

Whitestone REIT
Form 10-Q
August 07, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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 001-34855

WHITESTONE REIT

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

76-0594970
(I.R.S. Employer
Identification No.)

2600 South Gessner, Suite 500
Houston, Texas
(Address of Principal Executive Offices)

77063
(Zip Code)

(713) 827-9595
(Registrant's Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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

As of August 5, 2015, there were 26,977,682 common shares of beneficial interest, \$0.001 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Whitestone REIT and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2015	December 31, 2014
	(unaudited)	
ASSETS		
Real estate assets, at cost		
Property	\$ 730,165	\$ 673,655
Accumulated depreciation	(80,138)	(71,587)
Total real estate assets	650,027	602,068
Cash and cash equivalents	6,251	4,236
Marketable securities	422	973
Escrows and acquisition deposits	4,864	4,092
Accrued rents and accounts receivable, net of allowance for doubtful accounts	12,830	11,834
Unamortized lease commissions and loan costs	8,351	8,879
Prepaid expenses and other assets	2,858	2,215
Total assets	\$ 685,603	\$ 634,297
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable	\$ 403,287	\$ 394,093
Accounts payable and accrued expenses	15,940	15,882
Tenants' security deposits	4,639	4,372
Dividends and distributions payable	7,800	6,627
Total liabilities	431,666	420,974
Commitments and contingencies:	—	—
Equity:		
Preferred shares, \$0.001 par value per share; 50,000,000 shares authorized; none issued and outstanding as of June 30, 2015 and December 31, 2014	—	—
Common shares, \$0.001 par value per share; 400,000,000 shares authorized; 26,978,270 and 22,835,695 issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	27	23
Additional paid-in capital	356,517	304,078
Accumulated deficit	(105,140)	(93,938)
Accumulated other comprehensive loss	(461)	(91)
Total Whitestone REIT shareholders' equity	250,943	210,072
Noncontrolling interest in subsidiary	2,994	3,251
Total equity	253,937	213,323
Total liabilities and equity	\$ 685,603	\$ 634,297

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Property revenues				
Rental revenues	\$ 17,176	\$ 13,443	\$ 33,641	\$ 27,057
Other revenues	4,794	3,819	9,581	7,580
Total property revenues	21,970	17,262	43,222	34,637
Property expenses				
Property operation and maintenance	4,339	4,013	8,422	7,537
Real estate taxes	2,925	2,205	5,829	4,482
Total property expenses	7,264	6,218	14,251	12,019
Other expenses (income)				
General and administrative	4,998	3,582	9,483	6,539
Depreciation and amortization	4,675	3,834	9,239	7,663
Interest expense	3,516	2,434	6,924	4,763
Interest, dividend and other investment income	(162)	(19)	(171)	(40)
Total other expense	13,027	9,831	25,475	18,925
Income from continuing operations before gain (loss) on sale or disposal of assets and income taxes	1,679	1,213	3,496	3,693
Provision for income taxes	(91)	(55)	(174)	(136)
Gain (loss) on sale or disposal of assets	5	(24)	(100)	(111)
Income from continuing operations	1,593	1,134	3,222	3,446
Income (loss) from discontinued operations	(33)	146	(41)	266
Income (loss) from discontinued operations	(33)	146	(41)	266
Net income	1,560	1,280	3,181	3,712
Less: Net income attributable to noncontrolling interests	26	27	53	87
Net income attributable to Whitestone REIT	\$ 1,534	\$ 1,253	\$ 3,128	\$ 3,625

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Basic Earnings Per Share:				
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$0.06	\$0.05	\$0.13	\$0.15
Income from discontinued operations attributable to Whitestone REIT	0.00	0.00	0.00	0.01
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.06	\$0.05	\$0.13	\$0.16
Diluted Earnings Per Share:				
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$0.06	\$0.05	\$0.12	\$0.15
Income from discontinued operations attributable to Whitestone REIT	0.00	0.00	0.00	0.01
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.06	\$0.05	\$0.12	\$0.16
Weighted average number of common shares outstanding:				
Basic	22,869	22,235	22,724	22,030
Diluted	23,401	22,443	23,314	22,192
Distributions declared per common share / OP unit	\$0.2850	\$0.2850	\$0.5700	\$0.5700
Consolidated Statements of Comprehensive Income				
Net income	\$1,560	\$1,280	\$3,181	\$3,712
Other comprehensive gain (loss)				
Unrealized gain (loss) on cash flow hedging activities	43	(259)	(276)	(297)
Unrealized gain (loss) on available-for-sale marketable securities	(139)	22	(98)	105
Comprehensive income	1,464	1,043	2,807	3,520
Less: Comprehensive income attributable to noncontrolling interests	24	23	47	82
Comprehensive income attributable to Whitestone REIT	\$1,440	\$1,020	\$2,760	\$3,438

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

(in thousands)

	Common Shares	Additional Shares Amount	Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Gain (Loss)	Total Shareholders' Equity	Noncontrolling interests Units	Dollars	Total Equity
Balance, December 31, 2014	22,836	\$23	\$304,078	\$(93,938)	\$(91)	\$210,072	398	\$3,251	\$213,323
Exchange of noncontrolling interest OP units for common shares	8	—	84	—	(3)	81	(8)	(81)	—
Issuance of shares under dividend reinvestment plan	3	—	47	—	—	47	—	—	47
Issuance of common shares, net of offering costs	3,750	4	49,721	—	—	49,725	—	—	49,725
Repurchase of common shares ⁽¹⁾	(52)	—	(772)	—	—	(772)	—	—	(772)
Share-based compensation	433	—	3,359	—	—	3,359	—	—	3,359
Distributions	—	—	—	(14,330)	—	(14,330)	—	(222)	(14,552)
Unrealized loss on change in value of cash flow hedge	—	—	—	—	(271)	(271)	—	(5)	(276)
Unrealized loss on change in fair value of available-for-sale marketable securities	—	—	—	—	(96)	(96)	—	(2)	(98)
Net income	—	—	—	3,128	—	3,128	—	53	3,181
Balance, June 30, 2015	26,978	\$27	\$356,517	\$(105,140)	\$(461)	\$250,943	390	\$2,994	\$253,937

During the six months ended June 30, 2015, the Company acquired common shares held by employees who
(1) tendered owned common shares to satisfy the tax withholding on the lapse of certain restrictions on restricted common shares.

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income from continuing operations	\$3,222	\$3,446
Net income (loss) from discontinued operations	(41	) 266
Net income	3,181	3,712
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,239	7,663
Amortization of deferred loan costs	601	405
Amortization of notes payable discount	149	153
Gain on sale of marketable securities	(44) —
Loss on sale or disposal of assets and properties	100	111
Bad debt expense	771	1,052
Share-based compensation	3,359	1,564
Changes in operating assets and liabilities:		
Escrows and acquisition deposits	(772	) (324
Accrued rent and accounts receivable	(1,767	) (1,357
Unamortized lease commissions	(610	) (557
Prepaid expenses and other assets	323	345
Accounts payable and accrued expenses	(235	) (739
Tenants' security deposits	267	219
Net cash provided by operating activities	14,603	11,981
Net cash provided by (used in) operating activities of discontinued operations	(41	) 250
Cash flows from investing activities:		
Acquisitions of real estate	(51,800) —
Additions to real estate	(5,009	) (4,847
Proceeds from sales of marketable securities	496	—
Net cash used in investing activities	(56,313	) (4,847
Net cash used in investing activities of discontinued operations	—	(143
Cash flows from financing activities:		
Distributions paid to common shareholders	(13,127	) (12,598
Distributions paid to OP unit holders	(224	) (310
Proceeds from issuance of common shares, net of offering costs	49,725	5,267
Payments of exchange offer costs	—	(6
Proceeds from revolving credit facility, net	9,500	3,000
Repayments of notes payable	(1,336	) (1,114
Repurchase of common shares	(772	) (24
Net cash provided by (used in) financing activities	43,766	(5,785
Net cash used in financing activities of discontinued operations	—	(2,905
Net increase (decrease) in cash and cash equivalents	2,015	(1,449
Cash and cash equivalents at beginning of period	4,236	6,491
Cash and cash equivalents at end of period	\$6,251	\$5,042

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)
 (in thousands)

	Six Months Ended June 30,	
	2015	2014
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$6,409	\$4,447
Cash paid for taxes	\$315	\$238
Non cash investing and financing activities:		
Disposal of fully depreciated real estate	\$48	\$2,560
Financed insurance premiums	\$1,057	\$888
Value of shares issued under dividend reinvestment plan	\$47	\$50
Value of common shares exchanged for OP units	\$81	\$870
Change in fair value of available-for-sale securities	\$(98	) \$105
Change in fair value of cash flow hedge	\$(276) \$(297)

See accompanying notes to Consolidated Financial Statements

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WHITESTONE REIT AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015
(Unaudited)

The use of the words “we,” “us,” “our,” “Company” or “Whitestone” refers to Whitestone REIT and our consolidated subsidiaries, except where the context otherwise requires.

1. INTERIM FINANCIAL STATEMENTS

The consolidated financial statements included in this report are unaudited; however, amounts presented in the consolidated balance sheet as of December 31, 2014 are derived from our audited consolidated financial statements as of that date. The unaudited financial statements as of and for the period ended June 30, 2015 have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information on a basis consistent with the annual audited consolidated financial statements and with the instructions to Form 10-Q.

The consolidated financial statements presented herein reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position of Whitestone and our subsidiaries as of June 30, 2015, and the results of operations for the three and six month periods ended June 30, 2015 and 2014, the consolidated statements of changes in equity for the six month period ended June 30, 2015 and cash flows for the six month periods ended June 30, 2015 and 2014. All of these adjustments are of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results expected for a full year. The statements should be read in conjunction with the audited consolidated financial statements and the notes thereto which are included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Business. Whitestone was formed as a real estate investment trust (“REIT”), pursuant to the Texas Real Estate Investment Trust Act on August 20, 1998. In July 2004, we changed our state of organization from Texas to Maryland pursuant to a merger where we merged directly with and into a Maryland REIT formed for the sole purpose of the reorganization and the conversion of each of our outstanding common shares of beneficial interest of the Texas entity into 1.42857 common shares of beneficial interest of the Maryland entity. We serve as the general partner of Whitestone REIT Operating Partnership, L.P. (the “Operating Partnership”), which was formed on December 31, 1998 as a Delaware limited partnership. We currently conduct substantially all of our operations and activities through the Operating Partnership. As the general partner of the Operating Partnership, we have the exclusive power to manage and conduct the business of the Operating Partnership, subject to certain customary exceptions. As of June 30, 2015 and December 31, 2014, Whitestone owned and operated 65 and 63 commercial properties, respectively, in and around Austin, Chicago, Dallas-Fort Worth, Houston, Phoenix and San Antonio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation. We are the sole general partner of the Operating Partnership and possess full legal control and authority over the operations of the Operating Partnership. As of June 30, 2015 and December 31, 2014, we owned a majority of the partnership interests in the Operating Partnership. Consequently, the accompanying consolidated financial statements include the accounts of the Operating Partnership. All significant inter-company balances have been eliminated. Noncontrolling interests in the accompanying consolidated financial statements represents the share of equity and earnings of the Operating Partnership allocable to holders of partnership interests other than us. Net income or loss is allocated to noncontrolling interests based on the weighted average percentage ownership of the Operating Partnership during the period. Issuance of additional common shares of beneficial interest in Whitestone (the “common shares”) and units of limited partnership interest in the Operating Partnership that are convertible into cash or, at our option, common shares on a one-for-one basis (the “OP units”) changes the ownership interests of both

the noncontrolling interests and Whitestone.

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

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WHITESTONE REIT AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

Use of Estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates that we use include the estimated fair values of properties acquired, the estimated useful lives for depreciable and amortizable assets and costs, the estimated allowance for doubtful accounts, the estimated fair value of interest rate swaps and the estimates supporting our impairment analysis for the carrying values of our real estate assets. Actual results could differ from those estimates.

Reclassifications. We have reclassified certain prior period amounts in the accompanying consolidated financial statements in order to be consistent with the current period presentation. These reclassifications had no effect on net income, total assets, total liabilities or equity.

Marketable Securities. We classify our existing marketable equity securities as available-for-sale in accordance with the Financial Accounting Standards Board's ("FASB") Investments-Debt and Equity Securities guidance. These securities are carried at fair value with unrealized gains and losses reported in equity as a component of accumulated other comprehensive income or loss. The fair value of the marketable securities is determined using Level 1 inputs under FASB Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures." Level 1 inputs represent quoted prices available in an active market for identical investments as of the reporting date. Gains and losses on securities sold are based on the specific identification method, and are reported as a component of interest, dividend and other investment income.

Derivative Instruments and Hedging Activities. We occasionally utilize derivative financial instruments, principally interest rate swaps, to manage our exposure to fluctuations in interest rates. We have established policies and procedures for risk assessment, and the approval, reporting and monitoring of derivative financial instruments. We recognize our interest rate swaps as cash flow hedges with the effective portion of the changes in fair value recorded in comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. Any ineffective portion of a cash flow hedges' change in fair value is recorded immediately into earnings. Our cash flow hedges are determined using Level 2 inputs under ASC 820. Level 2 inputs represent quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable. As of June 30, 2015, we consider our cash flow hedges to be highly effective.

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 and development costs. Carrying charges (interest, real estate taxes, loan fees, 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 when the property, or any completed portion, becomes available for occupancy. For the three months ended June 30, 2015, approximately \$32,000 and \$21,000 in interest expense and real estate taxes, respectively, were capitalized, and for the six months ended June 30, 2015, approximately \$58,000 and \$37,000 in interest expense and real estate taxes, respectively, were capitalized. For the three months ended June 30, 2014, approximately \$26,000 and \$7,000 in interest expense and real estate taxes, respectively, were capitalized, and for the six months ended June 30, 2014, approximately \$51,000 and \$32,000 in interest expense and real estate taxes, respectively, were capitalized.

