

Rocket Fuel Inc.  
Form S-3/A  
August 09, 2016

As filed with the Securities and  
Exchange Commission on August 9,  
2016

Registration No. 333-211261  
UNITED STATES  
SECURITIES AND EXCHANGE  
COMMISSION  
Washington, D.C. 20549

AMENDMENT NO. 2 TO  
FORM S-3  
REGISTRATION STATEMENT  
Under  
The Securities Act of 1933

ROCKET FUEL INC.  
(Exact name of Registrant as  
specified in its charter)

Delaware                    30-0472319  
(State or  
other  
jurisdiction                (I.R.S.  
of                                Employer  
incorporation                Identification  
or                                Number)  
organization)

1900  
Seaport  
Blvd.,  
Redwood  
City,  
California  
94063  
(650)  
595-1300

(Address, including zip code, and  
telephone number, including area  
code, of registrant's principal  
executive offices)

E.  
Randolph  
Wootton  
III  
Chief  
Executive

Officer  
Rocket  
Fuel Inc.  
1900  
Seaport  
Blvd.,  
Redwood  
City,  
California  
94063  
(650)  
595-1300

(Name, address, including zip code,  
and telephone number, including area  
code, of agent for service)

Copies to:

Steven E. Bochner	JoAnn C. Covington
Rachel B. Proffitt	Senior Vice President,
Wilson	General Counsel
Sonsini Goodrich & Rosati, Professional Corporation	and Corporate Secretary Rocket Fuel Inc.
650 Page Mill Road Palo Alto, California 94304 (650) 493-9300	1900 Seaport Blvd. Redwood City, California 94063 (650) 595-1300

Approximate date of commencement  
of proposed sale to the public: From  
time to time, after the effective date  
of this Registration Statement.

If the only securities being registered  
on this Form are being offered  
pursuant to dividend or interest  
reinvestment plans, please check the  
following box.

If any of the securities being  
registered on this Form are to be  
offered on a delayed or continuous  
basis pursuant to Rule 415 under the  
Securities Act of 1933, other than  
securities offered only in connection  
with dividend or interest  
reinvestment plans, check the

following box.  x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.  o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.  o

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

Large

Accelerated  Accelerated filer  x  
filer  o

Non-accelerated  
filer (Do not

check if  Smaller reporting  
smaller  company  o

reporting  
company)  o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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EXPLANATORY NOTE

This registration statement contains:

a base prospectus which covers the offering, issuance and sale by the registrant of up to a maximum aggregate offering price of \$50,000,000 of the registrant's common stock, preferred stock, warrants, debt securities, subscription rights and/or units (the "Offered Securities"); and

a sales agreement prospectus supplement along with the accompanying base prospectus covering the offering, issuance and sale by the registrant of up to a maximum aggregate offering price of \$30,000,000 of the registrant's common stock that may be issued and sold from time to time under a sales agreement with Cantor Fitzgerald & Co. The base prospectus covering the offering, issuance and sale of all of the registrant's Offered Securities immediately follows this explanatory note. The sales agreement prospectus supplement and the accompanying base prospectus covering \$30,000,000 of common stock that may be offered, issued and sold by the registrant immediately follows the base prospectus. The \$30,000,000 of common stock that may be offered, issued and sold by the registrant under the sales agreement prospectus supplement is included in the \$50,000,000 of Offered Securities that may be offered, issued and sold by the registrant under the base prospectus. Any portion of the \$30,000,000 included in the sales agreement prospectus supplement that is not previously sold or included in an active placement notice pursuant to the sales agreement is available for sale in other offerings pursuant to the base prospectus, and if no shares are sold under the sales agreement, the full \$50,000,000 of Offered Securities may be sold in other offerings pursuant to the base prospectus and a corresponding prospectus supplement.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 9, 2016  
PROSPECTUS

\$50,000,000

COMMON STOCK  
PREFERRED STOCK  
WARRANTS  
DEBT SECURITIES  
SUBSCRIPTION RIGHTS  
UNITS

Rocket Fuel Inc., a Delaware corporation (“Rocket Fuel”), may offer and sell from time to time, in one or more series or issuances and on terms that we will determine at the time of the offering, any combination of the securities described in this prospectus, up to an aggregate amount of \$50,000,000.

We will provide specific terms of any offering in a supplement to this prospectus. Any prospectus supplement may also add, update or change information contained in this prospectus. You should carefully read this prospectus and the applicable prospectus supplement as well as the documents incorporated or deemed to be incorporated by reference in this prospectus before you purchase any of the securities offered hereby.

