

AMREIT  
Form 10-Q  
August 14, 2008

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-28378

(Name of registrant as specified its charter)

TEXAS  
(State or Other Jurisdiction of Incorporation or  
Organization)

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

8 GREENWAY PLAZA, SUITE 1000  
HOUSTON, TEXAS  
(Address of Principal Executive Offices)

77046  
(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO "

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

Large accelerated filer " Accelerated filer "  
Non-accelerated filer " Smaller reporting company x  
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES " NO x

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding as of August 12, 2008
Class A Common Stock, \$0.01 par value	6,634,489 shares
Class C Common Stock, \$0.01 par value	4,150,088 shares
Class D Common Stock, \$0.01 par value	10,982,002 shares

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

AmREIT AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
June 30, 2008 and December 31, 2007  
(in thousands, except share data)

	June 30, 2008	December 31, 2007
(unaudited)		
<b>ASSETS</b>		
Real estate investments at cost:		
Land	\$ 127,551	\$ 130,563
Buildings	135,124	141,045
Tenant improvements	9,543	10,105
	272,218	281,713
Less accumulated depreciation and amortization	(17,369)	(15,626)
	254,849	266,087
Real estate held for sale and investment in direct financing leases held for sale, net	32,871	22,438
Net investment in direct financing leases held for investment	2,063	2,058
Intangible lease cost, net	11,226	13,096
Investment in merchant development funds and other affiliates	6,720	10,514
Net real estate investments	307,729	314,193
Cash and cash equivalents	205	1,221
Tenant receivables, net	4,132	4,398
Accounts receivable, net	2,570	1,251
Accounts receivable - related party	3,944	5,386
Notes receivable - related party	9,393	10,442
Deferred costs	2,284	2,472
Other assets	5,189	4,394
<b>TOTAL ASSETS</b>	<b>\$ 335,446</b>	<b>\$ 343,757</b>

LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Notes payable	\$ 175,556	\$ 168,560
Notes payable, held for sale	12,570	12,811
Accounts payable - related party	367	49
Accounts payable and other liabilities	5,446	7,650
Below market leases, net	2,378	3,401
Security deposits	705	674
<b>TOTAL LIABILITIES</b>	<b>197,022</b>	<b>193,145</b>
Minority interest	1,220	1,179
Shareholders' equity:		
Preferred shares, \$.01 par value, 10,000,000 shares authorized, none issued	-	-
Class A common shares, \$.01 par value, 50,000,000 shares authorized, 6,634,489 and 6,626,559 shares issued, respectively	66	66
Class C common shares, \$.01 par value, 4,400,000 shares authorized, 4,149,094 and 4,143,971 shares issued and outstanding, respectively	42	41
Class D common shares, \$.01 par value, 17,000,000 shares authorized, 11,036,170 and 11,045,763 shares issued and outstanding, respectively	110	110
Capital in excess of par value	185,571	185,165
Accumulated distributions in excess of earnings	(39,527)	(33,365)
Cost of treasury shares, 1,229,253 and 337,308 Class A common shares, respectively	(9,058)	(2,584)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>137,204</b>	<b>149,433</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS'</b>	<b>\$ 335,446</b>	<b>\$ 343,757</b>

EQUITY

See Notes to Consolidated Financial Statements.

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AmREIT AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
For the three and six months ended June 30, 2008 and 2007  
(unaudited)  
(in thousands, except per share data)

	Three months ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Revenues:</b>				
Rental income from operating leases	\$ 8,142	\$ 7,504	\$ 15,628	\$ 14,396
Earned income from direct financing leases	60	61	120	120
Real estate fee income	115	160	285	854
Real estate fee income - related party	1,311	349	2,743	1,062
Construction revenues	698	695	1,130	792
Construction revenues - related party	1,650	219	2,554	1,095
Securities commission income - related party	424	1,484	949	2,477
Asset management fee income - related party	377	312	753	596
<b>Total revenues</b>	<b>12,777</b>	<b>10,784</b>	<b>24,162</b>	<b>21,392</b>
<b>Expenses:</b>				
General and administrative	2,288	1,818	4,706	3,976
Property expense	2,456	2,006	4,425	3,731
Construction costs	2,221	868	3,342	1,729
Legal and professional	432	470	876	763
Real estate commissions	5	26	42	447
Securities commissions	355	1,245	840	2,074
Depreciation and amortization	2,606	1,925	4,505	3,834
<b>Total expenses</b>	<b>10,363</b>	<b>8,358</b>	<b>18,736</b>	<b>16,554</b>
<b>Operating income</b>	<b>2,414</b>	<b>2,426</b>	<b>5,426</b>	<b>4,838</b>
<b>Other income (expense):</b>				
Interest and other income - related party	229	250	503	500
Loss from merchant development funds and other affiliates	(246)	(15)	(389)	(27)



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Income tax benefit for taxable REIT subsidiary	200	224	276	374
Interest expense	(2,371)	(2,086)	(4,802)	(4,176)
Income before discontinued operations	226	799	1,014	1,509
Income (loss) from discontinued operations, net of taxes	(891)	302	(682)	595
Income (loss) from discontinued operations	(891)	302	(682)	595
Net income (loss)	(665)	1,101	332	2,104
Distributions paid to class B, C and D shareholders	(2,504)	(2,711)	(5,002)	(5,416)
Net loss available to class A shareholders	\$ (3,169)	\$ (1,610)	\$ (4,670)	\$ (3,312)
Net loss per class A common share - basic and diluted				
Loss before discontinued operations	\$ (0.39)	\$ (0.30)	\$ (0.67)	\$ (0.61)
Income (loss) from discontinued operations	\$ (0.15)	\$ 0.05	\$ (0.11)	\$ 0.09
Net loss	\$ (0.54)	\$ (0.25)	\$ (0.78)	\$ (0.52)
Weighted average class A common shares used to compute net loss per share, basic and diluted	5,775	6,411	5,995	6,366

See Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 332	\$ 2,104
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment in real estate acquired for resale	(2,739)	-
Proceeds from sales of real estate acquired for resale	-	1,399
Impairment charge	1,332	
Tenant receivable write-off	648	-
Loss from merchant development funds and other affiliates	390	27
Cash receipts related to deferred related party fees	(323)	-
Depreciation and amortization	3,791	3,865
Amortization of deferred compensation	224	353
Minority interest in income of consolidated joint ventures	227	74
Distributions from merchant development funds and other affiliates	19	234
Decrease in tenant receivables	266	356
Decrease in accounts receivable	(319)	325
(Increase) decrease in accounts receivable - related party	1,442	(122)
Cash receipts from direct financing leases more than income recognized	102	23
Increase in other assets	(831)	(1,116)
Decrease in accounts payable and other liabilities	(1,617)	(3,856)