Share-Based Compensation. From time to time, we award nonvested restricted common share awards or restricted common share unit awards, which may be converted into common shares, to executive officers and employees under our 2008 Long-Term Equity Incentive Ownership Plan (the "2008 Plan"). The vast majority of the awarded shares and

units vest when certain performance conditions are met. We recognize compensation expense when achievement of the performance conditions is probable based on management's most recent estimates using the fair value of the shares as of the grant date. We recognized \$1,669,000 and \$1,234,000 in share-based compensation for the three months ended June 30, 2015 and 2014, respectively, and we recognized \$3,343,000 and \$1,607,000 in share-based compensation for the six months ended June 30, 2015 and 2014, respectively.

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WHITESTONE REIT AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

Noncontrolling Interests. Noncontrolling interests is the portion of equity in a subsidiary not attributable to a parent. The ownership interests not held by the parent are considered noncontrolling interests. Accordingly, we have reported noncontrolling interests in equity on the consolidated balance sheets but separate from Whitestone's equity. On the consolidated statements of operations, subsidiaries are reported at the consolidated amount, including both the amount attributable to Whitestone and noncontrolling interests. The consolidated statement of changes in equity is included for quarterly financial statements, including beginning balances, activity for the period and ending balances for shareholders' equity, noncontrolling interests and total equity.

See our Annual Report on Form 10-K for the year ended December 31, 2014 for further discussion on significant accounting policies.

Recent Accounting Pronouncements. In April 2014, the FASB issued guidance updating the criteria for reporting the disposal of a component of an entity as a discontinued operation. This guidance was effective for reporting periods beginning on or after December 15, 2014 with early adoption permitted only for disposals that have not been reported in financial statements previously issued or available for issuance. We have adopted the guidance beginning with the year ended December 31, 2014.

In April 2015, the FASB issued guidance requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This guidance is effective retrospectively for reporting periods beginning on or after December 15, 2015 with early adoption permitted only for financial statements that have not been previously issued. We are currently in the process of evaluating the impact of adoption on our consolidated balance sheets.

3. MARKETABLE SECURITIES

All of our marketable securities were classified as available-for-sale securities as of June 30, 2015 and December 31, 2014. Available-for-sale securities consisted of the following (in thousands):

	June 30, 2015			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
Real estate sector common stock	\$654	\$—	\$(232)	) \$422
Total available-for-sale securities	\$654	\$—	\$(232)	) \$422
	December 31, 2014			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
Real estate sector common stock	\$1,106	\$—	\$(133)	) \$973
Total available-for-sale securities	\$1,106	\$—	\$(133)	) \$973

During the three and six months ended June 30, 2015, available-for-sale securities were sold for total proceeds of \$496,000. The gross realized gain on these sales during the three months ended June 30, 2015 were \$44,000. During the three and six months ended June 30, 2014, no available-for-sale securities were sold. For the purpose of determining gross realized gains and losses, the cost of securities sold is based on specific identification. A net unrealized holding loss on available-for-sale securities in the amount of \$232,000 and \$124,000 for the six months ended June 30, 2015 and 2014, respectively, has been included in accumulated other comprehensive income.

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WHITESTONE REIT AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

4. ACCRUED RENTS AND ACCOUNTS RECEIVABLE, NET

Accrued rents and accounts receivable, net consists of amounts accrued, billed and due from tenants, allowance for doubtful accounts and other receivables as follows (in thousands):

	June 30, 2015	December 31, 2014
Tenant receivables	\$9,167	\$7,998
Accrued rents and other recoveries	9,156	8,800
Allowance for doubtful accounts	(5,493	) (4,964
Total	\$12,830	\$11,834

5. UNAMORTIZED LEASE COMMISSIONS AND LOAN COSTS

Costs which have been deferred consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Lease commissions	\$6,121	\$5,936
Deferred financing cost	5,821	5,785
Total cost	11,942	11,721
Less: lease commissions accumulated amortization	(2,521	) (2,373
Less: deferred financing cost accumulated amortization	(1,070	) (469
Total cost, net of accumulated amortization	\$8,351	\$8,879

6. DEBT

Certain subsidiaries of Whitestone are the borrowers under various financing arrangements. These subsidiaries are separate legal entities and their respective assets and credit are not available to satisfy the debt of Whitestone or any of its other subsidiaries.

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Debt consisted of the following as of the dates indicated (in thousands):

Description	June 30, 2015	December 31, 2014
Fixed rate notes		
\$10.5 million, LIBOR plus 2.00% Note, due September 24, 2018 ⁽¹⁾	\$10,340	\$10,460
\$50.0 million, 0.84% plus 1.75% to 2.50% Note, due February 17, 2017 ⁽²⁾	50,000	50,000
\$37.0 million 3.76% Note, due December 1, 2020	35,623	36,090
\$6.5 million 3.80% Note, due January 1, 2019	6,273	6,355
\$19.0 million 4.15% Note, due December 1, 2024	19,000	19,000
\$20.2 million 4.28% Note, due June 6, 2023	20,200	20,200
\$14.0 million 4.34% Note, due September 11, 2024	14,000	14,000
\$14.3 million 4.34% Note, due September 11, 2024	14,300	14,300
\$16.5 million 4.97% Note, due September 26, 2023	16,450	16,450
\$15.1 million 4.99% Note, due January 6, 2024	15,060	15,060
\$9.2 million, Prime Rate less 2.00%, due December 29, 2017 ⁽³⁾	7,887	7,888
\$2.6 million 5.46% Note, due October 1, 2023	2,568	2,583
\$11.1 million 5.87% Note, due August 6, 2016	11,457	11,607
\$0.9 million 2.97% Note, due November 28, 2015	529	—
Floating rate notes		
Unsecured line of credit, LIBOR plus 1.40% to 1.95%, due November 7, 2018	129,600	120,100
\$50.0 million, LIBOR plus 1.35% to 1.90% Note, due November 7, 2019	50,000	50,000
	\$403,287	\$394,093

⁽¹⁾ Promissory note includes an interest rate swap that fixed the interest rate at 3.55% for the duration of the term.

⁽²⁾ Promissory note includes an interest rate swap that fixed the LIBOR portion of our \$50 million term loan under our previous unsecured revolving credit facility at 0.84%.

⁽³⁾ Promissory note includes an interest rate swap that fixed the interest rate at 5.72% for the duration of the term. As part of our acquisition of Paradise Plaza in August 2012, we recorded a discount on the note of \$1.3 million, which amortizes into interest expense over the life of the loan and results in an imputed interest rate of 4.13%.

On December 24, 2014, we assumed a \$2.6 million promissory note as part of our acquisition of the hard corner at Village Square at Dana Park (See Note 14). The 5.46% fixed interest rate note matures October 1, 2023.

On November 26, 2014, we, operating through our subsidiary, Whitestone Headquarters Village, LLC, a Delaware limited liability company, entered into a \$19.0 million promissory note (the “Headquarters Note”), with a fixed interest rate of 4.15% payable to Morgan Stanley Bank, N.A. and a maturity date of December 1, 2024. Proceeds from the Headquarters Note were used to repay a portion of our unsecured revolving credit facility.

On November 7, 2014, we, through our Operating Partnership, entered into an unsecured revolving credit facility (the “Facility”) with the lenders party thereto, with BMO Capital Markets, Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and U.S. Bank, National Association, as co-lead arrangers and joint book runners, and Bank of Montreal, as administrative agent (the “Agent”). The Facility amended and restated our previous unsecured revolving credit facility. Proceeds from the Facility were used for general corporate purposes, including property acquisitions, debt repayment, capital expenditures, the expansion, redevelopment and re-tenanting of properties in our portfolio and working capital. We intend to use the additional proceeds from the Facility for general corporate purposes, including property acquisitions, debt repayment, capital expenditure, the expansion, redevelopment and re-tenanting of properties in our portfolio and working capital.

The Facility is comprised of three tranches:

\$400 million unsecured revolving credit facility (the “Revolver”);
\$50 million unsecured term loan (the “Term Loan 1”); and
\$50 million unsecured term loan (the “Term Loan 2”).

The Facility includes an accordion feature that will allow the Operating Partnership to increase the borrowing capacity to \$700 million, upon the satisfaction of certain conditions. The Revolver will mature on November 7, 2018, with an option to extend for one additional year to November 7, 2019, subject to certain conditions, including payment of an extension fee. The Term Loan 1 will mature on February 17, 2017, and the Term Loan 2 will mature on November 7, 2019.

Borrowings under the Facility accrue interest (at the Operating Partnership's option) at a Base Rate or an Adjusted LIBOR plus an applicable margin based upon our then existing leverage. The applicable margin for Adjusted LIBOR borrowings ranges from 1.40% to 1.95% for the Revolver and 1.35% to 1.90% for the term loans. Base Rate means the higher of: (a) the Agent's prime commercial rate, (b) the sum of (i) the average rate quoted by the Agent by two or more federal funds brokers selected by the Agent for sale to the Agent at face value of federal funds in the secondary market in an amount equal or comparable to the principal amount for which such rate is being determined, plus (ii) 1/2 of 1.00%, and (c) the LIBOR rate for such day plus 1.00%. Adjusted LIBOR means LIBOR divided by one minus the Eurodollar Reserve Percentage. The Eurodollar Reserve Percentage means the maximum reserve percentage at which reserves are imposed by the Board of Governors of the Federal Reserve System on eurocurrency liabilities.

We serve as the guarantor for funds borrowed by the Operating Partnership under the Facility. The Facility contains customary terms and conditions, including, without limitation, affirmative and negative covenants such as information reporting requirements, maximum secured indebtedness to total asset value, minimum EBITDA (earnings before interest, taxes, depreciation, amortization or extraordinary items) to fixed charges, and maintenance of a minimum net worth. The Facility also contains customary events of default with customary notice and cure, including, without limitation, nonpayment, breach of covenant, misrepresentation of representations and warranties in a material respect, cross-default to other major indebtedness, change of control, bankruptcy and loss of REIT tax status. As of June 30, 2015, we were in compliance with all covenants under the Facility.

As of June 30, 2015, \$229.6 million was drawn on the Facility, and our remaining borrowing capacity was \$270.4 million. Proceeds from the Facility were used for general corporate purposes, including property acquisitions, debt repayment, capital expenditures, the expansion, redevelopment and retenting of properties in our portfolio and working capital.

On September 3, 2014, we, operating through our subsidiary, Whitestone Pecos Ranch, LLC, a Delaware limited liability company, entered into a \$14.0 million promissory note (the “Pecos Note”), with a fixed interest rate of 4.34% payable to Wells Fargo Bank, National Association and a maturity date of September 11, 2024. Proceeds from the Pecos Note were used to repay a portion of our previous unsecured revolving credit facility.

On August 26, 2014, we, operating through our subsidiary, Whitestone Shops at Starwood, LLC, a Delaware limited liability company, entered into a \$14.3 million promissory note (the “Starwood Note”), with a fixed interest rate of 4.34% payable to Wells Fargo Bank, National Association and a maturity date of September 11, 2024. Proceeds from the Starwood Note were used to repay a portion of our previous unsecured revolving credit facility.

As of June 30, 2015, our \$173.2 million in secured debt was collateralized by 20 properties with a carrying value of \$215.7 million. Our loans contain restrictions that would require the payment of prepayment penalties for the acceleration of outstanding debt and are secured by deeds of trust on certain of our properties and by assignment of the rents and leases associated with those properties. As of June 30, 2015, we were in compliance with all loan

covenants.

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Scheduled maturities of our outstanding debt as of June 30, 2015 were as follows (in thousands):

Year	Amount Due
2015	\$1,549
2016	13,269
2017	60,212
2018	141,736
2019	58,049
Thereafter	128,472
Total	\$403,287

7. DERIVATIVES AND HEDGING ACTIVITIES

The fair value of our interest rate swaps is as follows (in thousands):

Interest rate swaps:	Balance Sheet Location	Estimated Fair Value
June 30, 2015	Accounts payable and accrued expenses	\$1,116
December 31, 2014	Accounts payable and accrued expenses	\$1,016

A summary of our interest rate swap activity is as follows (in thousands):

	Amount Recognized as Comprehensive Income (Loss)	Location of Loss Recognized in Earnings	Amount of Loss Recognized in Earnings ⁽¹⁾
Three months ended June 30, 2015	\$43	Interest expense)
Three months ended June 30, 2014	\$(259)	) Interest expense)
Six months ended June 30, 2015	\$(276)	) Interest expense)
Six months ended June 30, 2014	\$(297)	) Interest expense)

⁽¹⁾ We did not recognize any ineffective portion of our interest rate swaps in earnings for the three and six months ended June 30, 2015 and 2014.

8. EARNINGS PER SHARE

Basic earnings per share for our common shareholders is calculated by dividing income from continuing operations excluding amounts attributable to unvested restricted shares and the net income attributable to noncontrolling interests by our weighted average common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income attributable to common shareholders excluding amounts attributable to unvested restricted shares and the net income attributable to noncontrolling interests by the weighted average number of common shares including any dilutive unvested restricted shares.

Certain of our performance-based restricted common shares are considered participating securities that require the use of the two-class method for the computation of basic and diluted earnings per share. During the three months ended June 30, 2015 and 2014, 390,323 and 506,513 OP units, respectively, were excluded from the calculation of diluted earnings per share because their effect would be anti-dilutive, and during the six months ended June 30, 2015 and 2014, 391,455 and 530,961 OP units, respectively, were excluded from the calculation of diluted earnings per share because their effect would be anti-dilutive.

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(Unaudited)

For the three months ended June 30, 2015 and 2014, distributions of \$172,000 and \$78,000, respectively, were made to holders of certain restricted common shares, \$9,000 and \$25,000, respectively, of which were charged against earnings. For the six months ended June 30, 2015 and 2014, distributions of \$288,000 and \$116,000, respectively, were made to holders of certain restricted common shares, \$18,000 and \$44,000, respectively, of which were charged against earnings. See Note 11 for information related to restricted common shares under the 2008 Plan.

