for a period of 18-25 years, however, the tenant has the ability to extend the primary term of the lease for two to three additional terms of five years each. Additionally, each

Edgar Filing: AMREIT - Form 424B3

lease is subject to a corresponding ground lease with the same term of 18-25 years and two to three additional terms of five years each. The Company recorded \$1.18 million in rental income during 2002 from properties acquired in this transaction.

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., which was accounted for as an acquisition. With the merger of the affiliated partnerships, AmREIT increased its real estate assets by approximately \$24.3 million and issued approximately 2.6 million shares of Class B common stock to the limited partners in the affiliated partnerships. The class B common shares are not listed on an exchange and there is currently no available trading market for the class B common shares. The class B common shares do not have voting rights, receive a fixed 8%

54

cumulative and preferred dividend, and are convertible into the class A common shares on a one-for-one basis at any time, at the holder's option. 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 and January 1, 2001, respectively. 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 Statement of Operations
For the Twelve Months Ended December 31,
(Unaudited)

	2002
Revenues	
Rental income and earned income	\$ 6,399,475
Other income	2,542,974

Total Revenues	8,942,449

Total Expense	8,806,471

Proforma Income Before Minority Interest in Net Income of Consolidated Joint Ventures	135,978
Federal Income Tax Expense from Non-Qualified Subsidiary	(20,524)

Minority Interest in Net Income of Consolidated Joint Ventures	(46,419)

Edgar Filing: AMREIT - Form 424B3

Pro Forma Net Income	\$ 69,035
Distributions to Class B Shareholders	(1,822,262)
Net (Loss) available to Class A Shareholders	<u>(1,753,227)</u>
Pro Forma Basic and Diluted (Loss)Per Share	\$ (0.65) =====
Pro Forma Weighted Average Common Shares Outstanding	2,691,580

55

Summary of Assets Acquired and Liabilities Assumed
As of July 23, 2002,
(Unaudited)

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

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

10. DISCONTINUED OPERATIONS

The operations of two properties reported as held for sale at September 30, 2003 have been restated as discontinued operations for 2002 and 2001 as required by SFAS No. 144. The following is a summary of our discontinued operations:

	December 31,	
	2002	2001
Rental Revenue	\$301,064	\$276,444
Depreciation and amortization	(55,223)	(50,725)
Income from discontinued operations	<u>\$245,841</u>	<u>\$225,719</u>
Basic and diluted income from discontinued operations per common share	\$0.10	\$0.10

Edgar Filing: AMREIT - Form 424B3

11. COMMITMENT

The Company has a one-year lease agreement for its office facilities through December 31, 2003. Rental expense for the years ended December 31, 2002 and 2001 was \$77 thousand and \$71 thousand, respectively.

56

AmREIT and subsidiaries
SCHEDULE III - Consolidated Real Estate Owned and Accumulated Depreciation For
the year ended December 31, 2002

Property Description	Encum- brances	Building	Land
Properties Invested in Under Operating Leases			
Radio Shack Retail Store, Texas	\$ -	\$ 788,330	\$ 337,856
Blockbuster Music Store, Missouri	\$ -	\$ 1,247,461	\$ 534,483
OneCare Health Industries, Inc., Texas	\$ -	\$ 1,436,615	\$ 534,086
Blockbuster Music Store, Kansas	\$ -	\$ 1,382,846	\$ 592,648
Just For Feet Store, Arizona	\$ -	\$ -	\$ 1,214,046
Bank United, Woodlands, Texas	\$ -	\$ -	\$ 562,846
Bank United, Houston, Texas	\$ -	\$ -	\$ 851,973
Just For Feet Store, Louisiana	\$ -	\$ 2,254,537	\$ 966,230
Hollywood Video Store, Louisiana	\$ -	\$ 784,123	\$ 443,544
Hollywood Video Store, Mississippi	\$ -	\$ 835,854	\$ 450,000
OfficeMax, Delaware	\$ -	\$ 1,978,313	\$ 870,480
Lake Woodlands Plaza	\$ -	\$ 2,832,540	\$ 1,369,065
Sugar Land Plaza	\$ -	\$ 2,902,157	\$ 1,280,043
Don Pablo's, Georgia	\$ -	\$ -	\$ 773,800
IHOP, Topeka	\$ -	\$ -	\$ 450,984
IHOP, Sugarland	\$ -	\$ -	\$ 740,882
IHOP, St. Peters	\$ -	\$ -	\$ 564,096
Jack in the Box	\$ -	\$ 504,230	\$ 216,099
Baptist Memorial Health	\$ -	\$ 1,456,017	\$ 624,006
Payless Shoe Source	\$ -	\$ 498,098	\$ 212,907
Golden Corral	\$ -	\$ 1,097,215	\$ 725,552
Golden Corral	\$ -	\$ 1,297,851	\$ 556,221
TGI Friday's	\$ -	\$ 1,453,769	\$ 623,043
Goodyear Tire	\$ -	\$ 376,172	\$ 161,217
Guitar Center	\$ -	\$ 1,782,470	\$ 763,917
Popeye's	\$ -	\$ 778,771	\$ 333,758
Dr. Pucillo	\$ -	\$ 1,276,836	\$ 547,214
Blockbuster Video	\$ -	\$ 688,091	\$ 294,896
Pier One Imports	\$ -	\$ 1,000,562	\$ 422,722
IHOP, Memphis	\$ -	\$ -	\$ 469,502
IHOP, Centerville	\$ -	\$ -	\$ 457,492