These securities may be offered and sold in the same offering or in separate offerings; to or through underwriters, dealers and agents; or directly to purchasers. The names of any underwriters, dealers or agents involved in the sale of our securities, their compensation and any over-allotment options held by them will be described in the applicable prospectus supplement. See the section titled “Plan of Distribution.”

Our common stock is listed on The NASDAQ Global Select Market under the symbol “FUEL.” We will provide information in any applicable prospectus supplement regarding any listing of securities other than shares of our common stock on any securities exchange.

We are an “emerging growth company” as defined under the federal securities laws and, as such, have elected to comply with certain reduced public company reporting requirements.

**INVESTING IN OUR SECURITIES INVOLVES SIGNIFICANT RISKS. YOU SHOULD REVIEW CAREFULLY THE “RISK FACTORS” ON PAGE 4 OF THIS PROSPECTUS AND IN THE APPLICABLE PROSPECTUS SUPPLEMENT BEFORE INVESTING IN OUR SECURITIES.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2016

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## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we filed with the United States Securities and Exchange Commission, or the SEC, using a “shelf” registration process. Under this shelf process, we may, from time to time, sell any combination of the securities described in this prospectus in one or more offerings up to a total amount of \$50,000,000.

This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add to, update or change information contained in the prospectus and, accordingly, to the extent inconsistent, information in this prospectus is superseded by the information in the prospectus supplement. The prospectus supplement to be attached to the front of this prospectus may describe, as applicable: the terms of the securities offered; the initial public offering price; the price paid for the securities; net proceeds; and the other specific terms related to the offering of the securities.

You should only rely on the information contained or incorporated by reference in this prospectus and any prospectus supplement or free writing prospectus relating to a particular offering. No person has been authorized to give any information or make any representations in connection with this offering other than those contained or incorporated by reference in this prospectus, any accompanying prospectus supplement and any related free writing prospectus in connection with the offering described herein and therein, and, if given or made, such information or representations must not be relied upon as having been authorized by us. Neither this prospectus nor any prospectus supplement nor any related free writing prospectus shall constitute an offer to sell or a solicitation of an offer to buy offered securities in any jurisdiction in which it is unlawful for such person to make such an offering or solicitation. This prospectus does not contain all of the information included in the registration statement. For a more complete understanding of the offering of the securities, you should refer to the registration statement, including its exhibits.

You should read the entire prospectus and any prospectus supplement and any related free writing prospectus, as well as the documents incorporated by reference into this prospectus or any prospectus supplement or any related free writing prospectus, before making an investment decision. Neither the delivery of this prospectus or any prospectus supplement or any free writing prospectus nor any sale made hereunder shall under any circumstances imply that the information contained or incorporated by reference herein or in any prospectus supplement or free writing prospectus is correct as of any date subsequent to the date hereof or of such prospectus supplement or free writing prospectus, as applicable. You should assume that the information appearing in this prospectus, any prospectus supplement or any document incorporated by reference is accurate only as of the date of the applicable documents, regardless of the time of delivery of this prospectus or any sale of securities. Our business, financial condition, results of operations and prospects may have changed since that date.

## PROSPECTUS SUMMARY

This summary description about us and our business highlights selected information contained elsewhere in this prospectus or incorporated in this prospectus by reference. This summary does not contain all of the information you should consider before buying securities in this offering. You should carefully read this entire prospectus and any applicable prospectus supplement, including each of the documents incorporated herein or therein by reference, before making an investment decision. Unless the context otherwise requires, the terms “Rocket Fuel,” “the Company,” “we,” “us” and “our” in this prospectus refer to Rocket Fuel Inc., and its subsidiaries.

### ROCKET FUEL INC.

#### Overview

Rocket Fuel is a technology company that brings the power of machine learning to the world of digital marketing. We offer technology and services designed to help marketers and their agencies connect with consumers through digital media at moments when that connection is most likely to be influential and most likely to achieve the advertiser’s objectives. Our core service offerings are organized around two platforms - a demand side platform, or “DSP”, and a data management platform, or “DMP,” - which can be used by themselves, integrated with a customer’s other customer relationship management or marketing platforms, or used together as our programmatic marketing platform. That integrated platform is designed to deliver advertising campaigns and optimize media spend to engage, upsell, and retarget consumers across addressable digital media channels, including display, mobile, video, social, and television, and across addressable devices, including tablets, personal computers, set top boxes, television, and mobile phones. We sell media services, in which we accept insertion orders for advertising campaigns from our customers and operate our programmatic marketing platform as a managed service on their behalf. We also offer platform solutions, through which we provide customers direct access to our platforms so that they can operate the platforms on their own, and we offer professional services to assist them.