(in thousands, except per share data)	Three Months Ended		Six Months Ended June	
	June 30, 2015	2014	30, 2015	2014
Numerator:				
Income from continuing operations	\$1,593	\$1,134	\$3,222	\$3,446
Less: Net income attributable to noncontrolling interests	(26)	(24)	(54)	(81)
Distributions paid on unvested restricted shares	(163)	(54)	(270)	(73)
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	1,404	1,056	2,898	3,292
Income (loss) from discontinued operations	(33)	146	(41)	266
Less: Net (income) loss attributable to noncontrolling interests	—	(3)	1	(6)
Income (loss) from discontinued operations attributable to Whitestone REIT	(33)	143	(40)	260
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$1,371	\$1,199	\$2,858	\$3,552
Denominator:				
Weighted average number of common shares - basic	22,869	22,235	22,724	22,030
Effect of dilutive securities:				
Unvested restricted shares	532	208	590	162
Weighted average number of common shares - dilutive	23,401	22,443	23,314	22,192
Earnings Per Share:				
Basic:				
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$0.06	\$0.05	\$0.13	\$0.15
Income from discontinued operations attributable to Whitestone REIT	0.00	0.00	0.00	0.01
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.06	\$0.05	\$0.13	\$0.16
Diluted:				
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$0.06	\$0.05	\$0.12	\$0.15
Income from discontinued operations attributable to Whitestone REIT	0.00	0.00	0.00	0.01
	\$0.06	\$0.05	\$0.12	\$0.16

Net income attributable to common shareholders excluding
amounts attributable to unvested restricted shares

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June 30, 2015

(Unaudited)

9. INCOME TAXES

Federal income taxes are not provided because we intend to and believe we qualify as a REIT under the provisions of the Internal Revenue Code (the “Code”) and because we have distributed and intend to continue to distribute all of our taxable income to our shareholders. As a REIT, we must distribute at least 90% of our real estate investment trust taxable income to our shareholders and meet certain income sources and investment restriction requirements. In addition, REITs are subject to a number of organizational and operational requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates.

Taxable income differs from net income for financial reporting purposes principally due to differences in the timing of recognition of interest, real estate taxes, depreciation and rental revenue.

We are subject to the Texas Margin Tax, which 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 the Texas Margin Tax is not an income tax, FASB ASC 740, “Income Taxes” applies to the Texas Margin Tax. For the three months ended June 30, 2015 and 2014, we recognized approximately \$106,000 and \$42,000 in margin tax provision, respectively, and for the six months ended June 30, 2015 and 2014, we recognized approximately \$188,000 and \$109,000 in margin tax provision, respectively.

10. EQUITY

Common Shares

Under our declaration of trust, as amended, we have authority to issue up to 400,000,000 common shares of beneficial interest, \$0.001 par value per share, and up to 50,000,000 preferred shares of beneficial interest, \$0.001 par value per share.

Equity Offerings

On June 26, 2015, we completed the sale of 3,750,000 common shares, \$0.001 par value per share, at a purchase price of \$13.3386 per share. Total net proceeds from the offering, after deducting offering expenses, were approximately \$49.7 million, which we contributed to the Operating Partnership in exchange for OP units. The Operating Partnership used the net proceeds from this offering to repay a portion of our unsecured credit facility and for general corporate purposes.

On June 19, 2013, we entered into five equity distribution agreements for an at-the-market distribution program. On August 14, 2013, we entered into a sixth equity distribution agreement on substantially similar terms as the existing equity distribution agreements and amended the existing equity distribution agreements in order to add an additional placement agent (together, the “2013 equity distribution agreements”). Pursuant to the terms and conditions of the 2013 equity distribution agreements, we could issue and sell up to an aggregate of \$50 million of our common shares. Actual sales would depend on a variety of factors to be determined by us from time to time, including (among others) market conditions, the trading price of our common shares, capital needs and our determinations of the appropriate sources of funding for us, and were made in transactions that were deemed to be “at-the-market” offerings as defined in Rule 415 under the Securities Act of 1933, as amended. We had no obligation to sell any of our common shares, and

could at any time suspend offers under the 2013 equity distribution agreements or terminate the 2013 equity distribution agreements. During the three and six months ended June 30, 2015, we did not sell any common shares under the 2013 equity distribution program. During the three and six months ended June 30, 2014, we sold 377,983 common shares under the 2013 equity distribution program, with net proceeds to us of approximately \$5.3 million. In connection with such sales, we paid compensation of \$0.1 million to the placement agents.

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June 30, 2015

(Unaudited)

On June 4, 2015, we entered into six amended and restated equity distribution agreements (the “2015 equity distribution agreements”). Pursuant to the terms and conditions of the 2015 equity distribution agreements, we can issue and sell up to an aggregate of \$50 million of our common shares. Actual sales will depend on a variety of factors to be determined by us from time to time, including (among others) market conditions, the trading price of our common shares, capital needs and our determinations of the appropriate sources of funding for us, and will be made in transactions that will be deemed to be “at-the-market” offerings as defined in Rule 415 under the Securities Act of 1933, as amended. We have no obligation to sell any of our common shares, and can at any time suspend offers under the 2015 equity distribution agreements or terminate the 2015 equity distribution agreements. We have not sold any common shares under the 2015 equity distribution agreements.

Operating Partnership Units

Substantially all of our business is conducted through our Operating Partnership. We are the sole general partner of the Operating Partnership. As of June 30, 2015, we owned a 98.6% interest in the Operating Partnership.

Limited partners in the Operating Partnership holding OP units have the right to convert their OP units into cash or, at our option, common shares at a ratio of one OP unit for one common share. Distributions to OP unit holders are paid at the same rate per unit as distributions per share to holders of Whitestone common shares. As of June 30, 2015 and December 31, 2014, there were 27,247,256 and 22,926,599 OP units outstanding, respectively. We owned 26,857,448 and 22,528,207 OP units as of June 30, 2015 and December 31, 2014, respectively. The balance of the OP units is owned by third parties, including certain trustees. Our weighted average share ownership in the Operating Partnership was approximately 98.4% and 97.8% for the three months ended June 30, 2015 and 2014, respectively, and 98.3% and 97.7% for the six months ended June 30, 2015 and 2014, respectively. During the three months ended June 30, 2015 and 2014, 802 and 84,431 OP units, respectively, were redeemed for an equal number of common shares, and during the six months ended June 30, 2015 and 2014, 8,584 and 95,834 OP units, respectively, were redeemed for an equal number of common shares.

Distributions

The following table summarizes the cash distributions paid or payable to holders of common shares and to holders of noncontrolling OP units during each quarter during 2014 and the six months ended June 30, 2015 (in thousands, except per share/unit data):

Quarter Paid	Common Shares		Noncontrolling OP Unit Holders		Total
	Distributions Per Common Share	Total Amount Paid	Distributions Per OP Unit	Total Amount Paid	Total Amount Paid
2015					
Second Quarter	\$0.2850	\$6,601	\$0.2850	\$111	\$6,712
First Quarter	0.2850	6,526	0.2850	113	6,639
Total	\$0.5700	\$13,127	\$0.5700	\$224	\$13,351
2014					
Fourth Quarter	\$0.2850	\$6,484	\$0.2850	\$114	\$6,598

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Third Quarter	0.2850	6,457	0.2850	126	6,583
Second Quarter	0.2850	6,367	0.2850	152	6,519
First Quarter	0.2850	6,231	0.2850	158	6,389
Total	\$1.1400	\$25,539	\$1.1400	\$550	\$26,089

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WHITESTONE REIT AND SUBSIDIARIES

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(Unaudited)

11. INCENTIVE SHARE PLAN

On July 29, 2008, our shareholders approved the 2008 Plan. On December 22, 2010, our board of trustees amended the 2008 Plan to allow for awards in or related to Class B common shares pursuant to the 2008 Plan. On June 27, 2012, our Class B common shares were redesignated as “common shares.” The 2008 Plan, as amended, provides that awards may be made with respect to common shares of Whitestone or OP units, which may be converted into cash or, at our option, common shares of Whitestone. The maximum aggregate number of common shares that may be issued under the 2008 Plan is increased upon each issuance of common shares by Whitestone so that at any time the maximum number of shares that may be issued under the 2008 Plan shall equal 12.5% of the aggregate number of common shares of Whitestone and OP units issued and outstanding (other than shares and/or OP units issued to or held by Whitestone).

The Compensation Committee of our board of trustees administers the 2008 Plan, except with respect to awards to non-employee trustees, for which the 2008 Plan is administered by our board of trustees. The Compensation Committee is authorized to grant share options, including both incentive share options and non-qualified share options, as well as share appreciation rights, either with or without a related option. The Compensation Committee is also authorized to grant restricted common shares, restricted common share units, performance awards and other share-based awards.

On April 2, 2014, the Compensation Committee approved the modification of the vesting provisions with respect to awards of an aggregate of 633,704 restricted common shares and restricted common share units for 51 of our employees. The modified time-based shares will vest annually in three equal installments. The modified performance-based restricted common shares and restricted common share units were modified to include performance-based vesting based on achievement of certain absolute financial goals, as well as one to two years of time-based vesting post achievement of financial goals. Continued employment is required through the applicable vesting date. Additionally, 2,049,116 restricted performance-based common share units were granted with the same vesting conditions as the modified performance-based grants described above. If the performance targets are not met prior to December 31, 2018, any unvested performance-based restricted common shares and restricted common units will be forfeited.

On June 30, 2015, the Compensation Committee approved the grant of an aggregate of 143,000 time-based restricted common share units to James C. Mastandrea and David K. Holeman.

A summary of the share-based incentive plan activity as of and for the six months ended June 30, 2015 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2015	2,411,068	\$ 14.45
Granted	267,280	13.65
Vested	(192,844	) 14.47
Forfeited	(71,995	) 14.44
Non-vested at June 30, 2015	2,413,509	\$ 14.36
Available for grant at June 30, 2015	970,051	

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(Unaudited)

A summary of our non-vested and vested shares activity for the six months ended June 30, 2015 and years ended December 31, 2014, 2013, 2012 and 2011 is presented below:

	Shares Granted		Shares Vested	
	Non-Vested Shares Issued	Weighted Average Grant-Date Fair Value	Vested Shares	Total Vest-Date Fair Value
				(in thousands)
Six Months Ended June 30, 2015	267,280	\$13.65	(192,844	) \$2,791
Year Ended December 31, 2014	2,058,930	14.40	(133,774	) 1,721
Year Ended December 31, 2013	328,005	15.43	(15,270	) 224
Year Ended December 31, 2012	99,700	13.03	(16,208	) 223
Year Ended December 31, 2011	—	—	(5,169) —

Total compensation recognized in earnings for share-based payments was \$1,669,000 and \$1,234,000 for the three months ended June 30, 2015 and 2014, respectively, and \$3,343,000 and \$1,607,000 for the six months ended June 30, 2015 and 2014, respectively.

Based on our current financial projections, we expect approximately 82% of the unvested awards to vest over the next 45 months. As of June 30, 2015, there was approximately \$11.5 million in unrecognized compensation cost related to outstanding non-vested performance-based shares, which are expected to vest over a period of 45 months and approximately \$4.8 million in unrecognized compensation cost related to outstanding non-vested time-based shares, which are expected to be recognized over a period of approximately 21 months beginning on July 1, 2015.

We expect to record approximately \$6.9 million in non-cash share-based compensation expense in 2015 and \$12.8 million subsequent to 2015. The unrecognized share-based compensation cost is expected to vest over a weighted average period of 31 months. The dilutive impact of the performance-based shares will be included in the denominator of the earnings per share calculation beginning in the period that the performance conditions are expected to be met.

12. GRANTS TO TRUSTEES

On October 24, 2014, each of our four independent trustees and one trustee emeritus was granted 1,500 common shares, which vested immediately. The 7,500 common shares granted to our trustees had a grant date fair value of \$14.53 per share. On December 9, 2014, two of our independent trustees elected to receive a total of 2,314 common shares with a grant date fair value of \$14.69 in lieu of cash for board fees. The fair value of the shares granted were determined using quoted prices available on the date of grant.

13. SEGMENT INFORMATION

Historically, our management has not differentiated results of operations by property type or location and, therefore, does not present segment information.

14. REAL ESTATE

Property Acquisitions. On May 27, 2015, we acquired Davenport Village, a property that meets our Community Centered Property™ strategy, for approximately \$45.5 million in cash and net prorations. The 128,934 square foot property was 85% leased at the time of purchase and is located in Austin, Texas.

On March 31, 2015, we acquired City View Village, a property that meets our Community Centered Property™ strategy, for approximately \$6.3 million in cash and net prorations. The 17,870 square foot property was 100% leased at the time of purchase and is located in San Antonio, Texas.

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On December 24, 2014, we acquired the hard corner at our Village Square at Dana Park property for approximately \$4.7 million, in exchange for the assumption of a \$2.6 million non-recourse loan and cash of \$2.1 million. The 12,047 square foot property was 88% leased at the time of purchase and is located in the Mesa submarket of Phoenix, Arizona.

On December 24, 2014, we acquired The Shops at Williams Trace, a property that meets our Community Centered Property™ strategy, for approximately \$20.2 million in cash and net prorations. The 132,991 square foot property was 87% leased at the time of purchase and is located in Sugar Land, Texas.

On December 24, 2014, we acquired Williams Trace Plaza, a property that meets our Community Centered Property™ strategy, for approximately \$20.4 million in cash and net prorations. The 129,222 square foot property was 95% leased at the time of purchase and is located in Sugar Land, Texas.

On December 19, 2014, we acquired a 1.39 acre parcel of undeveloped land for \$0.9 million in cash and net prorations. The undeveloped land parcel is adjacent to our Fulton Ranch Towne Center property.