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Decrease in accounts payable-related party	(269)	-
Increase in security deposits	31	11
Net cash provided by operating activities	2,706	3,677
Cash flows from investing activities:		
Improvements to real estate	(758)	(1,602)
Acquisition of investment properties	-	(9,558)
Loans to affiliates	(4,108)	(2,444)
Payments from affiliates	5,157	5,772
Investment in receivable	(1,711)	-
Additions to furniture, fixtures and equipment	(91)	(40)
Proceeds from sale of investment in other affiliates to related party	9,068	-
Investment in merchant development funds and other affiliates	(5,490)	(1,001)
Distributions from merchant development funds and other affiliates	130	110
Increase in preacquisition costs	89	14
Net cash provided by (used in) investing activities	2,286	(8,749)
Cash flows from financing activities:		
Proceeds from notes payable	31,462	59,994
Payments of notes payable	(24,588)	(46,785)
Increase in deferred costs	(18)	(264)
Purchase of treasury shares	(6,172)	(15)
Issuance of common shares	81	-
Retirement of common shares	(3,229)	(2,953)
Issuance costs	(34)	(6)
Common dividends paid	(3,431)	(3,909)
Distributions to minority interests	(79)	(49)
Net cash provided by (used in) financing activities	(6,008)	6,013
Net increase (decrease) in cash and cash equivalents	(1,016)	941
Cash and cash equivalents, beginning of period	1,221	3,415
	\$ 205	\$ 4,356

Cash and cash equivalents,  
end of period

Supplemental schedule of  
cash flow information:

Cash paid during the year  
for:

Interest	\$	5,409	\$	4,728
Income taxes		380		341

Supplemental schedule of noncash investing and and financing activities

During 2008 and 2007, 0 and 41,000 class B common shares, respectively were converted to class A common shares. Additionally, during 2008 and 2007, we issued class C common and D common shares with a value of \$3.1 million satisfaction of dividends through the dividend reinvestment program.

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

See Notes to Consolidated Financial Statements.

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AmREIT AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
 For the six months ended June 30, 2008  
 (unaudited)  
 (in thousands)

	Common Shares Amount	Capital in excess of par value	Accumulated distributions in excess of earnings	Cost of treasury shares	Total
Balance at December 31, 2007	\$ 217	\$ 185,165	\$ (33,365)	\$ (2,584)	\$ 149,433
Net income	-	-	332	-	332
Deferred compensation issuance of restricted shares, Class A		302	-	(302)	-
Issuance of common shares, Class A	-	47	-	-	47
Repurchase of common shares, Class A	-	-	-	(6,172)	(6,172)
Amortization of deferred compensation	-	224	-	-	224
Issuance of common shares, Class C	2	857	-	-	859
Retirement of common shares, Class C	(1)	(808)	-	-	(809)
Issuance of common shares, Class D	2	2,202	-	-	2,204
Retirement of common shares, Class D	(2)	(2,418)	-	-	(2,420)
Distributions	-	-	(6,494)	-	(6,494)
Balance at June 30, 2008	\$ 218	\$ 185,571	\$ (39,527)	\$ (9,058)	\$ 137,204

See Notes to Consolidated Financial Statements.



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AmREIT AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2008  
(unaudited)

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

The consolidated financial statements included in this report are unaudited; however, amounts presented in the consolidated balance sheet as of December 31, 2007 are derived from our audited financial statements at that date. In our opinion, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted of normal recurring items.

REVENUE RECOGNITION

We lease space to tenants under agreements with varying terms. The majority of the leases are accounted for as operating leases with revenue being recognized on a straight-line basis over the terms of the individual leases. Accrued rents are included in tenant receivables. Revenue from tenant reimbursements of taxes, maintenance expenses and insurance is recognized in the period the related expense is recorded. Additionally, certain of the lease agreements contain provisions that grant additional rents based on tenants' sales volumes (contingent or percentage rent). Percentage rents are recognized when the tenants achieve the specified targets as defined in their lease agreements. We recognize lease termination fees in the period that the lease is terminated and collection of the fees is reasonably assured. During the six months ended June 30, 2008 and 2007, we recognized \$0 and \$153,000, respectively, in lease termination fees, which are included in rental income from operating leases. The terms of certain leases require that the building/improvement portion of the lease be accounted for under the direct financing method which treats the building as if we had sold it to the lessee and entered into a long-term financing arrangement with such lessee. This accounting method is appropriate when the lessee has all of the benefits and risks of property ownership that they otherwise would if they owned the building versus leasing it from us.

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

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

Unbilled construction receivables represent reimbursable costs and amounts earned under contracts in progress as of the date of our balance sheet. Such amounts become billable according to contract terms, which usually consider the passage of time, achievement of certain milestones or completion of the project. Advance billings represent billings to or collections from clients on contracts in advance of revenues earned thereon. Unbilled construction receivables are generally billed and collected within the twelve months following the date of our balance sheet, and advance billings are generally earned within the twelve months following the date of our balance sheet. As of June 30, 2008, \$75,000 of unbilled receivables has been included in "Accounts receivable" and \$3,000 of unbilled receivables due from related parties has been included in "Accounts receivable – related party." As of December 31, 2007, \$4,000 of unbilled receivables has been included in "Accounts receivable" and \$85,000 of unbilled receivables due from related parties has been included in "Accounts receivable – related party." We had advance billings of \$6,000 as of June 30, 2008 and December 31, 2007.

Securities commission income is recognized as units of our merchant development funds are sold through our wholly-owned subsidiary, AmREIT Securities Company. Securities commission income is earned as the services are performed and pursuant to the corresponding prospectus or private offering memorandum. Generally, it includes a selling commission of between 6.5% and 7.5%, a dealer-manager fee of between 2.5% and 3.25% and offering and organizational costs of 1.0% to 1.50%. The selling commission is then paid to the unaffiliated selling broker-dealer and reflected as securities commission expense.





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REAL ESTATE INVESTMENTS

Development Properties – Land, buildings and improvements are recorded at cost. Expenditures related to the development of real estate are carried at cost which includes capitalized carrying charges, acquisition costs and development costs. Carrying charges, primarily interest, real estate taxes and loan acquisition costs, and direct and indirect development costs related to buildings under construction, are capitalized as part of construction in progress. The capitalization of such costs ceases at the earlier of one year from the date of completion of major construction or when the property, or any completed portion, becomes available for occupancy. We capitalize acquisition costs as incurred. Such costs are expensed if and when the acquisition becomes no longer probable. During the six months ended June 30, 2008 and 2007 we capitalized \$29,000 and \$162,000, respectively, in interest on properties under development.