Edgar Filing: AMREIT - Form 424B3

Total	\$	-	\$ 28,652,858	\$ 18,945,608
=====				
Properties Invested in Under Direct Financing Lease				
Just For Feet Store, Arizona	\$	-	\$ 2,848,151	\$ -
IHOP, Topeka	\$	-	\$ 993,774	\$ -
IHOP, Sugarland	\$	-	\$ 999,517	\$ -
IHOP, St. Peters	\$	-	\$ 1,331,121	\$ -
IHOP, Albuquerque	\$	-	\$ 886,692	\$ -
IHOP, Baton Rouge	\$	-	\$ 1,460,170	\$ -
IHOP, Beaverton	\$	-	\$ 1,045,672	\$ -
IHOP, Charlottesville	\$	-	\$ 748,859	\$ -
IHOP, El Paso #1934	\$	-	\$ 896,644	\$ -
IHOP, Roanoke	\$	-	\$ 845,051	\$ -
IHOP, Rochester	\$	-	\$ 1,135,950	\$ -
IHOP, Salem	\$	-	\$ 731,642	\$ -
IHOP, Shawnee	\$	-	\$ 889,229	\$ -
IHOP, Springfield	\$	-	\$ 1,207,602	\$ -
IHOP, Alexandria	\$	-	\$ 854,837	\$ -
IHOP, Centerville	\$	-	\$ 1,077,649	\$ -
IHOP, Memphis #4462	\$	-	\$ 1,088,114	\$ -
IHOP, La Verne	\$	-	\$ 997,980	\$ -
IHOP, El Paso #1938	\$	-	\$ 1,156,194	\$ -
IHOP, Memphis #4482	\$	-	\$ 1,098,749	\$ -
IHOP, Parker	\$	-	\$ 1,111,727	\$ -
Total	\$	-	\$ 23,405,324	\$ -
=====				

57

	Cost at Close of Year Land	Accumulated Depreciation	Date of Construction	Date Acquired
Properties Invested in Under Operating Leases				
Radio Shack Retail Store, Texas	\$ 337,856	\$ 172,606	N/A	06-15-94
Blockbuster Music Store, Missouri	\$ 534,483	\$ 138,644	N/A	11-14-94
OneCare Health Industries, Inc., Texas	\$ 534,086	\$ 236,890	N/A	09-26-95
Blockbuster Music Store, Kansas	\$ 592,648	\$ 128,969	N/A	09-12-95
Just For Feet Store, Arizona	\$ 1,214,046	N/A	N/A	09-11-96
Bank United, Woodlands, Texas	\$ 562,846	N/A	N/A	09-23-96
Bank United, Houston, Texas	\$ 851,973	N/A	N/A	12-11-96
Just For Feet Store, Louisiana	\$ 966,230	\$ 165,360	N/A	06-09-97
Hollywood Video Store, Louisiana	\$ 443,544	\$ 75,635	N/A	10-31-97
Hollywood Video Store, Mississippi	\$ 450,000	\$ 107,161	N/A	12-30-97