On November 5, 2014, we acquired Fulton Ranch Towne Center, a property that meets our Community Centered Property™ strategy, for approximately \$29.3 million in cash and net prorations. The 113,281 square foot property was 86% leased at the time of purchase and is located in Chandler, Arizona.

On November 5, 2014, we acquired The Promenade at Fulton Ranch, a property that meets our Community Centered Property™ strategy, for approximately \$18.6 million in cash and net prorations. The 98,792 square foot property was 76% leased at the time of purchase and is located in Chandler, Arizona.

On September 19, 2014, we acquired The Strand at Huebner Oaks, a property that meets our Community Centered Property™ strategy, for approximately \$18.0 million in cash and net prorations. The 73,920 square foot property was 90% leased at the time of purchase and is located in San Antonio, Texas.

On July 1, 2014, we acquired Heritage Trace Plaza, a property that meets our Community Centered Property™ strategy, for approximately \$20.1 million in cash and net prorations. The 70,431 square foot property was 98% leased at the time of purchase and is located in Fort Worth, Texas.

Property Dispositions. On December 31, 2014, we completed the sale of three office buildings (Zeta, Royal Crest and Featherwood), located in the Clear Lake suburb of Houston, Texas, for \$10.3 million. This disposition was pursuant to our strategy of recycling capital by disposing of non-core properties that do not fit our Community Centered Property™ strategy. As part of the transaction, we provided short-term seller financing of \$2.5 million. We recorded a gain on sale of \$4.4 million, including recognizing a \$1.9 million gain on sale for the year ended December 31, 2014 and deferring the remaining \$2.5 million gain on sale to be recognized upon receipt of principal payments on the financing provided by us.

The operating results for properties classified as discontinued operations consists of the following (in thousands):

Three Months Ended		Six Months Ended June	
June 30,		30,	
2015	2014	2015	2014

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Property revenues	\$—	\$412	1	824	
Property expenses	36	175	44	344	
Depreciation and amortization	—	74	—	153	
Interest expense	—	15	—	58	
Provision for income taxes	(2	) 2	(2	) 5
Loss (gain) on sale or disposal of assets	(1) —	—	(2)
Income (loss) from discontinued operations	\$(33) \$146	\$(41) \$266	

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15. SUBSEQUENT EVENTS

On July 2, 2015, we acquired Parkside Village North, a property that meets our Community Centered Property™ strategy, for approximately \$12.5 million in cash and net prorations. The 27,045 square foot property was 100% leased at the time of purchase and is located in Austin, Texas.

On July 2, 2015, we acquired Parkside Village South, a property that meets our Community Centered Property™ strategy, for approximately \$32.5 million in cash and net prorations. The 90,101 square foot property was 100% leased at the time of purchase and is located in Austin, Texas.

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

You should read the following discussion of our financial condition and results of operations in conjunction with our unaudited consolidated financial statements and the notes thereto included in this Quarterly Report on Form 10-Q (the "Report"), and the consolidated financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report on Form 10-K for the year ended December 31, 2014. For more detailed information regarding the basis of presentation for the following information, you should read the notes to the unaudited consolidated financial statements included in this Report.

This Report contains forward-looking statements within the meaning of the federal securities laws, including discussion and analysis of our financial condition, anticipated capital expenditures required to complete projects, amounts of anticipated cash distributions to our shareholders in the future and other matters. These forward-looking statements are not historical facts but are the intent, belief or current expectations of our management based on its knowledge and understanding of our business and industry. Forward-looking statements are typically identified by the use of terms such as "may," "will," "should," "potential," "predicts," "anticipates," "expects," "intends," "plans," "believes," "estimates" or the negative of such terms and variations of these words and similar expressions, although not all forward-looking statements include these words. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements.

Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. You are cautioned not to place undue reliance on forward-looking statements, which reflect our management's view only as of the date of this Report. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results. Factors that could cause actual results to differ materially from any forward-looking statements made in this Report include:

- the imposition of federal taxes if we fail to qualify as a REIT in any taxable year or forego an opportunity to ensure REIT status;
- uncertainties related to the national economy, the real estate industry in general and in our specific markets;
- legislative or regulatory changes, including changes to laws governing REITs;
- adverse economic or real estate developments in Texas, Arizona or Illinois;
- increases in interest rates and operating costs;
- availability and terms of capital and financing, both to fund our operations and to refinance our indebtedness as it matures;
- decreases in rental rates or increases in vacancy rates;
- litigation risks;
- lease-up risks, including leasing risks arising from exclusivity and consent provisions in leases with significant tenants;
- our inability to renew tenants or obtain new tenants upon the expiration of existing leases;
- our inability to generate sufficient cash flows due to market conditions, competition, uninsured losses, changes in tax or other applicable laws; and
- the need to fund tenant improvements or other capital expenditures out of operating cash flow.

The forward-looking statements should be read in light of these factors and the factors identified in the "Risk Factors" sections of our Annual Report on Form 10-K for the year ended December 31, 2014, as previously filed with the Securities and Exchange Commission ("SEC") and of this Report below.

Overview

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We are a fully integrated real estate company that owns, redevelops, repositions, leases, manages and operates Community Centered Properties™. We define Community Centered Properties™ as visibly located properties in established or developing culturally diverse neighborhoods in our target markets. Founded in 1998, we are internally managed with a portfolio of commercial properties in Texas, Arizona and Illinois.

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In October 2006, our current management team joined the Company and adopted a strategic plan to acquire, redevelop, own and operate Community Centered Properties™. We market, lease and manage our centers to match tenants with the shared needs of the surrounding neighborhood. Those needs may include specialty retail, grocery, restaurants and medical, educational and financial services. Our goal is for each property to become a Whitestone-branded business center or retail community that serves a neighboring five-mile radius around our property. We employ and develop a diverse group of associates who understand the needs of our multicultural communities and tenants.

We serve as the general partner of Whitestone REIT Operating Partnership, L.P. (the “Operating Partnership”), which was formed on December 31, 1998 as a Delaware limited partnership. We currently conduct substantially all of our operations and activities through the Operating Partnership. As the general partner of the Operating Partnership, we have the exclusive power to manage and conduct the business of the Operating Partnership, subject to certain customary exceptions.

As of June 30, 2015, we owned and operated 65 commercial properties consisting of:

Operating Portfolio

- 39 retail properties containing approximately 3.4 million square feet of gross leasable area and having a total carrying value (net of accumulated depreciation) of \$431.1 million;
- four office properties containing approximately 0.5 million square feet of gross leasable area and having a total carrying value (net of accumulated depreciation) of \$36.4 million; and
- 11 office/flex properties containing approximately 1.2 million square feet of gross leasable area and having a total carrying value (net of accumulated depreciation) of \$36.9 million.

Redevelopment, New Acquisitions Portfolio

- five retail properties containing approximately 0.5 million square feet of gross leasable area and having a total carrying value (net of accumulated depreciation) of \$136.1 million; and
- six parcels of land held for future development having a total carrying value of \$9.5 million.

As of June 30, 2015, we had an aggregate of 1,381 tenants. We have a diversified tenant base with our largest tenant comprising only 2.1% of our annualized rental revenues for the six months ended June 30, 2015. Lease terms for our properties range from less than one year for smaller tenants to over 15 years for larger tenants. Our leases generally include minimum monthly lease payments and tenant reimbursements for payment of taxes, insurance and maintenance. We completed 193 new and renewal leases during the six months ended June 30, 2015, totaling 463,466 square feet and approximately \$24.5 million in total lease value. This compares to 215 new and renewal leases totaling 452,233 square feet and approximately \$26.3 million in total lease value during the same period in 2014.

We employed 83 full-time employees as of June 30, 2015. As an internally managed REIT, we bear our own expenses of operations, including the salaries, benefits and other compensation of our employees, office expenses, legal, accounting and investor relations expenses and other overhead costs.

How We Derive Our Revenue

Substantially all of our revenue is derived from rents received from leases at our properties. We had rental income and tenant reimbursements of approximately \$22.0 million and \$17.3 million for the three months ended June 30, 2015 and 2014, respectively, and \$43.2 million and \$34.6 million for the six months ended June 30, 2015 and 2014, respectively.

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Known Trends in Our Operations; Outlook for Future Results

Rental Income

We expect our rental income to increase year-over-year due to the addition of properties and rent increases on renewal leases. The amount of net rental income generated by our properties depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space, newly acquired properties with vacant space, and space available from unscheduled lease terminations. The amount of rental income we generate also depends on our ability to maintain or increase rental rates in our submarkets. Over the past two years, we have seen modest improvement in the overall economy in our markets, which has allowed us to maintain overall occupancy rates, with slight increases in occupancy at certain of our properties, and to recognize modest increases in rental rates. We expect this trend to continue in 2015.

Scheduled Lease Expirations

We tend to lease space to smaller businesses that desire shorter term leases. As of June 30, 2015, approximately 25% of our gross leasable area was subject to leases that expire prior to December 31, 2016. Over the last two years, we have renewed leases covering approximately 76% of the square footage subject to expiring leases. We routinely seek to renew leases with our existing tenants prior to their expiration and typically begin discussions with tenants as early as 18 months prior to the expiration date of the existing lease. While our early renewal program and other leasing and marketing efforts target these expiring leases, we hope to re-lease most of that space prior to expiration of the leases. In the markets in which we operate, we obtain and analyze market rental rates through review of third-party publications, which provide market and submarket rental rate data and through inquiry of property owners and property management companies as to rental rates being quoted at properties that are located in close proximity to our properties and we believe display similar physical attributes as our nearby properties. We use this data to negotiate leases with new tenants and renew leases with our existing tenants at rates we believe to be competitive in the markets for our individual properties. Due to the short term nature of our leases, and based upon our analysis of market rental rates, we believe that, in the aggregate, our current leases are at market rates. Market conditions, including new supply of properties, and macroeconomic conditions in our markets and nationally affecting tenant income, such as employment levels, business conditions, interest rates, tax rates, fuel and energy costs and other matters, could adversely impact our renewal rate and/or the rental rates we are able to negotiate. We continue to monitor our tenants' operating performances as well as overall economic trends to evaluate any future negative impact on our renewal rates and rental rates, which could adversely affect our cash flow and ability to make distributions to our shareholders.

Acquisitions

We have continued to successfully grow our gross leasable area through the acquisition of additional properties, and we expect to actively pursue and consummate additional acquisitions in the foreseeable future. We believe that over the next few years we will continue to have excellent opportunities to acquire quality properties at historically attractive prices. We have extensive relationships with community banks, attorneys, title companies and others in the real estate industry, which we believe enables us to take advantage of these market opportunities and maintain an active acquisition pipeline.

Property Acquisitions

We seek to acquire commercial properties in high-growth markets. Our acquisition targets are properties that fit our Community Centered Properties™ strategy. We define Community Centered Properties™ as visibly located properties in established or developing, culturally diverse neighborhoods in our target markets, primarily in and around Austin, Chicago, Dallas-Fort Worth, Houston, Phoenix and San Antonio. We may acquire properties in other

high-growth cities in the future. We market, lease and manage our centers to match tenants with the shared needs of the surrounding neighborhood. Those needs may include specialty retail, grocery, restaurants, medical, educational and financial services. Our goal is for each property to become a Whitestone-branded business center or retail community that serves a neighboring five-mile radius around our property.

On July 2, 2015, we acquired Parkside Village North, a property that meets our Community Centered Property™ strategy, for approximately \$12.5 million in cash and net prorations. The 27,045 square foot property was 100% leased at the time of purchase and is located in Austin, Texas.

On July 2, 2015, we acquired Parkside Village South, a property that meets our Community Centered Property™ strategy, for approximately \$32.5 million in cash and net prorations. The 90,101 square foot property was 100% leased at the time of purchase and is located in Austin, Texas.

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On May 27, 2015, we acquired Davenport Village, a property that meets our Community Centered Property™ strategy, for approximately \$45.5 million in cash and net proratons. The 128,934 square foot property was 85% leased at the time of purchase and is located in Austin, Texas.

On March 31, 2015, we acquired City View Village, a property that meets our Community Centered Property™ strategy, for approximately \$6.3 million in cash and net proratons. The 17,870 square foot property was 100% leased at the time of purchase and is located in San Antonio, Texas.

On December 24, 2014, we acquired the hard corner at our Village Square at Dana Park property for approximately \$4.7 million, in exchange for the assumption of a \$2.6 million non-recourse loan and cash of \$2.1 million. The 12,047 square foot property was 88% leased at the time of purchase and is located in the Mesa submarket of Phoenix, Arizona.

On December 24, 2014, we acquired The Shops at Williams Trace, a property that meets our Community Centered Property™ strategy, for approximately \$20.2 million in cash and net proratons. The 132,991 square foot property was 87% leased at the time of purchase and is located in Sugar Land, Texas.

On December 24, 2014, we acquired Williams Trace Plaza, a property that meets our Community Centered Property™ strategy, for approximately \$20.4 million in cash and net proratons. The 129,222 square foot property was 95% leased at the time of purchase and is located in Sugar Land, Texas.

On December 19, 2014, we acquired a 1.39 acre parcel of undeveloped land for \$0.9 million in cash and net proratons. The undeveloped land parcel is adjacent to our Fulton Ranch Towne Center property.

On November 5, 2014, we acquired Fulton Ranch Towne Center, a property that meets our Community Centered Property™ strategy, for approximately \$29.3 million in cash and net proratons. The 113,281 square foot property was 86% leased at the time of purchase and is located in Chandler, Arizona.

On November 5, 2014, we acquired The Promenade at Fulton Ranch, a property that meets our Community Centered Property™ strategy, for approximately \$18.6 million in cash and net proratons. The 98,792 square foot property was 76% leased at the time of purchase and is located in Chandler, Arizona.

On September 19, 2014, we acquired The Strand at Huebner Oaks, a property that meets our Community Centered Property™ strategy, for approximately \$18.0 million in cash and net proratons. The 73,920 square foot property was 90% leased at the time of purchase and is located in San Antonio, Texas.