Acquired Properties and Acquired Lease Intangibles – We account for real estate acquisitions pursuant to Statement of Financial Accounting Standards No. 141, Business Combinations (“SFAS No. 141”). Accordingly, we allocate the purchase price of the acquired properties to land, building and improvements, identifiable intangible assets and to the acquired liabilities based on their respective fair values. Identifiable intangibles include amounts allocated to acquire out-of-market leases, the value of in-place leases and customer relationship value, if any. We determine fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends and specific market and economic conditions that may affect the property. Factors considered by management in our analysis of determining the as-if-vacant property value include an estimate of carrying costs during the expected lease-up periods considering market conditions, and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and estimates of lost rentals at market rates during the expected lease-up periods, tenant demand and other economic conditions. Management also estimates costs to execute similar leases including leasing commissions, tenant improvements, legal and other related expenses. Intangibles related to out-of-market leases and in-place lease value are recorded as acquired lease intangibles and are amortized as an adjustment to rental revenue or amortization expense, as appropriate, over the remaining terms of the underlying leases. Premiums or discounts on acquired out-of-market debt are amortized to interest expense over the remaining term of such debt.

Depreciation — Depreciation is computed using the straight-line method over an estimated composite useful life of up to 50 years for buildings, up to 20 years for site improvements and over the term of lease for tenant improvements. Leasehold estate properties, where we own the building and improvements but not the related ground, are amortized over the life of the lease.

Properties Held for Sale — Properties are classified as held for sale if management has decided to market the property for immediate sale in its present condition with the belief that the sale will be completed within one year. Operating properties held for sale are carried at the lower of cost or fair value less cost to sell. Depreciation and amortization are suspended during the held for sale period. As of June 30, 2008 we owned 29 properties with a carrying value of \$32.9 million that were classified as real estate held for sale. As of December 31, 2007 we owned 19 properties with a carrying value of \$22.4 million that were classified as real estate held for sale.

Our properties generally have operations and cash flows that can be clearly distinguished from the rest of our operations. The operations and gains on sales reported in discontinued operations represent those properties that have been sold or are held for sale and for which operations and cash flows have been clearly distinguished. The operations of these properties have been eliminated from ongoing operations, and we will not have continuing involvement after disposition. Prior period operating activity related to such properties has been reclassified as discontinued operations in the accompanying statements of operations, effective on the date the decision to sell is made.

Impairment – We review our 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. We determine 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 value 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. An impairment charge of \$1.3 million was recognized for the six months ended June 30, 2008 related to four properties that represent non-core real estate assets. We are holding these assets for sale as of June 30, 2008, one of which was sold in July 2008. No impairment charges were recognized for the six months ended June 30, 2007.

#### RECEIVABLES AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Tenant receivables — Included in tenant receivables are base rents, tenant reimbursements and receivables attributable to recording rents on a straight-line basis. An allowance for the uncollectible portion of accrued rents and accounts receivable is determined based upon customer credit-worthiness (including expected recovery of our claim with respect to any tenants in bankruptcy), historical bad debt levels, and current economic trends. As of June 30, 2008 and December 31, 2007, we had an allowance for uncollectible accounts of \$600,000 and \$157,000, respectively, related to our tenant receivables. During the second quarter of 2008, we increased the allowance by \$470,000 in bad debts associated primarily with a couple of major tenants, one of which declared bankruptcy during the second quarter and another which vacated their space during the second quarter.

Accounts receivable – Included in accounts receivable are amounts due from clients of our construction services business and various other receivables. As of June 30, 2008 and December 31, 2007, we had an allowance for uncollectible accounts of \$411,000 and \$264,000, respectively, related to our accounts receivable. During the second quarter of 2008, we increased the allowance by \$178,000 in bad debts associated with two construction projects.

Also included in accounts receivable as of June 30, 2008 is a \$1.8 million receivable from the City of Pearland, Texas. We acquired this receivable in June 2008 in conjunction with the acquisition of Shadow Creek Ranch shopping center by our affiliated funds in February 2008. The receivable is to be funded by 1/3 of the 1.5% sales tax that the City of Pearland collects from the shopping center.

Notes receivable – related party – Included in related party notes receivable are loans made to our affiliated merchant development funds as part of our treasury management function whereby we place excess cash in short-term bridge loans for these affiliates related to the acquisition or development of properties. We typically provide such financing to our affiliates as a way of efficiently deploying our excess cash and earning a higher return than we would otherwise earn in other short term investments or overnight funds. In most cases, the funds have a construction lender in place, and we step in and provide financing on the same terms as the third party lender. In so doing, we are able to access these funds as needed by having our affiliate then draw down on their construction loans. These loans are unsecured, bear interest at the prime rate (5.00% at June 30, 2008) and are due upon demand.

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## DEFERRED COSTS

Deferred costs include deferred leasing costs and deferred loan costs, net of amortization. Deferred loan costs are incurred in obtaining financing and are amortized using a method that approximates the effective interest method to interest expense over the term of the debt agreements. Deferred leasing costs consist of external commissions associated with leasing our properties and are amortized to expense over the lease term. Accumulated amortization related to deferred loan costs as of June 30, 2008 and December 31, 2007 totaled \$793,000 and \$627,000, respectively. Accumulated amortization related to deferred leasing costs as of June 30, 2008 and December 31, 2007 totaled \$550,000 and \$450,000, respectively.

## DEFERRED COMPENSATION

Our deferred compensation and long term incentive plan is designed to attract and retain the services of our trust managers and employees that we consider essential to our long-term growth and success. As such, it is designed to provide them with the opportunity to own shares, in the form of restricted shares, in us, and provide key employees the opportunity to participate in the success of our affiliated actively managed merchant development funds through the economic participation in our general partner companies. All long term compensation awards are designed to vest over a period of three to seven years and promote retention of our team.

Restricted Share Issuances - Deferred compensation includes grants of restricted shares to our trust managers and employees as a form of long-term compensation. The share grants vest over a period of three to seven years. We determine the fair value of the restricted shares as the number of shares awarded multiplied by the closing price per share of our class A common shares on the grant date. We amortize such fair value ratably over the vesting periods of the respective awards. The following table presents restricted share activity during the six months ended June 30, 2008.

	Non-vested Shares	Weighted Average grant date fair value
Beginning of period	410,830	\$ 7.67
Granted	-	-
Vested	(52,588)	7.73
Forfeited	(39,829)	7.90
End of period	318,413	7.63

There were no restricted shares issued during the six months ended June 30, 2008. During the six months ended June 30, 2007 the weighted-average grant date fair value of shares issued under our deferred compensation and long term incentive plan was \$8.51 per share. The total fair value of shares vested during the six months ended June 30, 2008 and 2007 was \$407,000 and \$390,000 respectively. Total compensation cost recognized related to restricted shares during the six months ended June 30, 2008 and 2007 was \$224,000 and \$353,000, respectively. As of June 30, 2008, total unrecognized compensation cost related to restricted shares was \$2.4 million, and the weighted average period over which we expect this cost to be recognized is 3.56 years.