Edgar Filing: AMREIT - Form 424B3

OfficeMax, Delaware	\$ 870,480	\$ 232,494	N/A	4-14-98
Lake Woodlands Plaza	\$ 1,369,065	\$ 288,585	N/A	6-3-98
Sugar Land Plaza	\$ 1,280,043	\$ 330,195	N/A	7-1-98
Don Pablo's, Georgia	\$ 773,800	N/A	N/A	12-18-98
IHOP, Topeka	\$ 450,984	N/A	N/A	9-30-99
IHOP, Sugarland	\$ 740,882	N/A	N/A	9-22-99
IHOP, St. Peters	\$ 564,096	N/A	N/A	11-30-01
Jack in the Box	\$ 216,099	\$ 6,003	N/A	7-23-02
Baptist Memorial Health	\$ 624,006	\$ 17,453	N/A	7-23-02
Payless Shoe Source	\$ 212,907	\$ 5,866	N/A	7-23-02
Golden Corral	\$ 725,552	\$ 13,109	N/A	7-23-02
Golden Corral	\$ 556,221	\$ 15,474	N/A	7-23-02
TGI Friday's	\$ 623,043	\$ 17,098	N/A	7-23-02
Goodyear Tire	\$ 161,217	\$ 4,498	N/A	7-23-02
Guitar Center	\$ 763,917	\$ 21,336	N/A	7-23-02
Popeye's	\$ 333,758	\$ 9,351	N/A	7-23-02
Dr. Pucillo	\$ 547,214	\$ 15,251	N/A	7-23-02
Blockbuster Video	\$ 294,896	\$ 8,174	N/A	7-23-02
Pier One Imports	\$ 422,722	\$ 12,000	N/A	7-23-02
IHOP, Memphis	\$ 469,502	N/A	N/A	7-26-02
IHOP, Centerville	\$ 457,492	N/A	N/A	7-25-02

Total \$ 18,945,608 \$ 2,022,152

Properties Invested in Under
Direct Financing Lease

Just For Feet Store, Arizona	\$ -	(1)	N/A	09-11-96
IHOP, Topeka	\$ -	(1)	N/A	9-30-99
IHOP, Sugarland	\$ -	(1)	N/A	9-22-99
IHOP, St. Peters	\$ -	(1)	N/A	11-30-01
IHOP, Albuquerque	\$ -	(1)	N/A	4-23-02
IHOP, Baton Rouge	\$ -	(1)	N/A	4-23-02
IHOP, Beaverton	\$ -	(1)	N/A	4-16-02
IHOP, Charlottesville	\$ -	(1)	N/A	4-23-02
IHOP, El Paso #1934	\$ -	(1)	N/A	4-16-02
IHOP, Roanoke	\$ -	(1)	N/A	6-21-02
IHOP, Rochester	\$ -	(1)	N/A	4-16-02
IHOP, Salem	\$ -	(1)	N/A	5-17-02
IHOP, Shawnee	\$ -	(1)	N/A	4-16-02
IHOP, Springfield	\$ -	(1)	N/A	5-17-02
IHOP, Alexandria	\$ -	(1)	N/A	7-18-02
IHOP, Centerville	\$ -	(1)	N/A	7-25-02
IHOP, Memphis #4462	\$ -	(1)	N/A	7-26-02
IHOP, La Verne	\$ -	(1)	N/A	8-23-02
IHOP, El Paso #1938	\$ -	(1)	N/A	8-23-02
IHOP, Memphis #4482	\$ -	(1)	N/A	8-23-02
IHOP, Parker	\$ -	(1)	N/A	8-23-02

Total \$ - (1)

(1) The portion of the lease relating to the building of this property has been recorded as a direct financing lease for financial reporting purposes. Consequently, depreciation is not applicable.