On July 1, 2014, we acquired Heritage Trace Plaza, a property that meets our Community Centered Property™ strategy, for approximately \$20.1 million in cash and net proratons. The 70,431 square foot property was 98% leased at the time of purchase and is located in Fort Worth, Texas.

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Leasing Activity

As of June 30, 2015, we owned 65 properties with 5,632,597 square feet of gross leasable area, which were approximately 86% occupied. Our occupancy rate for all properties was approximately 86% occupied as of both June 30, 2015 and June 30, 2014. The following is a summary of the Company's leasing activity for the six months ended June 30, 2015:

	Number of Leases Signed	GLA Signed	Weighted Average Lease Term (2)	TI and Incentives per Sq. Ft. (3)	Contractual Rent Per Sq. Ft (4)	Prior Contractual Rent Per Sq. Ft. (5)	Straight-lined Basis Increase Over Prior Rent	
Comparable (1)								
Renewal Leases	117	235,088	2.7	\$1.76	\$14.51	\$13.44	15.1	%
New Leases	34	99,802	3.5	3.02	13.31	12.99	6.5	%
Total	151	334,890	3.0	\$2.14	\$14.15	\$13.31	12.5	%
Non-Comparable								
Renewal Leases	4	7,128	5.5	\$13.30	\$19.34			
New Leases	38	123,846	4.8	10.64	13.88			
Total	42	130,974	4.8	\$10.79	\$14.18			

(1) Comparable leases represent leases signed on spaces for which there was a former tenant within the last twelve months and the new or renewal square footage was within 25% of the expired square footage.

(2) Weighted average lease term is determined on the basis of square footage.

Estimated amount per signed leases. Actual cost of construction may vary. Does not include first generation costs for tenant improvements ("TI") and leasing commission costs needed for new acquisitions or redevelopment of a property to bring to operating standards for its intended use.

(4) Contractual minimum rent under the new lease for the first month, excluding concessions.

(5) Contractual minimum rent under the prior lease for the final month.

Contractual Expenditures

The following is a summary of the Company's capital expenditures for the three and six months ended June 30, 2015 and 2014 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Capital expenditures:				

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Tenant improvements and allowances	\$701	\$1,269	\$2,104	\$2,267
Developments / redevelopments	667	1,065	1,626	2,016
Leasing commissions and costs	328	295	570	651
Maintenance capital expenditures	765	423	1,279	564
Total capital expenditures	\$2,461	\$3,052	\$5,579	\$5,498

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Critical Accounting Policies

In preparing the consolidated financial statements, we have made estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reported periods. Actual results may differ from these estimates. A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2014, under “Management's Discussion and Analysis of Financial Condition and Results of Operations.” There have been no significant changes to these policies during the six months ended June 30, 2015. For disclosure regarding recent accounting pronouncements and the anticipated impact they will have on our operations, please refer to Note 2 in our Annual Report on Form 10-K for the year ended December 31, 2014.

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Results of Operations

Comparison of the Three Months Ended June 30, 2015 and 2014

The following table provides a summary comparison of our results of operations for the three months ended June 30, 2015 and 2014 (dollars in thousands, except per share and OP unit amounts):

	Three Months Ended June 30,		
	2015	2014	
Number of properties owned and operated ⁽¹⁾	65	57	
Aggregate gross leasable area (sq. ft.) ⁽¹⁾	5,632,597	4,855,109	
Ending occupancy rate - operating portfolio ⁽²⁾	87	% 86	%
Ending occupancy rate - all properties	86	% 86	%
Total property revenues	\$21,970	\$17,262	
Total property expenses	7,264	6,218	
Total other expenses	13,027	9,831	
Provision for income taxes	91	55	
Loss (gain) on disposal of assets	(5	) 24	
Income from continuing operations	1,593	1,134	
Income (loss) from discontinued operations, net of taxes	(33	) 146	
Net income	1,560	1,280	
Less: Net income attributable to noncontrolling interests	26	27	
Net income attributable to Whitestone REIT	\$1,534	\$1,253	
Funds from operations core ⁽³⁾	\$8,463	\$6,647	
Property net operating income ⁽⁴⁾	14,706	11,044	
Distributions paid on common shares and OP units	6,712	6,519	
Distributions per common share and OP unit	\$0.2850	\$0.2850	
Distributions paid as a percentage of funds from operations core	79	% 98	%

(1) Excludes 112,400 square feet of gross leasable area in three office buildings sold on December 31, 2014, Zeta, Royal Crest and Featherwood, located in Houston, Texas.

(2) Excludes (i) new acquisitions, through the earlier of attainment of 90% occupancy or 18 months of ownership, and (ii) properties that are undergoing significant redevelopment or re-tenanting.

(3) For a reconciliation of funds from operations core to net income, see "Funds From Operations Core" below.

(4) For a reconciliation of property net operating income to net income, see "Property Net Operating Income" below.

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Property revenues. We had rental income and tenant reimbursements of approximately \$21,970,000 for the three months ended June 30, 2015 as compared to \$17,262,000 for the three months ended June 30, 2014, an increase of \$4,708,000, or 27%. The three months ended June 30, 2015 included \$3,972,000 in increased revenues from New Store operations. We define “New Stores” as properties acquired since the beginning of the period being compared. For purposes of comparing the three months ended June 30, 2015 to the three months ended June 30, 2014, New Stores include properties acquired between April 1, 2014 and June 30, 2015. Same Store revenues increased \$736,000 for the three months ended June 30, 2015 as compared to the same period in the prior year. We define “Same Stores” as properties that have been owned since the beginning of the period being compared. For purposes of comparing the three months ended June 30, 2015 to the three months ended June 30, 2014, Same Stores include properties currently owned that were acquired before April 1, 2014. Same Store average occupancy was 85.9% for the three months ended June 30, 2015 and June 30, 2014, decreasing Same Store revenue \$4,000. The Same Store average revenue per leased square foot increased \$0.71 for the three months ended June 30, 2015 to \$17.26 per leased square foot as compared to the average revenue per leased square foot of \$16.55 for the three months ended June 30, 2014, resulting in an increase of Same Store revenues of \$740,000.

Property expenses. Our property expenses were approximately \$7,264,000 for the three months ended June 30, 2015 as compared to \$6,218,000 for the three months ended June 30, 2014, an increase of \$1,046,000, or 17%. The primary components of total property expenses are detailed in the table below (in thousands, except percentages):

	Three Months Ended June 30,				
	2015	2014	Change	% Change	
Overall Property Expenses					
Real estate taxes	\$2,925	\$2,205	\$720	33	%
Utilities	1,069	1,073	(4) —	%
Contract services	1,273	1,067	206	19	%
Repairs and maintenance	680	537	143	27	%
Bad debt	589	666	(77	) (12)%
Labor and other	728	670	58	9	%
Total property expenses	\$7,264	\$6,218	\$1,046	17	%

	Three Months Ended June 30,				
	2015	2014	Change	% Change	
Same Store Property Expenses					
Real estate taxes	\$2,378	\$2,205	\$173	8	%
Utilities	978	1,073	(95	) (9)%
Contract services	1,101	1,067	34	3	%
Repairs and maintenance	567	537	30	6	%
Bad debt	536	666	(130	) (20)%
Labor and other	632	670	(38	) (6)%
Total property expenses	\$6,192	\$6,218	\$(26) —	%

	Three Months Ended June 30,				
	2015	2014	Change	% Change	
New Store Property Expenses					
Real estate taxes	\$547	\$—	\$547	Not meaningful	
Utilities	91	—	91	Not meaningful	
Contract services	172	—	172	Not meaningful	
Repairs and maintenance	113	—	113	Not meaningful	
Bad debt	53	—	53	Not meaningful	
Labor and other	96	—	96	Not meaningful	
Total property expenses	\$1,072	\$—	\$1,072	Not meaningful	

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Real estate taxes. Real estate taxes increased \$720,000, or 33%, during the three months ended June 30, 2015 as compared to the same period in 2014. Real estate taxes for New Store properties increased approximately \$547,000 for the three months ended June 30, 2015. Same Store real estate taxes increased approximately \$173,000 during the three months ended June 30, 2015 as compared to the same period in 2014. We actively work to keep our valuations and resulting taxes low because a majority of these taxes are charged to our tenants through triple net leases, and we strive to keep these charges to our tenants as low as possible.

Utilities. Utilities expenses decreased \$4,000, which was not a meaningful change, during the three months ended June 30, 2015 as compared to the same period in 2014. Utilities expense increases attributable to New Store properties were approximately \$91,000 for the three months ended June 30, 2015. Same Store utilities expenses decreased approximately \$95,000, or 9%, during the three months ended June 30, 2015 as compared to the same period in 2014.

Contract services. Contract services increased \$206,000, or 19%, during the three months ended June 30, 2015 as compared to the same period in 2014. The increase in contract services expenses included \$172,000 in increases for New Store properties for the three months ended June 30, 2015. Same Store contract service expenses increased approximately \$34,000 during the three months ended June 30, 2015 as compared to the same period in 2014.

Repairs and maintenance. Repairs and maintenance expenses increased \$143,000, or 27%, during the three months ended June 30, 2015 as compared to the same period in 2014. Repairs and maintenance expenses for the three months ended June 30, 2015 included approximately \$113,000 in increases for New Store properties. Same Store repairs and maintenance expenses increased approximately \$30,000 during the three months ended June 30, 2015 as compared to the same period in 2014.

Bad debt. Bad debt expenses decreased \$77,000, or 12%, during the three months ended June 30, 2015 as compared to the same period in 2014. Bad debt expenses for the three months ended June 30, 2015 included approximately \$53,000 in increases for New Store properties. Same Store bad debt decreased approximately \$130,000 during the three months ended June 30, 2015 as compared to the same period in 2014.

Labor and other. Labor and other expenses increased \$58,000, or 9%, during the three months ended June 30, 2015 as compared to the same period in 2014. Labor and other expenses for the three months ended June 30, 2015 included approximately \$96,000 in increased cost for New Store properties. Same Store labor and other expenses decreased approximately \$38,000 during the three months ended June 30, 2015 as compared to the same period in 2014.

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Same Store and New Store net operating income. The components of Same Store, New Store and total property net operating income and net income are detailed in the table below (in thousands):

	Three Months Ended June 30,			Percent	
	2015	2014	Change	Change	
Same Store (51 properties, exclusive of land held for development)					
Property revenues					
Rental revenues	\$14,294	\$13,443	\$851	6	%
Other revenues	3,704	3,819	(115)	) (3)%
Total property revenues	17,998	17,262	736	4	%
Property expenses					
Property operation and maintenance	3,814	4,013	(199)	) (5)%
Real estate taxes	2,378	2,205	173	8	%
Total property expenses	6,192	6,218	(26)) —	%
Total Same Store net operating income	11,806	11,044	762	7	%
New Store (8 properties, exclusive of land held for development)					
Property revenues					
Rental revenues	2,882	—	2,882	Not meaningful	
Other revenues	1,090	—	1,090	Not meaningful	
Total property revenues	3,972	—	3,972	Not meaningful	
Property expenses					
Property operation and maintenance	525	—	525	Not meaningful	
Real estate taxes	547	—	547	Not meaningful	
Total property expenses	1,072	—	1,072	Not meaningful	
Total New Store net operating income	2,900	—	2,900	Not meaningful	
Total property net operating income	14,706	11,044	3,662	33	%
Less total other expenses, provision for income taxes and loss on disposal of assets	13,113	9,910	3,203	32	%
Income from continuing operations	1,593	1,134	459	40	%
Income (loss) from discontinued operations, net of taxes	(33)) 146	(179)) (123)%
Net income	\$1,560	\$1,280	\$280	22	%

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Other expenses. Our other expenses were \$13,027,000 for the three months ended June 30, 2015, as compared to \$9,831,000 for the three months ended June 30, 2014, an increase of \$3,196,000, or 33%. The primary components of other expenses are detailed in the table below (in thousands, except percentages):

	Three Months Ended June 30,				
	2015	2014	Change	% Change	
General and administrative	\$4,998	\$3,582	\$1,416	40	%
Depreciation and amortization	4,675	3,834	841	22	%
Interest expense	3,516	2,434	1,082	44	%
Interest, dividend and other investment income	(162)	(19)	(143)	753	%
Total other expenses	\$13,027	\$9,831	\$3,196	33	%

General and administrative. General and administrative expenses increased approximately \$1,416,000, or 40%, for the three months ended June 30, 2015 as compared to the same period in 2014. The increase was comprised of \$435,000 in share-based compensation expense, \$377,000 in increased acquisition costs, \$213,000 in increased salaries and benefits, \$144,000 in increased legal fees, \$111,000 in increased professional fees and \$136,000 in other increases.

Total compensation recognized in earnings for share-based payments was \$1,669,000 and \$1,234,000 for the three months ended June 30, 2015 and 2014, respectively.

Based on our current financial projections, we expect approximately 82% of the unvested awards to vest over the next 45 months. As of June 30, 2015, there was approximately \$11.5 million in unrecognized compensation cost related to outstanding non-vested performance-based shares, which are expected to vest over a period of 45 months and approximately \$4.8 million in unrecognized compensation cost related to outstanding non-vested time-based shares, which are expected to be recognized over a period of approximately 21 months beginning on July 1, 2015.

We expect to record approximately \$6.9 million in non-cash share-based compensation expense in 2015 and \$12.8 million subsequent to 2015. The unrecognized share-based compensation cost is expected to vest over a weighted average period of 31 months. The dilutive impact of the performance-based shares will be included in the denominator of the earnings per share calculation beginning in the period that the performance conditions are expected to be met.

Depreciation and amortization. Depreciation and amortization increased \$841,000, or 22%, for the three months ended June 30, 2015 as compared to the same period in 2014. Depreciation for improvements to Same Store properties increased \$89,000 for the three months ended June 30, 2015 as compared to the same period in 2014. Lease commission amortization and depreciation of corporate assets increased \$54,000 for the three months ended June 30, 2015 as compared to the same period in 2014. Depreciation for New Store properties increased \$698,000.