General Partner Profit Participation Interests - We have assigned up to 45% of the economic interest in certain of our merchant development funds to certain of our key employees. This economic interest is received, as, if and when we receive economic benefit from our profit participation, after certain preferred returns have been paid to the partnership's limited partners. This assignment of economic interest generally vests over a period of five to seven years. This allows us to align the interest of our employees with the interest of our shareholders. Because any future profits and earnings from the merchant development funds cannot be reasonably predicted or estimated, and any employee benefit is contingent upon the benefit received by the general partner of the merchant development funds, we recognize expense associated with the assignment of these economic interests as we recognize the corresponding income from the associated merchant development funds. No portion of the economic interest in the merchant development funds that have provided profit participation to us to date have been assigned to employees. Therefore, no compensation expense has been recorded to date. See Note 3 below for a discussion of the potential sale of assets from one our merchant development funds, AAA CTL Notes, Ltd.

Tax-Deferred Retirement Plan (401k) - We maintain a defined contribution 401k retirement plan for our employees. This plan is available for all employees immediately upon employment. The plan allows for contributions to be either invested in an array of large, mid and small cap mutual funds or directly into class A common shares. Employee contributions invested in our shares are limited to 50% of the employee's contributions. We match 50% of the employee's contribution, up to a maximum employee contribution of 4%. None of the employer contribution can be matched in our shares.

Share Options - We are authorized to grant options of our class A common shares as either incentive or non-qualified share options, up to an aggregate of 6.0% of the total voting shares outstanding. As of June 30, 2008 and December 31, 2007, none of these options have been granted.

## INCOME TAXES

We account for federal and state income taxes under the asset and liability method.

Federal – We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, and are, therefore, not subject to Federal income taxes to the extent of dividends paid, provided we meets all conditions specified by the Internal Revenue Code for retaining our REIT status, including the requirement that at least 90% of our REIT taxable income be distributed to shareholders.

Our real estate development and operating business, AmREIT Realty Investment Corporation and subsidiaries (“ARIC”), is a fully integrated and wholly-owned business consisting of brokers and real estate professionals that provide development, acquisition, brokerage, leasing, construction, asset and property management services to our publicly traded portfolio and merchant development funds as well as to third parties. ARIC and our wholly-owned corporations that serve as the general partners of our merchant development funds are treated for Federal income tax purposes as taxable REIT subsidiaries (collectively, the “Taxable REIT Subsidiaries”).

State – In May 2006, the State of Texas adopted House Bill 3, which modified the state's franchise tax structure, replacing the previous tax based on capital or earned surplus with one based on margin (often referred to as the “Texas Margin Tax”) effective with franchise tax reports filed on or after January 1, 2008. The Texas Margin Tax is computed by applying the applicable tax rate (1% for us) to the profit margin, which, generally, will be determined for us as total revenue less a 30% standard deduction. Although House Bill 3 states that the Texas Margin Tax is not an income tax, SFAS No. 109, Accounting for Income Taxes, applies to the Texas Margin Tax. We have recorded a margin tax provision of \$145,000 and \$124,000 for the Texas Margin Tax for the six months ended June 30, 2008 and 2007, respectively.

## EARNINGS PER SHARE

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Basic earnings per share has been computed by dividing net loss available 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 as appropriate) by the weighted average number of common shares outstanding plus the weighted average number of dilutive potential common shares. Diluted earnings per share information is not applicable due to the anti-dilutive nature of the class C and class D common shares which represent 23.0 million and 20.4 million potential common shares for the three months ended June 30, 2008 and 2007, respectively.

The following table presents information necessary to calculate basic and diluted earnings per class A share for the six months ended June 30, as indicated:

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
Loss to class A common shareholders*	\$ 3,169	\$ 1,610	\$ 4,670	\$ 3,312
Weighted average class A common shares outstanding*	5,775	6,411	5,995	6,366
Basic and diluted loss per share	(0.54)	(0.25)	(0.78)	(0.52)

\* In thousands

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USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Our consolidated financial instruments consist primarily of cash, cash equivalents, tenant receivables, accounts receivable, notes receivable, accounts payable and other liabilities and notes payable. The carrying value of cash, cash equivalents, tenant receivables, accounts receivable, notes receivable, accounts payable, and other liabilities are representative of their respective fair values due to the short-term maturity of these instruments. Our revolving line of credit has market-based terms, including a variable interest rate. Accordingly, the carrying value of the line of credit is representative of its fair value.

As of June 30, 2008, the carrying value of our debt obligations associated with assets held for investment was \$175.6 million, \$137.6 million of which represented fixed rate obligations with an estimated fair value of \$139.3 million. As of December 31, 2007, the carrying value of our debt obligations associated with assets held for investment was \$168.6 million, \$138.1 million of which represented fixed rate obligations with an estimated fair value of \$139.1 million.

As of June 30, 2008, the carrying value of our debt obligations associated with assets held for sale was \$12.6 million, all of which represented fixed rate obligations with an estimated fair value of \$13.3 million. As of December 31, 2007, the carrying value of our debt obligations associated with assets held for sale was \$12.8 million, all of which represented fixed rate obligations with an estimated fair value of \$13.6 million.

CONSOLIDATION OF VARIABLE INTEREST ENTITIES

As of June 30, 2008, we are an investor in, and the primary beneficiary of, one entity that qualifies as a variable interest entity pursuant to FIN 46R. This entity was established to develop, own, manage, and hold property for investment and comprises \$6.1 million of our total consolidated assets at period end. This entity, which we hold a 50% interest in, had no debt outstanding at period end and had revenues of \$250,000 for the six months ended June 30, 2008.

NEW ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of financial instruments according to a fair value hierarchy. Additionally, companies are required to provide certain disclosures regarding instruments within the hierarchy, including a reconciliation of the beginning and ending balances for each major category of assets and liabilities. SFAS No. 157 is effective for our fiscal year beginning January 1, 2008. The adoption of SFAS No. 157 did not have a material effect on our results of operations or financial position.

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In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS No. 159”). SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We did not measure any eligible financial assets and liabilities at fair value under the provisions of SFAS No. 159.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations (“SFAS No. 141R”). SFAS No. 141R will change the accounting for business combinations. Under FAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We currently capitalize acquisition costs as part of the basis of the asset acquired. Upon effectiveness of SFAS No. 141R we will expense acquisition costs as incurred.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51 (“SFAS No. 160”). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS No. 160 shall be applied prospectively. We are currently evaluating the potential impact of the adoption of SFAS No. 160 on our consolidated financial statements.

DISCONTINUED OPERATIONS

The following is a summary of our discontinued operations for the three and six months ended June 30, 2008 and 2007 (in thousands, except for per share data):

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
Rental revenue	\$ 428	\$ 273	\$ 686	\$ 487
Earned income from direct financing leases	443	447	887	895
Total revenues	871	720	1,573	1,382
Property expense	29	33	125	30
Other general and administrative	(6)	13	(1)	14
Federal income tax expense (benefit)	(171)	9	(157)	19
Legal and professional	18	12	44	16
Depreciation and amortization	35	43	67	78
Minority interest	198	34	229	75
Impairment charge	1,332	-	1,332	-
Interest expense	327	274	616	555
Total expenses	1,762	418	2,255	787
Income (loss) from discontinued operations	(891)	302	(682)	595
Basic and diluted income from discontinued operations				



per class A common share	\$	(0.15)	\$	0.05	\$	(0.11)	\$	0.09
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Included in discontinued operations is the operating activity related to 29 of our properties that are held for sale. Our AAA CTL portfolio comprises of 17 of these properties. These 17 properties were treated as investments in direct financing leases for financial reporting purposes. See Note 3 for further discussion of AAA CTL.