Edgar Filing: AMREIT - Form 424B3

(2) Transactions in real estate and accumulated depreciation during 2002, 2001 and 2000 for operating lease properties are summarized as follows:

	Cost	Accumulated Depreciation
Balance at December 31, 1999	29,861,678	1,123,790
Acquisitions / additions	33,430	-
Depreciation expense	-	435,259
	<hr/>	<hr/>
Balance at December 31, 2000	29,895,108	1,559,049
Acquisitions / additions	1,351,201	-
Disposals	(797,237)	-
Depreciation expense	-	439,652
	<hr/>	<hr/>
Balance at December 31, 2001	\$ 30,449,072	\$ 1,998,701
Acquisitions / additions	\$ 20,024,562	\$ -
Disposals	\$ (2,875,168)	\$ (238,591)
Depreciation expense	\$ -	\$ 262,042
	<hr/>	<hr/>
Balance at December 31, 2002	\$ 47,598,466	\$ 2,022,152

(3) The aggregate cost of all properties for Federal Income Tax purposes is \$71,261,389 at December 31, 2002.

610 Westheimer - 2000

Historical Summary of Gross Income
and Direct Operating Expenses

Period September 29, 2002 (commencement of
operations) through December 31, 2002
and nine months ended September 30,
2003 (unaudited)

(With Independent Auditors' Report Thereon)

Edgar Filing: AMREIT - Form 424B3

Independent Auditors' Report

The Board of Trust Managers
AmREIT:

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses (Historical Summary) of 610 Westheimer - 2000 (the Property) for the period September 29, 2002 (commencement of operations) through December 31, 2002. This Historical Summary is the responsibility of the management of AmREIT. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Post-Effective Amendment No. 1 to the Registration Statement on Form S-11 of AmREIT, as described in note 2. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses, as described in note 2, of 610 Westheimer - 2000 for the period September 29, 2002 (commencement of operations) through December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG, LLP

Houston, Texas
December 11, 2003

Edgar Filing: AMREIT - Form 424B3

	Period September 29, 2002 (commencement of operations) through December 31, 2002	Nine months ended September 30, 2003
	<hr/>	<hr/>
		(Unaudited)
Gross income:		
Base rental income	\$215,265	751,748
Common area, real estate tax and insurance recoveries	27,150	166,923
	<hr/>	<hr/>
Total gross income	242,415	918,671
	<hr/>	<hr/>
Direct operating expenses:		
Operating expenses	9,158	39,990
Real estate taxes	26,342	139,771
Management fees	6,000	16,500
Insurance	4,656	10,535
	<hr/>	<hr/>
Total direct operating expenses	46,156	206,796
	<hr/>	<hr/>
Excess of gross income over direct operating expenses	\$196,259	711,875
	=====	=====

See accompanying notes to historical summary of gross income and direct operating expenses.

610 Westheimer - 2000

Notes to Historical Summary of Gross Income
and Direct Operating Expenses

Period September 29, 2002 (commencement of
operations) through December 31, 2002
and nine months ended September 30,
2003 (unaudited)

(1) Business

610 Westheimer - 2000 (the Property) is located in Houston, Texas. The Property consists of approximately 28,000 square feet of gross leasable

Edgar Filing: AMREIT - Form 424B3

area and was approximately 71% occupied by two tenants at December 31, 2002. As of September 30, 2003, the Property was 83% occupied by four tenants. On December 11, 2003, AmREIT acquired the Property.

(2) Basis of Presentation and Combination

The Historical Summary of Gross Income and Direct Operating Expenses (Historical Summary) has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Post-Effective Amendment No. 1 to the Registration Statement on Form S-11 of AmREIT and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting. Management of the Property is required to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

In the opinion of management, all adjustments necessary for a fair presentation are of a recurring nature and have been made to the accompanying unaudited amounts for the nine months ended September 30, 2003.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal to options at various periods at various rental rates. Certain of the leases contain provisions for contingent rentals. No contingent rent was earned during the year ended December 31, 2002.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exist in minimum lease payments over the term of the lease, rental income is recognized for the full period of occupancy on a straight-line basis. Related adjustments increased base rental income by \$16,000 for the period ended December 31, 2002.

Minimum rents to be received from tenants under operating leases, which terms range from five years to twenty-two years, in effect at December 31, 2002 are as follows:

2003	\$ 856,600
2004	856,600
2005	856,600
2006	856,600
2007	871,766
Thereafter	12,089,393
Total	<u>\$16,387,559</u>

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

(5) Related-Party Transactions

During the period ended December 31, 2002, management fees of \$6,000 were paid by the Property to the General Partner of the owner.