Interest expense. Interest expense increased \$1,082,000, or 44%, for the three months ended June 30, 2015 as compared to the same period in 2014. The increase in interest expense is comprised of approximately \$1,210,000 in increased interest expense resulting from a \$141,845,000 increase in our average notes payable balance during the three months ended June 30, 2015 as compared to the same period in 2014, an increase in amortized loan fees included in interest expense of \$97,000 for the three months ended June 30, 2015 and offset by decreased interest expense of \$225,000 resulting from a decrease in the average effective interest rate on our average notes payable from 3.41% to 3.19% during three months ended June 30, 2015 as compared to the same period in 2014.

Interest, dividend and other investment income. Interest, dividend and other investment income increased \$143,000, or 753%, for the three months ended June 30, 2015 as compared to the same period in 2014. The increase in interest,

dividend and other investment income for the three months ended June 30, 2015 as compared to the same period in 2014 is comprised of approximately \$101,000 in increased interest income, \$44,000 in increased gains on sales of available-for-sale securities and a \$2,000 decrease in dividend income.

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Discontinued operations. Discontinued operations are comprised of the three office buildings known as Zeta, Royal Crest and Featherwood, located in Houston, Texas. On December 31, 2014, we completed the sale of the three office buildings for \$10.3 million. As part of the transaction, we provided short-term seller financing of \$2.5 million. We recorded a gain on sale of \$4.4 million, including recognizing a \$1.9 million gain on sale for the year ended December 31, 2014 and deferring the remaining \$2.5 million gain on sale to be recognized upon receipt of principal payments on the financing provided by us.

The primary components of discontinued operations are detailed in the table below (in thousands):

	Three Months Ended June 30,		
	2015	2014	
Property revenues			
Rental revenues	\$—	\$396	
Other revenues	—	16	
Total property revenues	—	412	
Property expenses			
Property operation and maintenance	33	129	
Real estate taxes	—	46	
Total property expenses	33	175	
Other expenses			
Interest expense	—	15	
Depreciation and amortization	—	74	
Total other expense	—	89	
Income before loss on disposal of assets and income taxes	(33	) 148
Provision for income taxes	—	(2)
Gain (loss) on sale or disposal of property or assets in discontinued operations	—	—	
Income (loss) from discontinued operations	\$(33) \$146	

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Results of Operations

Comparison of the Six Months Ended June 30, 2015 and 2014

The following table provides a summary comparison of our results of operations for the six months ended June 30, 2015 and 2014 (dollars in thousands, except per share and OP unit amounts):

	Six Months Ended June 30,		
	2015	2014	
Number of properties owned and operated ⁽¹⁾	65	57	
Aggregate gross leasable area (sq. ft.) ⁽¹⁾	5,632,597	4,855,109	
Ending occupancy rate - operating portfolio ⁽²⁾	87	% 86	%
Ending occupancy rate - all properties	86	% 86	%
Total property revenues	\$43,222	\$34,637	
Total property expenses	14,251	12,019	
Total other expenses	25,475	18,925	
Provision for income taxes	174	136	
Loss on disposal of assets	100	111	
Income from continuing operations	3,222	3,446	
Income (loss) from discontinued operations, net of taxes	(41	) 266	
Net income	3,181	3,712	
Less: Net income attributable to noncontrolling interests	53	87	
Net income attributable to Whitestone REIT	\$3,128	\$3,625	
Funds from operations core ⁽³⁾	\$16,647	\$13,664	
Property net operating income ⁽⁴⁾	28,971	22,618	
Distributions paid on common shares and OP units	13,351	12,908	
Distributions per common share and OP unit	\$0.5700	\$0.5700	
Distributions paid as a percentage of funds from operations core	80	% 94	%

(1) Excludes 112,400 square feet of gross leasable area in three office buildings sold on December 31, 2014, Zeta, Royal Crest and Featherwood, located in Houston, Texas.

(2) Excludes (i) new acquisitions, through the earlier of attainment of 90% occupancy or 18 months of ownership, and (ii) properties that are undergoing significant redevelopment or re-tenanting.

(3) For a reconciliation of funds from operations core to net income, see "Funds From Operations Core" below.

(4) For a reconciliation of property net operating income to net income, see "Property Net Operating Income" below.

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Property revenues. We had rental income and tenant reimbursements of approximately \$43,222,000 for the six months ended June 30, 2015 as compared to \$34,637,000 for the six months ended June 30, 2014, an increase of \$8,585,000, or 25%. The six months ended June 30, 2015 included \$7,393,000 in increased revenues from New Store operations. For purposes of comparing the six months ended June 30, 2015 to the six months ended June 30, 2014, New Stores include properties acquired between January 1, 2014 and June 30, 2015. Same Store revenues increased \$1,192,000 for the six months ended June 30, 2015 as compared to the same period in the prior year. For purposes of comparing the six months ended June 30, 2015 to the six months ended June 30, 2014, Same Stores include properties currently owned that were acquired before January 1, 2014. Same Store average occupancy was 86.4% for the six months ended June 30, 2015 and June 30, 2014, decreasing Same Store revenues \$4,000. The Same Store average revenue per leased square foot increased \$0.57 for the six months ended June 30, 2015 to \$17.08 per leased square foot as compared to the average revenue per leased square foot of \$16.51 for the six months ended June 30, 2014, resulting in an increase of Same Store revenues of \$1,196,000.

Property expenses. Our property expenses were approximately \$14,251,000 for the six months ended June 30, 2015 as compared to \$12,019,000 for the six months ended June 30, 2014, an increase of \$2,232,000, or 19%. The primary components of total property expenses are detailed in the table below (in thousands, except percentages):

	Six Months Ended June 30,		Change	% Change	
	2015	2014			
Overall Property Expenses					
Real estate taxes	\$5,829	\$4,482	\$1,347	30	%
Utilities	2,128	1,993	135	7	%
Contract services	2,511	2,148	363	17	%
Repairs and maintenance	1,330	1,010	320	32	%
Bad debt	800	1,055	(255)	(24))%
Labor and other	1,653	1,331	322	24	%
Total property expenses	\$14,251	\$12,019	\$2,232	19	%

	Six Months Ended June 30,		Change	% Change	
	2015	2014			
Same Store Property Expenses					
Real estate taxes	\$4,849	\$4,482	\$367	8	%
Utilities	1,962	1,993	(31)	(2))%
Contract services	2,191	2,148	43	2	%
Repairs and maintenance	1,155	1,010	145	14	%
Bad debt	736	1,055	(319)	(30))%
Labor and other	1,417	1,331	86	6	%
Total property expenses	\$12,310	\$12,019	\$291	2	%

	Six Months Ended June 30,		Change	% Change	
	2015	2014			
New Store Property Expenses					
Real estate taxes	\$980	\$—	\$980	Not meaningful	
Utilities	166	—	166	Not meaningful	
Contract services	320	—	320	Not meaningful	
Repairs and maintenance	175	—	175	Not meaningful	
Bad debt	64	—	64	Not meaningful	
Labor and other	236	—	236	Not meaningful	
Total property expenses	\$1,941	\$—	\$1,941	Not meaningful	

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Real estate taxes. Real estate taxes increased \$1,347,000, or 30%, during the six months ended June 30, 2015 as compared to the same period in 2014. Real estate taxes for New Store properties increased approximately \$980,000 for the six months ended June 30, 2015. Same Store real estate taxes increased approximately \$367,000 during the six months ended June 30, 2015 as compared to the same period in 2014. We actively work to keep our valuations and resulting taxes low because a majority of these taxes are charged to our tenants through triple net leases, and we strive to keep these charges to our tenants as low as possible.

Utilities. Utilities expenses increased \$135,000, or 7%, during the six months ended June 30, 2015 as compared to the same period in 2014. Utilities expense increases attributable to New Store properties were approximately \$166,000 for the six months ended June 30, 2015. Same Store utilities expenses decreased approximately \$31,000, or 2%, during the six months ended June 30, 2015 as compared to the same period in 2014.

Contract services. Contract services increased \$363,000, or 17%, during the six months ended June 30, 2015 as compared to the same period in 2014. The increase in contract services expenses included \$320,000 in increases for New Store properties for the six months ended June 30, 2015. Same Store contract service expenses increased approximately \$43,000 during the six months ended June 30, 2015 as compared to the same period in 2014.

Repairs and maintenance. Repairs and maintenance expenses increased \$320,000, or 32%, during the six months ended June 30, 2015 as compared to the same period in 2014. Repairs and maintenance expenses for the six months ended June 30, 2015 included approximately \$175,000 in increases for New Store properties. Same Store repairs and maintenance expenses increased approximately \$145,000 during the six months ended June 30, 2015 as compared to the same period in 2014.

Bad debt. Bad debt expenses decreased \$255,000, or 24%, during the six months ended June 30, 2015 as compared to the same period in 2014. Bad debt expenses for the six months ended June 30, 2015 included approximately \$64,000 in increases for New Store properties. Same Store bad debt decreased approximately \$319,000 during the six months ended June 30, 2015 as compared to the same period in 2014.

Labor and other. Labor and other expenses increased \$322,000, or 24%, during the six months ended June 30, 2015 as compared to the same period in 2014. Labor and other expenses for the six months ended June 30, 2015 included approximately \$236,000 in increased cost for New Store properties. Same Store labor and other expenses increased approximately \$86,000 during the six months ended June 30, 2015 as compared to the same period in 2014.

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Same Store and New Store net operating income. The components of Same Store, New Store and total property net operating income and net income are detailed in the table below (in thousands):

	Six Months Ended June 30,		Change	Percent Change	
	2015	2014			
Same Store (51 properties, exclusive of land held for development)					
Property revenues					
Rental revenues	\$28,266	\$27,057	\$1,209	4	%
Other revenues	7,563	7,580	(17) —	%
Total property revenues	35,829	34,637	1,192	3	%
Property expenses					
Property operation and maintenance	7,461	7,537	(76	) (1)%
Real estate taxes	4,849	4,482	367	8	%
Total property expenses	12,310	12,019	291	2	%
Total Same Store net operating income	23,519	22,618	901	4	%
New Store (8 properties, exclusive of land held for development)					
Property revenues					
Rental revenues	5,375	—	5,375	Not meaningful	
Other revenues	2,018	—	2,018	Not meaningful	
Total property revenues	7,393	—	7,393	Not meaningful	
Property expenses					
Property operation and maintenance	961	—	961	Not meaningful	
Real estate taxes	980	—	980	Not meaningful	
Total property expenses	1,941	—	1,941	Not meaningful	
Total New Store net operating income	5,452	—	5,452	Not meaningful	
Total property net operating income	28,971	22,618	6,353	28	%
Less total other expenses, provision for income taxes and loss on disposal of assets	25,749	19,172	6,577	34	%
Income from continuing operations	3,222	3,446	(224	) (7)%
Income from discontinued operations, net of taxes	(41) 266	(307) (115)%
Net income	\$3,181	\$3,712	\$(531) (14)%

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Other expenses. Our other expenses were \$25,475,000 for the six months ended June 30, 2015, as compared to \$18,925,000 for the six months ended June 30, 2014, an increase of \$6,550,000, or 35%. The primary components of other expenses are detailed in the table below (in thousands, except percentages):

	Six Months Ended June 30,		Change	Change	
	2015	2014			%
General and administrative	\$9,483	\$6,539	\$2,944	45	%
Depreciation and amortization	9,239	7,663	1,576	21	%
Interest expense	6,924	4,763	2,161	45	%
Interest, dividend and other investment income	(171	) (40	) (131	) 328	%
Total other expenses	\$25,475	\$18,925	\$6,550	35	%

General and administrative. General and administrative expenses increased approximately \$2,944,000, or 45%, for the six months ended June 30, 2015 as compared to the same period in 2014. The increase was comprised of \$1,736,000 in share-based compensation expense, \$415,000 in increased acquisition costs, \$237,000 in increased salaries and benefits, \$228,000 in increased office expenses, \$201,000 in increased legal fees and \$127,000 in other expenses.

Total compensation recognized in earnings for share-based payments was \$3,343,000 and \$1,607,000 for the six months ended June 30, 2015 and 2014, respectively.

Based on our current financial projections, we expect approximately 82% of the unvested awards to vest over the next 45 months. As of June 30, 2015, there was approximately \$11.5 million in unrecognized compensation cost related to outstanding non-vested performance-based shares, which are expected to vest over a period of 45 months and approximately \$4.8 million in unrecognized compensation cost related to outstanding non-vested time-based shares, which are expected to be recognized over a period of approximately 21 months beginning on July 1, 2015.

We expect to record approximately \$6.9 million in non-cash share-based compensation expense in 2015 and \$12.8 million subsequent to 2015. The unrecognized share-based compensation cost is expected to vest over a weighted average period of 31 months. The dilutive impact of the performance-based shares will be included in the denominator of the earnings per share calculation beginning in the period that the performance conditions are expected to be met.

Depreciation and amortization. Depreciation and amortization increased \$1,576,000, or 21%, for the six months ended June 30, 2015 as compared to the same period in 2014. Depreciation for improvements to Same Store properties increased \$121,000 for the six months ended June 30, 2015 as compared to the same period in 2014. Lease commission amortization and depreciation of corporate assets increased \$85,000 for the six months ended June 30, 2015 as compared to the same period in 2014. Depreciation for New Store properties increased \$1,370,000.

Interest expense. Interest expense increased \$2,161,000, or 45%, for the six months ended June 30, 2015 as compared to the same period in 2014. The increase in interest expense is comprised of approximately \$2,312,000 in increased interest expense resulting from a \$138,740,000 increase in our average notes payable balance during the six months ended June 30, 2015 as compared to the same period in 2014, an increase in amortized loan fees included in interest expense of \$196,000 for the six months ended June 30, 2015 and offset by decreased interest expense of \$347,000 resulting from a decrease in the average effective interest rate on our average notes payable from 3.33% to 3.16% during six months ended June 30, 2015 as compared to the same period in 2014.