#### STOCK ISSUANCE COSTS

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

#### CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, we consider 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.

#### RECLASSIFICATIONS

Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the presentation used in the current period consolidated financial statements. Such reclassifications had no effect on net income (loss) or shareholders' equity as previously reported.

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3. INVESTMENTS IN MERCHANT DEVELOPMENT FUNDS AND OTHER AFFILIATES

AAA CTL Notes, Ltd.

AAA CTL Notes I Corporation (“AAA Corp”), our wholly-owned subsidiary, invested as a general partner and limited partner in AAA CTL Notes, Ltd. (“AAA”). AAA is a majority-owned subsidiary through which we purchased 15 IHOP Corp. (“IHOP”) leasehold estate properties and two IHOP fee simple properties. We have consolidated AAA in our financial statements. Certain members of our management team have been assigned a 51% aggregate interest in the income and cash flow of AAA’s general partner. Net sales proceeds from the liquidation of AAA will be allocated to the limited partners and to the general partner pursuant to the limited partnership agreement of AAA.

During the third quarter of 2007, we decided to market the AAA assets for sale. Accordingly, they have been reflected as assets held for sale in the accompanying balance sheet and statement of operations.

Merchant Development Funds

As of June 30, 2008, we owned, through wholly-owned subsidiaries, interests in six limited partnerships which are accounted for under the equity method as we exercise significant influence over, but do not control, the investee. In each of the partnerships, the limited partners have the right, with or without cause, to remove and replace the general partner by a vote of the limited partners owning a majority of the outstanding units. These merchant development funds were formed to develop, own, manage and add value to properties with an average holding period of two to four years. Our interests in these merchant development funds range from 2.1% to 10.5%. See Note 8 regarding transactions we have entered into with our merchant development funds.

AmREIT Opportunity Fund (“AOF”) — AmREIT Opportunity Corporation (“AOC”), our wholly-owned subsidiary, invested \$250,000 as a limited partner and \$1,000 as a general partner in AOF. We currently own a 10.5% limited partner interest in AOF. Liquidation of AOF commenced in July 2002, and, as of June 30, 2008, AOF has an interest in one property. As the general partner, AOC receives a promoted interest in cash flow and any profits after certain preferred returns are achieved for its limited partners.

AmREIT Income & Growth Fund, Ltd. (“AIG”) — AmREIT Income & Growth Corporation (“AIGC”), our wholly-owned subsidiary, invested \$200,000 as a limited partner and \$1,000 as a general partner in AIG. We currently own an approximate 2.0% limited partner interest in AIG. Certain members of our management team have been assigned a 49% aggregate interest in the income and cash flow of AIGC. Pursuant to the AIG limited partnership agreement, net sales proceeds from its liquidation (expected in 2008) will be allocated to the limited partners, and to the general partner, AIGC, as, if and when the annual return thresholds have been achieved by the limited partners.

AmREIT Monthly Income & Growth Fund (“MIG”) — AmREIT Monthly Income & Growth Corporation, our wholly-owned subsidiary, invested \$200,000 as a limited partner and \$1,000 as a general partner in MIG. We currently own an approximate 1.3% limited partner interest in MIG.

AmREIT Monthly Income & Growth Fund II (“MIG II”) — AmREIT Monthly Income & Growth II Corporation, our wholly-owned subsidiary, invested \$400,000 as a limited partner and \$1,000 as a general partner in MIG II. We currently own an approximate 1.6% limited partner interest in MIG II.

AmREIT Monthly Income & Growth Fund III (“MIG III”) — AmREIT Monthly Income & Growth III Corporation (“MIGC III”), our wholly-owned subsidiary, invested \$800,000 as a limited partner and \$1,000 as a general partner in MIG III. MIG III began raising money in June 2005. The offering was closed in October 2006, and the capital raised was approximately \$71 million. Our \$800,000 investment represents a 1.1% limited partner interest in MIG III. Certain members of our management team have been assigned a 28.5% general partner’s share of aggregate interest

in the income and cash flow of MIGC III. Pursuant to the MIG III limited partnership agreement, net sales proceeds from its liquidation (expected in 2012) will be allocated to the limited partners, and to the general partner (MIGC III) as, if and when the annual return thresholds have been achieved by the limited partners.

AmREIT Monthly Income & Growth Fund IV (“MIG IV”) — AmREIT Monthly Income & Growth IV Corporation (“MIGC IV”), our wholly-owned subsidiary, invested \$800,000 as a limited partner and \$1,000 as a general partner in MIG IV. MIG IV began raising money in November 2006. The offering was closed March 2008, and the capital raised was approximately \$50 million. Our \$800,000 investment represents a 1.6% limited partner interest in MIG IV. Certain members of our management team have been assigned a 28.5% general partner’s share of aggregate interest in the income and cash flow of MIGC IV. Pursuant to the MIG IV limited partnership agreement, net sales proceeds from its liquidation (expected in 2013) will be allocated to the limited partners, and to the general partner (MIGC IV) as, if and when the annual return thresholds have been achieved by the limited partners.

REITPlus, Inc. (“REITPlus”) — In November 2007, a registration statement relating to REITPlus, Inc., a \$550 million non-traded REIT offering that is advised by one of our wholly-owned subsidiaries, was declared effective by the SEC, allowing REITPlus to begin offering its common stock through our securities operation’s broker-dealer network. REITPlus conducts substantially all of its operations through REITPlus Operating Partnership, LP (“REITPlus OP”) which will own substantially all of the properties acquired on REITPlus’s behalf. On May 16, 2007, we purchased 100 shares of common stock of REITPlus for total cash consideration of \$1,000 and were admitted as the initial shareholder. Additionally, on May 16, 2007, we made an initial limited partner contribution of \$1 million to REITPlus OP. We expect our limited partnership interest at completion of the offering to be less than 1%.

Our wholly-owned subsidiary serves as the advisor to REITPlus and will therefore earn recurring fees such as asset management and property management fees, and transactional fees such as acquisition fees, development fees, financing coordination fees, and real estate sales commissions. We will also participate in a 15% promoted interest, payable upon REITPlus’ liquidation, listing of its shares on a national securities exchange, or the termination or non-renewal of the advisory agreement with our subsidiary (other than for cause) after the REITPlus stockholders receive or are deemed to have received, their invested capital plus a 7% preferred return. In our capacity as the parent company of the advisor to REITPlus, we have paid organization and offering costs of \$1.6 million on its behalf. We have recorded these costs as a receivable in the accompanying financial statements. Such costs will be reimbursed to us subject to limitations on reimbursements set forth in the advisory agreement.