Interest, dividend and other investment income. Interest, dividend and other investment income increased \$131,000, or 328%, for the six months ended June 30, 2015 as compared to the same period in 2014. The increase in interest,

dividend and other investment income for the six months ended June 30, 2015 as compared to the same period in 2014 is comprised of approximately \$90,000 in increased interest income, \$44,000 in increased gains on sales of available-for-sale securities and a \$3,000 decrease in dividend income.

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Discontinued operations. Discontinued operations are comprised of the of three office buildings known as Zeta, Royal Crest and Featherwood, located in Houston, Texas. On December 31, 2014, we completed the sale of the three office buildings for \$10.3 million. As part of the transaction, we provided short-term seller financing of \$2.5 million. We recorded a gain on sale of \$4.4 million, including recognizing a \$1.9 million gain on sale for the year ended December 31, 2014 and deferring the remaining \$2.5 million gain on sale to be recognized upon receipt of principal payments on the financing provided by us.

The primary components of discontinued operations are detailed in the table below (in thousands):

	Six Months Ended June 30,	
	2015	2014
Property revenues		
Rental revenues	\$—	\$755
Other revenues	—	69
Total property revenues	—	824
Property expenses		
Property operation and maintenance	41	265
Real estate taxes	—	79
Total property expenses	41	344
Other expenses		
Interest expense	—	58
Depreciation and amortization	—	153
Total other expense	—	211
Income before loss on disposal of assets and income taxes	(41	) 269
Provision for income taxes	—	(5
Gain on sale or disposal of property or assets in discontinued operations	—	2
Income (loss) from discontinued operations	\$(41) \$266

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Reconciliation of Non-GAAP Financial Measures

Funds From Operations (“FFO”)

The National Association of Real Estate Investment Trusts (“NAREIT”) defines FFO as net income (loss) available to common shareholders computed in accordance with U.S. GAAP, excluding gains or losses from sales of operating real estate assets, impairment charges on properties held for investment and extraordinary items, plus depreciation and amortization of operating properties, including our share of unconsolidated real estate joint ventures and partnerships. We calculate FFO in a manner consistent with the NAREIT definition.

Management uses FFO as a supplemental measure to conduct and evaluate our business because there are certain limitations associated with using U.S. GAAP net income (loss) alone as the primary measure of our operating performance. Historical cost accounting for real estate assets in accordance with U.S. GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Because real estate values instead have historically risen or fallen with market conditions, management believes that the presentation of operating results for real estate companies that use historical cost accounting is insufficient by itself. In addition, securities analysts, investors and other interested parties use FFO as the primary metric for comparing the relative performance of equity REITs.

FFO should not be considered as an alternative to net income or other measurements under U.S. GAAP, as an indicator of our operating performance or to cash flows from operating, investing or financing activities as a measure of liquidity. FFO does not reflect working capital changes, cash expenditures for capital improvements or principal payments on indebtedness. Although our calculation of FFO is consistent with that of NAREIT, there can be no assurance that FFO presented by us is comparable to similarly titled measures of other REITs.

Funds From Operations Core (“FFO Core”)

Management believes that the computation of FFO in accordance with NAREIT's definition includes certain items that are not indicative of the results provided by our operating portfolio and affect the comparability of our period-over-period performance. These items include, but are not limited to, legal settlements, non-cash share-based compensation expense, rent support agreement payments received from sellers on acquired assets and acquisition costs. Therefore, in addition to FFO, management uses FFO Core, which we define to exclude such items.

Management believes that these adjustments are appropriate in determining FFO Core as they are not indicative of the operating performance of our assets. In addition, we believe that FFO Core is a useful supplemental measure for the investing community to use in comparing us to other REITs as many REITs provide some form of adjusted or modified FFO. However, there can be no assurance that FFO Core presented by us is comparable to the adjusted or modified FFO of other REITs.

Below are the calculations of FFO and FFO Core and the reconciliations to net income, which we believe is the most comparable U.S. GAAP financial measure (in thousands):

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2015	2014	2015	2014
FFO AND FFO CORE				
Net income attributable to Whitestone REIT	\$ 1,534	\$ 1,253	\$ 3,128	\$ 3,625
Depreciation and amortization of real estate assets ⁽¹⁾	4,643	3,871	9,183	7,772
Loss (gain) on disposal of assets ⁽¹⁾	(5	) 24	100	109
Net income attributable to noncontrolling interests ⁽¹⁾	26	27	53	87
FFO	6,198	5,175	12,464	11,593

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Non cash share-based compensation expense	1,669	1,234	3,343	1,607
Acquisition costs	596	162	840	308
Rent support agreement payments received	—	76	—	156
FFO Core	\$8,463	\$6,647	\$16,647	\$13,664

(1) Includes amounts from discontinued operations.

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Property Net Operating Income (“NOI”)

Management believes that NOI is a useful measure of our property operating performance and is useful to securities analysts in estimating the relative net asset values of REITs. We define NOI as operating revenues (rental and other revenues) less property and related expenses (property operation and maintenance and real estate taxes). Other REITs may use different methodologies for calculating NOI and, accordingly, our NOI may not be comparable to other REITs. Because NOI excludes general and administrative expenses, depreciation and amortization, involuntary conversion, interest expense, interest income, provision for income taxes and gain or loss on sale or disposition of assets, it provides a performance measure that, when compared year over year, reflects the revenues and expenses directly associated with owning and operating commercial real estate properties and the impact to operations from trends in occupancy rates, rental rates and operating costs, providing perspective not immediately apparent from net income. We use NOI to evaluate our operating performance since NOI allows us to evaluate the impact that factors such as occupancy levels, lease structure, lease rates and tenant base have on our results, margins and returns. In addition, management believes that NOI provides useful information to the investment community about our property and operating performance when compared to other REITs since NOI is generally recognized as a standard measure of property performance in the real estate industry. However, NOI should not be viewed as a measure of our overall financial performance since it does not reflect general and administrative expenses, depreciation and amortization, involuntary conversion, interest expense, interest income, provision for income taxes and gain or loss on sale or disposition of assets, the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties.

Below is the calculation of NOI and the reconciliations to net income, which we believe is the most comparable U.S. GAAP financial measure (in thousands):

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2015	2014	2015	2014
PROPERTY NET OPERATING INCOME				
Net income attributable to Whitestone REIT	\$ 1,534	\$ 1,253	\$ 3,128	\$ 3,625
General and administrative expenses	4,998	3,582	9,483	6,539
Depreciation and amortization	4,675	3,834	9,239	7,663
Interest expense	3,516	2,434	6,924	4,763
Interest, dividend and other investment income	(162)	(19)	(171)	(40)
Provision for income taxes	91	55	174	136
Loss (gain) on disposal of assets	(5)	24	100	111
Loss (income) from discontinued operations	33	(146)	41	(266)
Net income attributable to noncontrolling interests	26	27	53	87
NOI	\$ 14,706	\$ 11,044	\$ 28,971	\$ 22,618

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of distributions to holders of our common shares and OP units, including those required to maintain our REIT status and satisfy our current quarterly distribution target of \$0.2850 per share and OP unit, recurring expenditures, such as repairs and maintenance of our properties, non-recurring expenditures, such as capital improvements and tenant improvements, debt service requirements, and, potentially, acquisitions of additional properties.

During the six months ended June 30, 2015, our cash provided from operating activities was \$14,603,000 and our total distributions were \$13,351,000. Therefore, we had cash flow from operations in excess of distributions of approximately \$1,252,000. We anticipate that cash flows from operating activities and our borrowing capacity under

our unsecured revolving credit facility will provide adequate capital for our working capital requirements, anticipated capital expenditures and scheduled debt payments in the short term. We also believe that cash flows from operating activities and our borrowing capacity will allow us to make all distributions required for us to continue to qualify to be taxed as a REIT for federal income tax purposes.

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Our long-term capital requirements consist primarily of maturities under our longer-term debt agreements, development and redevelopment costs, and potential acquisitions. We expect to meet our long-term liquidity requirements with net cash from operations, long-term indebtedness, sales of common shares, issuance of OP units, sales of underperforming properties and other financing opportunities, including debt financing. We believe we have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity. However, our ability to incur additional debt will be dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our ability to access the equity markets will be dependent on a number of factors as well, including general market conditions for REITs and market perceptions about our Company.

We expect that our rental income will increase as we continue to acquire additional properties, subsequently increasing our cash flows generated from operating activities. We intend to continue acquiring such additional properties that meet our Community Centered Property strategy through equity issuances and debt financing.

As discussed in Note 10 to the accompanying consolidated financial statements, on June 26, 2015, we completed the sale of 3,750,000 common shares at a purchase price of \$13.3386 per share. Total net proceeds from the offering, after deducting offering expenses, were approximately \$50.0 million, which we contributed to the Operating Partnership in exchange for OP units. The Operating Partnership used the net proceeds from this offering to repay a portion of our unsecured credit facility and for general corporate purposes. In addition, on June 4, 2015, we entered into the 2015 equity distribution agreements, as discussed in Note 10 to the accompanying consolidated financial statements. Pursuant to the terms and conditions of the 2015 equity distribution agreements, we can issue and sell up to an aggregate of \$50 million of our common shares into the existing trading market at current market prices or at negotiated prices through the placement agents over a period of time and from time to time. We have not sold any common shares under the 2015 equity distribution agreements. We anticipate using net proceeds from common shares issued pursuant to the 2015 equity distribution agreements for general corporate purposes, which may include acquisitions of additional properties, the repayment of outstanding indebtedness, capital expenditures, the expansion, redevelopment and/or re-tenanting of properties in our portfolio, working capital and other general purposes.

Our capital structure includes non-recourse mortgage debt that we have assumed or originated on certain properties. We may hedge the future cash flows of certain variable rate debt transactions principally through interest rate swaps with major financial institutions. See Note 7 (Derivatives and Hedging Activities) to the accompanying consolidated financial statements for a description of our current cash flow hedges.

Cash and Cash Equivalents

We had cash and cash equivalents of approximately \$6,251,000 as of June 30, 2015, as compared to \$4,236,000 on December 31, 2014. The increase of \$2,015,000 was primarily the result of the following:

Sources of Cash

• Cash flow from operations of \$14,603,000 for the six months ended June 30, 2015;

• Proceeds of \$9,500,000 from the Facility;

• Net proceeds of \$49,725,000 from issuance of common shares;

• Proceeds from sales of marketable securities of \$496,000;

Uses of Cash

Payment of distributions to common shareholders and OP unit holders of \$13,351,000;

Additions to real estate of \$5,009,000;

Acquisitions of real estate of \$51,800,000;

Repurchase of common shares of \$772,000;

Payments of notes payable of \$1,336,000; and

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Cash flow from discontinued operations of \$41,000;

We place all cash in short-term, highly liquid investments that we believe provide appropriate safety of principal.

Debt

Debt consisted of the following as of the dates indicated (in thousands):

Description	June 30, 2015	December 31, 2014
Fixed rate notes		
\$10.5 million, LIBOR plus 2.00% Note, due September 24, 2018 ⁽¹⁾	\$ 10,340	\$ 10,460
\$50.0 million, 0.84% plus 1.75% to 2.50% Note, due February 17, 2017 ⁽²⁾	50,000	50,000
\$37.0 million 3.76% Note, due December 1, 2020	35,623	36,090
\$6.5 million 3.80% Note, due January 1, 2019	6,273	6,355
\$19.0 million 4.15% Note, due December 1, 2024	19,000	19,000
\$20.2 million 4.28% Note, due June 6, 2023	20,200	20,200
\$14.0 million 4.34% Note, due September 11, 2024	14,000	14,000
\$14.3 million 4.34% Note, due September 11, 2024	14,300	14,300
\$16.5 million 4.97% Note, due September 26, 2023	16,450	16,450
\$15.1 million 4.99% Note, due January 6, 2024	15,060	15,060
\$9.2 million, Prime Rate less 2.00%, due December 29, 2017 ⁽³⁾	7,887	7,888
\$2.6 million 5.46% Note, due October 1, 2023	2,568	2,583
\$11.1 million 5.87% Note, due August 6, 2016	11,457	11,607
\$0.9 million 2.97% Note, due November 28, 2015	529	—
Floating rate notes		
Unsecured line of credit, LIBOR plus 1.40% to 1.95%, due November 7, 2018	129,600	120,100
\$50.0 million, LIBOR plus 1.35% to 1.90% Note, due November 7, 2019	50,000	50,000
	\$403,287	\$394,093

⁽¹⁾ Promissory note includes an interest rate swap that fixed the interest rate at 3.55% for the duration of the term.

⁽²⁾ Promissory note includes an interest rate swap that fixed the LIBOR portion of our \$50 million term loan under our previous unsecured revolving credit facility at 0.84%.

Promissory note includes an interest rate swap that fixed the interest rate at 5.72% for the duration of the term. As ⁽³⁾ part of our acquisition of Paradise Plaza in August 2012, we recorded a discount on the note of \$1.3 million, which amortizes into interest expense over the life of the loan and results in an imputed interest rate of 4.13%.

On December 24, 2014, we assumed a \$2.6 million promissory note as part of our acquisition of the hard corner at Village Square at Dana Park (See Note 14). The 5.46% fixed interest rate note matures October 1, 2023.

On November 26, 2014, we, operating through our subsidiary, Whitestone Headquarters Village, LLC, a Delaware limited liability company, entered into a \$19.0 million promissory note (the “Headquarters Note”), with a fixed interest rate of 4.15% payable to Morgan Stanley Bank, N.A. and a maturity date of December 1, 2024. Proceeds from the Headquarters Note were used to repay a portion of our unsecured revolving credit facility.