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## Merchant Development Funds - Financial Information

The following table sets forth certain financial information as of June 30, 2008 for the AIG, MIG, MIG II, MIG III and MIG IV merchant development funds (AOF is not included as it is currently in liquidation) and REITPlus:

Merchant Development Fund	Capital under Mgmt.	LP Interest	GP Interest	Scheduled Liquidation	Sharing Ratios(1)							
					LP	GP	LP Preference					
AIG	\$3 million	2.0%	1.0%	2008	99%	1%	8%					
					90%	10%	10%					
					80%	20%	12%					
					70%	30%	15%					
					0%	100%	40% Catch Up					
					60%	40%	Thereafter					
MIG	\$15 million	1.3%	1.0%	2010	99%	1%	8%					
					90%	10%	10%					
					80%	20%	12%					
					0%	100%	40% Catch Up					
					60%	40%	Thereafter					
MIG II	\$25 million	1.6%	1.0%	2011	99%	1%	8%					
					85%	15%	12%					
					0%	100%	40% Catch Up					
					60%	40%	Thereafter					
					MIG III	\$71 million	1.1%	1.0%	2012	99%	1%	10%
0%	100%	40% Catch Up										
60%	40%	Thereafter										
MIG IV	\$50 million	1.6%	1.0%	2013						99%	1%	8.5%
										0%	100%	40% Catch Up
					60%	40%	Thereafter					
					REITPlus (2)	\$3.8 million	NA	NA	2014	99%	1%	(Note 3)
										85%	15%	

(1) Illustrating the Sharing Ratios and LP Preference provisions using AIG as an example, the LPs share in 99% of the cash distributions until they receive an 8% preferred return. The LPs share in 90% of the cash distributions until they receive a 10% preferred return and so on.

(2) REITPlus commenced receiving capital in the second quarter of 2008.

(3) We will be entitled to distributions from REITPlus with respect to our \$1 million investment to the same extent as stockholders who purchase shares in the public offering. For a description of our subsidiary's promoted interest in REITPlus, please see the second paragraph under "REITPlus, Inc." above in the Section 3.

#### Other Affiliates

Other than the merchant development funds, we have an investment in three entities that are accounted for under the equity method since we exercise significant influence over such entities.

AmREIT Woodlake, L.P. - In 2007, we invested \$3.4 million in AmREIT Woodlake, LP, ("Woodlake") for a 30% limited partner interest in the partnership. Woodlake was formed in 2007 to acquire, lease and manage Woodlake Square, a shopping center located on the west side of Houston, Texas at the intersection of Westheimer and Gessner. In June 2008, we sold two-thirds (20%) of our interest in Woodlake to MIG IV. Pursuant to the purchase agreement, the property was sold at its carrying value, resulting in no gain or loss to us. At June 30, 2008, we hold a remaining 10% interest in Woodlake Square which will be purchased at its carrying value by REITPlus once REITPlus has the capital required to make such acquisition.

AmREIT Westheimer Gessner, L.P. - In 2007, we invested \$3.8 million in AmREIT Westheimer Gessner, LP, for a 30% limited partner interest in the partnership. AmREIT Westheimer Gessner, LP was formed in 2007 to acquire, lease and manage Borders Shopping Center, a shopping center located on the west side of Houston, Texas at the intersection of Westheimer and Gessner. In June 2008, we sold two-thirds (20%) of our interest in Borders Shopping Center to MIG IV. Pursuant to the purchase agreement, the property was sold at its carrying value, resulting in no gain or loss to us. At June 30, 2008, we hold a 10% interest in Borders Shopping Center which will be purchased at its carrying value by REITPlus once REITPlus has the capital required to make such acquisition.

AmREIT SPF Shadow Creek, L.P. - In the first quarter of 2008, we invested \$5.1 million in AmREIT SPF Shadow Creek, LP, for a 10% limited partner interest in the partnership. AmREIT SPF Shadow Creek, LP was formed in 2008 to acquire, lease and manage Shadow Creek Ranch, a shopping center located in Pearland, Texas at the intersection of Highway 288 and FM 518. During the second quarter of 2008, we sold 76% (7.6%) of our interest in Shadow Creek Ranch to REITPlus. Pursuant to the purchase agreement, the property was sold at its carrying value, resulting in no gain or loss. At June 30, 2008, we hold a 2.4% interest in Shadow Creek which will be purchased at its carrying value by REITPlus once REITPlus has the capital required to make such acquisition.

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## 4. ACQUIRED LEASE INTANGIBLES

In accordance with SFAS No. 141, we have identified and recorded the value of intangibles at the property acquisition date. Such intangibles include the value of in-place leases and out-of-market leases. These assets are amortized over the leases' remaining terms. The amortization of above-market leases is recorded as a reduction of rental income and the amortization of in-place leases is recorded to amortization expense. The amortization expense related to in-place leases was \$1.6 million and \$1.3 million during the six months ended June 30, 2008 and June 30, 2007, respectively. The amortization of above-market leases, which was recorded as a reduction of rental income, was \$175,000 and \$203,000 during the six months ended June 30, 2008 and June 30, 2007, respectively.

In-place and above-market lease amounts and their respective accumulated amortization at June 30, 2008 and December 31, 2007 are as follows (in thousands):

	June 30, 2008		December 31, 2007	
	In-Place leases	Above-market leases	In-Place leases	Above-market leases
Cost	\$ 18,210	\$ 2,025	\$ 19,052	\$ 2,025
Accumulated amortization	(7,763)	(1,246)	(6,910)	(1,071)
Intangible lease cost, net	\$ 10,447	\$ 779	\$ 12,142	\$ 954

Acquired lease intangible liabilities (below-market leases) of \$2.4 million and \$3.4 as of June 30, 2008 and December 31, 2007, respectively, are net of previously accreted minimum rent of \$1.7 million and \$1.6 million at June 30, 2008 and December 31, 2007, respectively. Below-market leases are accreted over the leases' remaining terms. The accretion of below-market leases, which was recorded as an increase to rental income, was \$1.0 million and \$244,000 during the six months ended June 30, 2008 and June 30, 2007, respectively.

## 5. NOTES PAYABLE

Our outstanding debt at June 30, 2008 and December 31, 2007 consists of the following (in thousands):

	June 30, 2008	December 31, 2007
Notes Payable, Held for Investment		
Fixed rate mortgage loans	\$ 137,580	\$ 138,121
Variable-rate unsecured line of credit	37,976	30,439
Total	\$ 175,556	\$ 168,560
Notes Payable, Held for Sale		
Fixed rate mortgage loans	\$ 12,570	\$ 12,811
Total	\$ 12,570	\$ 12,811

We have an unsecured credit facility in place which is being used to provide funds for the acquisition of properties and working capital. The credit facility matures in October 2009 and provides that we may borrow up to \$70 million subject to the value of unencumbered assets. Effective October 2007, we renewed our credit facility on terms and conditions substantially the same as the previous facility. The credit facility contains covenants which, among other restrictions, require us to maintain a minimum net worth, a maximum leverage ratio, maximum tenant concentration ratios, specified interest coverage and fixed charge coverage ratios and allow the lender to approve all distributions. For the quarter ended June 30, 2008, we violated two covenants per the terms of the credit facility. Our lender has waived both events of non-compliance as of June 30, 2008. Given the nature of these covenants, we expect we will be out of compliance for the remainder of the year, and that our lender will grant us waivers for those events of non-compliance although no assurance can be given that these waivers will be granted. We were in compliance with all other covenants as of June 30, 2008. The credit facility's annual interest rate varies depending upon our debt to asset ratio, from LIBOR plus a spread of 1.0% to LIBOR plus a spread of 1.85%. As of June 30, 2008, the interest rate was LIBOR plus 1.00%. As of June 30, 2008, there was a balance outstanding of \$38.0 million under our credit facility. We have approximately \$30 million available under our credit facility, subject to the covenants above. We have \$1.0 million in letters of credit outstanding related to various properties. These letters of credit reduce our availability under our credit facility.

As of June 30, 2008, the weighted average interest rate on our fixed-rate debt was 5.78%, and the weighted average remaining life of such debt was 6.24 years. We added no fixed-rate debt during the six months ended June 30, 2008. We added fixed-rate debt of \$19.9 million during 2007.

As of June 30, 2008, scheduled principal repayments on notes payable and the credit facility were as follows (in thousands):

Scheduled Payments by Year	Associated with Assets Held for Investment			Associated with Assets Held for Sale		
	Scheduled Principal Payments	Term-Loan Maturities	Total Payments	Scheduled Principal Payments	Term-Loan Maturities	Total Payments
2008	\$ 437	13,410	13,847	\$ 238	-	238
2009	38,894	-	38,894	530	-	530
2010	982	-	982	573	-	573
2011	987	3,075	4,062	620	-	620
2012	979	25,353	26,332	328	10,281	10,609
Thereafter	2,019	88,900	90,919	-	-	-
Unamortized debt premiums	-	520	520	-	-	-
Total	\$ 44,298	\$ 131,258	\$ 175,556	\$ 2,289	\$ 10,281	\$ 12,570

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## 6. CONCENTRATIONS

As of June 30, 2008, one property individually accounted for more than 10% of our consolidated total assets – Uptown Park in Houston, Texas, which accounted for 15% of total assets. Consistent with our strategy of investing in areas that we know well, 17 of our properties are located in the Houston metropolitan area. These Houston properties represent 66% of our base rental income for the six months ended June 30, 2008. Houston is Texas’ largest city and the fourth largest city in the United States.

Following are the base rents generated by our top tenants for the periods ended June 30 2008 and 2007 (\$ in thousands):

Tenant	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
IHOP Corporation*	\$ 618	\$ 562	\$ 1,117	\$ 1,124
Kroger	529	529	1,058	1,058
Grotto	289	148	465	336
CVS	231	218	461	437
Hard Rock Cafe	111	110	221	219
TGI Fridays	109	105	217	201
Champps Americana	106	102	211	205
Golden Corral	105	91	203	182
Linens 'N Things	101	101	201	201
Paesanos	89	89	178	180
	\$ 2,288	\$ 2,055	\$ 4,332	\$ 4,143

\* A significant portion of IHOP Corporation revenues are related to our AAA assets which are qualified as held for sale as described in Note 3. The activity related to these assets held for sale is reflected as “Earned Income from DFL” in the Discontinued Operations section of Note 1.

## 7. SHAREHOLDERS’ EQUITY AND MINORITY INTEREST

**Class A Common Shares** — Our class A common shares are listed on the American Stock Exchange (“AMEX”) and traded under the symbol “AMY.” As of June 30, 2008, there were 5,405,236 of our class A common shares outstanding, net of 1,229,253 shares held in treasury. Our payment of any future dividends to our class A common shareholders is dependent upon applicable legal and contractual restrictions, including the provisions of the class C common shares, as well as our earnings and financial needs.

**Class B Common Shares** — As of June 30, 2008 none of the class B common shares were outstanding. In December 2007, we completed a tender offer for approximately 48% of our class B common shares in which we repurchased



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998,000 shares at \$9.25 per share for a total purchase price of \$9.2 million. We redeemed the remaining 1 million outstanding shares during December 2007 at \$10.18 per share for \$10.4 million in cash.

**Class C Common Shares** — The class C common shares are not listed on an exchange and there is currently no available trading market for the class C common shares. As of June 30, 2008, there were 4,149,094 of our class C common shares outstanding. The class C common shares have voting rights, together with all classes of common shares, as one class of shares. The class C common shares were issued at \$10.00 per share. The class C common shares receive a fixed 7.0% preferred annual dividend, paid in monthly installments, and are convertible into the class A common shares after a 7-year lock out period based on 110% of invested capital, at the holder's option. The class C common shares are convertible beginning in August 2010. We have the right to force conversion of the class C common shares into class A shares on a one-for-one basis or to redeem the shares at a cash redemption price of \$11.00 per share at the holder's option. Currently, there is a class C dividend reinvestment program that allows investors to reinvest their dividends into additional class C common shares. These reinvested shares are also convertible into the class A common shares after the 7-year lock out period and receive the 10% conversion premium upon conversion.

**Class D Common Shares** — The class D common shares are not listed on an exchange and there is currently no available trading market for the class D common shares. As of June 30, 2008, there were 11,036,170 of our class D common shares outstanding. The class D common shares have voting rights, together with all classes of common shares, as one class of shares. The class D common shares were issued at \$10.00 per share. The class D common shares receive a fixed 6.5% annual dividend, paid in monthly installments, subject to payment of dividends then payable to class B and class C common shares. The class D common shares are convertible into the class A common shares at a 7.7% premium on original capital after a 7-year lock out period, at the holder's option. The class D common shares are convertible beginning in June 2011. We have the right to force conversion of the class D common shares into class A shares at the 7.7% conversion premium or to redeem the shares at a cash price of \$10.00. In either case, the conversion premium will be pro rated based on the number of years the shares are outstanding. Currently, there is a class D dividend reinvestment program that allows investors to reinvest their dividends into additional class D common shares. These reinvested shares are also convertible into the class A common shares after the 7-year lock out period and receive the 7.7% conversion premium upon conversion.

**Minority Interest** — Minority interest represents a third party interest in entities that we consolidate as a result of our controlling financial interest in such investees. The minority interest is attributable to a third party interest in AAA (which is held for sale as of June 30, 2008 as discussed in Note 3.)