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On November 7, 2014, we, through our Operating Partnership, entered into an unsecured revolving credit facility (the “Facility”) with the lenders party thereto, with BMO Capital Markets, Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and U.S. Bank, National Association, as co-lead arrangers and joint book runners, and Bank of Montreal, as administrative agent (the “Agent”). The Facility amended and restated our previous unsecured revolving credit facility. Proceeds from the Facility were used for general corporate purposes, including property acquisitions, debt repayment, capital expenditures, the expansion, redevelopment and re-tenanting of properties in our portfolio and working capital. We intend to use the additional proceeds from the Facility for general corporate purposes, including property acquisitions, debt repayment, capital expenditure, the expansion, redevelopment and re-tenanting of properties in our portfolio and working capital.

The Facility is comprised of three tranches:

\$400 million unsecured revolving credit facility (the “Revolver”);
\$50 million unsecured term loan (the “Term Loan 1”); and
\$50 million unsecured term loan (the “Term Loan 2”).

The Facility includes an accordion feature that will allow the Operating Partnership to increase the borrowing capacity to \$700 million, upon the satisfaction of certain conditions. The Revolver will mature on November 7, 2018, with an option to extend for one additional year to November 7, 2019, subject to certain conditions, including payment of an extension fee. The Term Loan 1 will mature on February 17, 2017, and the Term Loan 2 will mature on November 7, 2019.

Borrowings under the Facility accrue interest (at the Operating Partnership's option) at a Base Rate or an Adjusted LIBOR plus an applicable margin based upon our then existing leverage. The applicable margin for Adjusted LIBOR borrowings ranges from 1.40% to 1.95% for the Revolver and 1.35% to 1.90% for the term loans. Base Rate means the higher of: (a) the Agent's prime commercial rate, (b) the sum of (i) the average rate quoted by the Agent by two or more federal funds brokers selected by the Agent for sale to the Agent at face value of federal funds in the secondary market in an amount equal or comparable to the principal amount for which such rate is being determined, plus (ii) 1/2 of 1.00%, and (c) the LIBOR rate for such day plus 1.00%. Adjusted LIBOR means LIBOR divided by one minus the Eurodollar Reserve Percentage. The Eurodollar Reserve Percentage means the maximum reserve percentage at which reserves are imposed by the Board of Governors of the Federal Reserve System on eurocurrency liabilities.

We serve as the guarantor for funds borrowed by the Operating Partnership under the Facility. The Facility contains customary terms and conditions, including, without limitation, affirmative and negative covenants such as information reporting requirements, maximum secured indebtedness to total asset value, minimum EBITDA (earnings before interest, taxes, depreciation, amortization or extraordinary items) to fixed charges, and maintenance of a minimum net worth. The Facility also contains customary events of default with customary notice and cure, including, without limitation, nonpayment, breach of covenant, misrepresentation of representations and warranties in a material respect, cross-default to other major indebtedness, change of control, bankruptcy and loss of REIT tax status. As of June 30, 2015, we were in compliance with all covenants under the Facility.

As of June 30, 2015, \$229.6 million was drawn on the Facility, and our remaining borrowing capacity was \$270.4 million. Proceeds from the Facility were used for general corporate purposes, including property acquisitions, debt repayment, capital expenditures, the expansion, redevelopment and retenanting of properties in our portfolio and working capital.

On September 3, 2014, we, operating through our subsidiary, Whitestone Pecos Ranch, LLC, a Delaware limited liability company, entered into a \$14.0 million promissory note (the “Pecos Note”), with a fixed interest rate of 4.34% payable to Wells Fargo Bank, National Association and a maturity date of September 11, 2024. Proceeds from the

Pecos Note were used to repay a portion of our previous unsecured revolving credit facility.

On August 26, 2014, we, operating through our subsidiary, Whitestone Shops at Starwood, LLC, a Delaware limited liability company, entered into a \$14.3 million promissory note (the “Starwood Note”), with a fixed interest rate of 4.34% payable to Wells Fargo Bank, National Association and a maturity date of September 11, 2024. Proceeds from the Starwood Note were used to repay a portion of our previous unsecured revolving credit facility.

As of June 30, 2015, our \$173.2 million in secured debt was collateralized by 20 properties with a carrying value of \$215.7 million. Our loans contain restrictions that would require the payment of prepayment penalties for the acceleration of outstanding debt and are secured by deeds of trust on certain of our properties and by assignment of the rents and leases associated with those properties. As of June 30, 2015, we were in compliance with all loan covenants.

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Scheduled maturities of our outstanding debt as of June 30, 2015 were as follows (in thousands):

Year	Amount Due
2015	\$1,549
2016	13,269
2017	60,212
2018	141,736
2019	58,049
Thereafter	128,472
Total	\$403,287

Capital Expenditures

We continually evaluate our properties' performance and value. We may determine it is in our shareholders' best interest to invest capital in properties that we believe have potential for increasing value. We also may have unexpected capital expenditures or improvements for our existing assets. Additionally, we intend to continue investing in similar properties outside of the markets on which we focus in cities with exceptional demographics to diversify market risk, and we may incur significant capital expenditures or make improvements in connection with any properties we may acquire.

Contractual Obligations

During the six months ended June 30, 2015, there were no material changes outside of the ordinary course of business to the information regarding specified contractual obligations contained in our Annual Report on Form 10-K for the year ended December 31, 2014.

Distributions

The following table summarizes the cash distributions paid or payable to holders of our common shares and noncontrolling OP units during each quarter during 2014 and the six months ended June 30, 2015 (in thousands, except per share data):

Quarter Paid	Common Shares		Noncontrolling OP Unit Holders		Total
	Distributions Per Common Share	Total Amount Paid	Distributions Per OP Unit	Total Amount Paid	Total Amount Paid
2015					
Second Quarter	\$0.2850	\$6,601	\$0.2850	\$111	\$6,712
First Quarter	0.2850	6,526	0.2850	113	\$6,639
Total	\$0.5700	\$13,127	\$0.5700	\$224	\$13,351
2014					
Fourth Quarter	\$0.2850	\$6,484	\$0.2850	\$114	\$6,598
Third Quarter	0.2850	6,457	0.2850	126	6,583
Second Quarter	0.2850	6,367	0.2850	152	6,519
First Quarter	0.2850	6,231	0.2850	158	6,389
Total	\$1.1400	\$25,539	\$1.1400	\$550	\$26,089

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Taxes

We elected to be taxed as a REIT under the Code beginning with our taxable year ended December 31, 1999. As a REIT, we generally are not subject to federal income tax on income that we distribute to our shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate rates. We believe that we are organized and operate in a manner to qualify and be taxed as a REIT, and we intend to operate so as to remain qualified as a REIT for federal income tax purposes.

Environmental Matters

Our properties are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which our operations are conducted. From our inception, we have incurred no significant environmental costs, accrued liabilities or expenditures to mitigate or eliminate future environmental contamination.

Off-Balance Sheet Arrangements

We had no significant off-balance sheet arrangements as of June 30, 2015 and December 31, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our future income, cash flows and fair value relevant to our financial instruments depend upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. Based upon the nature of our operations, we are not subject to foreign exchange rate or commodity price risk. The principal market risk to which we are exposed is the risk related to interest rate fluctuations. Many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors that are beyond our control contribute to interest rate risk. Our interest rate risk objective is to limit the impact of interest rate fluctuations on earnings and cash flows and to lower our overall borrowing costs. To achieve this objective, we manage our exposure to fluctuations in market interest rates for our borrowings through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable.

All of our financial instruments were entered into for other than trading purposes.

Fixed Interest Rate Debt

As of June 30, 2015, \$223.7 million, or approximately 55% of our outstanding debt, was subject to fixed interest rates, which limit the risk of fluctuating interest rates. Though a change in the market interest rates affects the fair market value of our fixed interest rate debt, it does not impact net income to shareholders or cash flows. Our total outstanding fixed interest rate debt had an average effective interest rate as of June 30, 2015 of approximately 3.78% per annum with scheduled maturities ranging from 2015 to 2024 (see Note 6 (Debt) to the accompanying consolidated financial statements for further detail). Holding other variables constant, a 1% increase or decrease in interest rates would cause an \$9.1 million decline or increase, respectively, in the fair value for our fixed rate debt.

Variable Interest Rate Debt

As of June 30, 2015, \$179.6 million, or approximately 45% of our outstanding debt, was subject to floating interest rates of LIBOR plus 1.35% to 1.95% and not currently subject to a hedge. The impact of a 1% increase or decrease in interest rates on our non-hedged variable rate debt would result in a decrease or increase of annual net income of approximately \$1.8 million, respectively.

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Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The management of Whitestone REIT, under the supervision and with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to Whitestone REIT's management, as appropriate, to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of June 30, 2015 (the end of the period covered by this Report).

Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2015, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, management believes the final outcome of such matters will not have a material adverse effect on our financial position, results of operations or liquidity.

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in the “Risk Factors” section of Whitestone's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) During the period covered by this Form 10-Q, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities

During the three months ended June 30, 2015, certain of our employees tendered owned common shares to satisfy the tax withholding on the lapse of certain restrictions on restricted common shares issued under the 2008 Plan. The following table summarizes all of these repurchases during the three months ended June 30, 2015.

Period	Total Number of Shares Purchased (1)	Average Price Paid for Shares	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
April 1, 2015 through April 30, 2015	31,943	\$ 16.05	N/A	N/A
May 1, 2015 through May 31, 2015	—	—	N/A	N/A
June 1, 2015 through June 30, 2015	19,924	13.02	N/A	N/A
Total	51,867	\$ 14.89		

(1) The number of shares purchased represents common shares held by employees who tendered owned common shares to satisfy the tax withholding on the lapse of certain restrictions on restricted common shares issued under the 2008 Plan. With respect to these shares, the price paid per share is based on the fair market value at the time of tender.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

The exhibits listed on the accompanying Exhibit index are filed, furnished and incorporated by reference (as stated therein) as part of this Report.

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SIGNATURES

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

WHITESTONE REIT

Date: August 7, 2015

/s/ James C. Mastandrea
James C. Mastandrea
Chief Executive Officer
(Principal Executive Officer)

Date: August 7, 2015

/s/ David K. Holeman
David K. Holeman
Chief Financial Officer
(Principal Financial and Principal Accounting
Officer)

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EXHIBIT INDEX

Exhibit No.	Description
3.1.1	Articles of Amendment and Restatement of Declaration of Trust (previously filed as and incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on July 31, 2008)
3.1.2	Articles Supplementary (previously filed as and incorporated by reference to Exhibit 3(i).1 to the Registrant's Current Report on Form 8-K, filed on December 6, 2006)
3.1.3	Articles of Amendment (previously filed as and incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on August 24, 2010)
3.1.4	Articles of Amendment (previously filed as and incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed on August 24, 2010)
3.1.5	Articles Supplementary (previously filed as and incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K, filed on August 24, 2010)
3.1.6	Articles of Amendment (previously filed as and incorporated by reference to Exhibit 3.1.1 to the Registrant's Current Report on Form 8-K, filed on June 27, 2012)
3.1.7	Articles of Amendment (previously filed as and incorporated by reference to Exhibit 3.1.2 to Registrant's Current Report on Form 8-K, filed on June 27, 2012)
3.2	Amended and Restated Bylaws (previously filed as and incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on October 9, 2008)
10.1*	Form of Restricted Unit Award Agreement (Time Vested)
10.2	Amended and Restated Equity Distribution Agreement, dated June 4, 2015, by and among Whitestone REIT, Whitestone REIT Operating Partnership, L.P., and Wells Fargo Securities, LLC (previously filed as and incorporated by reference to Exhibit 1.1 to the Registrant's Current Report on form 8-K, filed on June 4, 2015)
10.3	Amended and Restated Equity Distribution Agreement, dated June 4, 2015, by and among Whitestone REIT, Whitestone REIT Operating Partnership, L.P., and JMP Securities LLC (previously filed as and incorporated by reference to Exhibit 1.2 to the Registrant's Current Report on form 8-K, filed on June 4, 2015)
10.4	Amended and Restated Equity Distribution Agreement, dated June 4, 2015, by and among Whitestone REIT, Whitestone REIT Operating Partnership, L.P., and BMO Capital Markets Corp. (previously filed as and incorporated by reference to Exhibit 1.3 to the Registrant's Current Report on form 8-K, filed on June 4, 2015)
10.5	Amended and Restated Equity Distribution Agreement, dated June 4, 2015, by and among Whitestone REIT, Whitestone REIT Operating Partnership, L.P., and Wunderlich Securities, Inc. (previously filed as and incorporated by reference to Exhibit 1.4 to the Registrant's Current Report on form 8-K, filed on June 4, 2015)
10.6	Amended and Restated Equity Distribution Agreement, dated June 4, 2015, by and among Whitestone REIT, Whitestone REIT Operating Partnership, L.P., and Ladenburg Thalmann (previously filed as and incorporated by reference to Exhibit 1.5 to the Registrant's Current Report on form 8-K, filed on June 4, 2015)
10.7	Amended and Restated Equity Distribution Agreement, dated June 4, 2015, by and among Whitestone REIT, Whitestone REIT Operating Partnership, L.P., and Robert W. Baird & Co. Incorporated (previously filed as and incorporated by reference to Exhibit 1.6 to the Registrant's Current Report on form 8-K, filed on June 4, 2015)
12.1*	Statement of Calculation of Consolidated Ratio of Earnings to Fixed Charges.
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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32.1**	Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.

** Furnished herewith.

*** The following financial information of the Registrant for the quarter ended June 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of June 30, 2015 (unaudited) and December 31, 2014, (ii) the Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2015 and 2014 (unaudited), (iii) the Consolidated Statements of Changes in Equity for the six months ended June 30, 2015 (unaudited), (iv) the Consolidated Statement of Cash Flows for the six months ended June 30, 2015 and 2014 (unaudited) and (v) the Notes to the Consolidated Financial Statements (unaudited).

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.