### Share Repurchase Program

In June 2007, our Board of Trust Managers authorized a \$5.0 million common share repurchase program as part of our ongoing investment strategy, allowing us to purchase our common shares of beneficial interest. In May of 2008, the Board of Trust Managers extended our common share repurchase program by an additional \$5.0 million for a maximum buyback amount of \$10 million. Share repurchases may be made in the open market or in privately negotiated transactions at the discretion of management and as market conditions warrant. We anticipate funding the repurchase of shares primarily through the proceeds received from general corporate funds as well as through the use of our credit facility.

Repurchases of our common shares of beneficial interest for the six months ended June 30, 2008 are as follows:

Period	(a) Total Number of Shares	(b) Average Price Paid	(c) Total Number of Shares Purchased As Part of	(d) Maximum Dollar Value of Shares that May Yet be

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	Purchased	per Share	Publicly Announced Program	Purchased Under the Program
January 1, 2008 to March 31, 2008	156,490	\$ 6.99	156,490	\$ 2,618,707
April 1, 2008 to June 30, 2008	695,800	\$ 7.28	695,800	\$ 2,560,990

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8. RELATED PARTY TRANSACTIONS

See Note 3 regarding investments in merchant development funds and other affiliates and Note 2 regarding related party notes receivable.

We earn real estate fee income by providing property acquisition, leasing, asset management, property management, financing, coordination, real estate disposition, construction and construction management services to our merchant development funds and other affiliates. The companies that serve as the general partner for the funds are wholly-owned by us. Real estate fee income of \$2.7 million and \$1.1 million was paid by our merchant development funds and other affiliates to us for the six months ended June 30, 2008 and 2007, respectively. Additionally, construction revenues of \$2.6 million and \$1.1 million were earned from the merchant development funds during the six months ended June 30, 2008 and 2007, respectively. We earn asset management fees from the funds for facilitating the deployment of capital and for performing other management oversight services. Asset management fees of \$753,000 and \$596,000 were paid by the funds to us for the six months ended June 30, 2008 and 2007, respectively. Additionally, during the six months ended June 30, 2008 and 2007 we were reimbursed by the merchant development funds \$422,000 and \$294,000, respectively, for reimbursements of administrative costs and for organization and offering costs incurred on behalf of those funds.

As a sponsor of real estate investment opportunities to the Financial Industry Regulatory Authority (“FINRA”) financial planning broker-dealer community, we maintain an indirect 1% general partner interest in the investment funds that we sponsor. The limited partnership 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. We also may assign a portion of this general partner interest in these investment funds to our employees as long term, contingent compensation. We believe that this assignment 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.

9. REAL ESTATE ACQUISITIONS AND DISPOSITIONS

During the six months ended June 30, 2008, we acquired a 1.4-acre parcel of land in San Antonio, Texas that is currently under development for a national drugstore tenant with whom we have an executed long-term lease.

In May 2007, we acquired a 2-acre parcel of land in Champaign, Illinois that was acquired for resale and is currently under development for a national tenant that is in the rental equipment business. In February 2007, we acquired The Woodlands Mall Ring Road property, which represents 66,000 square feet of gross leaseable area in Houston, Texas. The property is ground-leased to five tenants, including Bank of America, Circuit City and Landry’s Seafood. Additionally, during 2007, we sold one property acquired for resale for \$1.4 million which approximated our cost.

10. COMMITMENTS

In March 2004, we signed a new lease agreement for our office facilities which expires August 31, 2009. In addition, we lease various office equipment for daily activities. Rental expense for the six months ended June 30, 2008 and 2007 was \$198,000 and \$133,000, respectively.

Additionally, we have committed \$713,000 of nonrefundable earnest money on a contract for the acquisition of receivables that would be funded by a tax municipality from its issuance of public bonds.

## 11. SUBSEQUENT EVENTS

On July 10, 2008 we sold one of our non-core single tenant assets that is classified as held for sale as of June 30, 2008. The sales price was equal to the property's carrying value on the date of sale.

## 12. OPERATING SEGMENTS

The operating segments presented are the segments of AmREIT for which separate financial information is available, and revenue and operating performance is evaluated regularly by senior management in deciding how to allocate resources and in assessing performance.

The portfolio segment consists of our portfolio of single and multi-tenant shopping center projects. This segment consists of 51 properties located in 15 states. Expenses for this segment include depreciation, interest, minority interest, legal cost directly related to the portfolio of properties and property level expenses. Our consolidated assets are substantially all in this segment. Additionally, substantially all of the increase in total assets during the three months ended June 30, 2008 occurred within the portfolio segment.

Our real estate development and operating business is a fully integrated and wholly-owned business consisting of brokers and real estate professionals that provide development, acquisition, brokerage, leasing, construction, and asset and property management services to our publicly traded portfolio and merchant development funds as well as to third parties. Our securities operations consist of FINRA registered securities broker-dealer business that, through the internal securities group, raises capital from the independent financial planning marketplace. The merchant development funds sell limited partnership interests and non-listed REIT securities to retail investors, in which we invest as both the general partner and as a limited partner; in the case of the limited partnerships, and as a stockholder in the REIT or a limited partner in the REIT's operating partnership (see Note 3). These merchant development funds were formed to develop, own, manage, and add value to properties with an average holding period of two to four years with respect to the limited partnerships, and an extended term consistent with REIT status for REITPlus.

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For the three months ended June 30, 2008 (in thousands)	Asset Advisory				Total
	Portfolio	Real Estate Operations	Securities	Merchant Development Funds	
Rental income	\$ 8,202	\$ -	\$ -	\$ -	\$ 8,202
Real estate fee income		1,395	31	-	1,426
Construction revenues	-	2,348	-	-	2,348
Securities commission income	-	-	424	-	424
Asset management fee income	-	-	-	377	377
<b>Total revenue</b>	<b>8,202</b>	<b>3,743</b>	<b>455</b>	<b>377</b>	<b>12,777</b>
General and administrative	453	1,387	420	28	2,288
Property expense	2,464	(8)		-	2,456
Construction costs	-	2,221	-	-	2,221
Legal and professional	342	50	40		432
Real estate commissions	-	5	-	-	5
Securities commissions	-	21	334	-	355
Depreciation and amortization	2,606	-	-	-	2,606
<b>Total expenses</b>	<b>5,865</b>	<b>3,676</b>	<b>794</b>	<b>28</b>	<b>10,363</b>
Interest expense	(2,144)	54	(95)	(186)	(2,371)
Other income/ (expense)	13	82	183	(95)	183
Income (loss) from discontinued operations	135	(1,026)	-	-	(891)
<b>Net income (loss)</b>	<b>\$ 341</b>	<b>\$ (823)</b>	<b>\$ (251)</b>	<b>\$ 68</b>	<b>\$ (665)</b>

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For the three months ended June 30, 2007 (in thousands)	Portfolio	Real Estate Operations	Asset Advisory Securities
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