#### Corporate Information

We were incorporated in Delaware in 2008. Our principal executive offices are located at 1900 Seaport Boulevard, Pacific Shores Center, Redwood City, CA 94063, and our telephone number is (650) 595-1300. Our website address is [www.rocketfuel.com](http://www.rocketfuel.com). The information on, or that may be accessed through, our website is not incorporated by reference into this prospectus and should not be considered a part of this prospectus.

“Rocket Fuel” is a trademark of our company. Our logo and our other trade names, trademarks and service marks appearing in this prospectus are our property. Other trade names, trademarks and service marks appearing in this prospectus are the property of their respective owners. Solely for convenience, our trademarks and tradenames referred to in this prospectus appear without the <sup>TM</sup> symbol, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights, or the right of the applicable licensor to these trademarks and tradenames.

#### Implications of Being an Emerging Growth Company

We qualify as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of relief from certain reporting requirements and other burdens that are otherwise applicable generally to public companies. As an emerging growth company:

- we have availed ourselves of the exemption from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002;
- we will provide less extensive disclosure about our executive compensation arrangements; and
- we will not require shareholder non-binding advisory votes on executive compensation or golden parachute arrangements.

We may use these provisions until the last day of our fiscal year following the fifth anniversary of our initial public offering. However, if certain events occur prior to the end of such five-year period, including if we become a “large accelerated filer,” our annual gross revenues exceed \$1.0 billion or we issue more than \$1.0 billion of non-convertible debt in any three-year period, we will cease to be an emerging growth company prior to the end of such five-year period. We may choose to take advantage of some but not all of these reduced burdens. To the extent that we continue to take advantage of these reduced burdens, the information that we provide stockholders may be different than you might obtain from other public companies in which you hold equity interests.

#### The Securities We May Offer

We may offer up to \$50,000,000 of common stock, preferred stock, warrants, debt securities, subscription rights and units in one or more offerings and in any combination. This prospectus provides you with a general description of the securities we may offer. A prospectus supplement, which we will provide each time we offer securities, will describe the specific amounts, prices and terms of these securities.

#### Common Stock

Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders. Our amended and restated certificate of incorporation does not provide for cumulative voting rights. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of our common stock are entitled to receive dividends out of funds legally available if our board of directors, in its discretion, determines to issue dividends and then only at the times and in the amounts that our board of directors may determine. If we become subject to a liquidation, dissolution or winding-up, the assets legally available for distribution to our stockholders would be distributable ratably among the holders of our common stock and any participating preferred stock outstanding at that time, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights of and the payment of liquidation preferences, if any, on any outstanding shares of preferred stock.

#### Preferred Stock

Our board of directors has the authority, subject to limitations prescribed by Delaware law, to issue preferred stock in one or more series, to establish from time to time the number of shares to be included in each series, and to fix the designation, powers, preferences and rights of the shares of each series and any of its qualifications, limitations or restrictions, in each case without further vote or action by our stockholders.

Each series of preferred stock, if issued, will be more fully described in the particular prospectus supplement that will accompany this prospectus, including redemption provisions, rights in the event of our liquidation, dissolution or winding-up, voting rights and rights to convert into common stock.

#### Warrants

We may issue warrants for the purchase of common stock, preferred stock or debt securities. We may issue warrants independently or together with other securities.

#### Debt Securities

We may offer secured or unsecured obligations in the form of one or more series of senior or subordinated debt. The senior debt securities and the subordinated debt securities are together referred to in this prospectus as the “debt securities.” The subordinated debt securities generally will be entitled to payment only after payment of our senior debt. Senior debt generally includes all debt for money borrowed by us, except debt that is stated in the instrument governing the terms of that debt to be not senior to, or to have the same rank in right of payment as, or to be expressly junior to, the subordinated debt securities. We may issue debt securities that are convertible into shares of our common stock.

The senior and subordinated debt securities will be issued under separate indentures between us and a trustee. We have summarized the general features of the debt securities to be governed by the indentures. These indentures have been filed as exhibits to the registration statement of which this prospectus forms a part. We encourage you to read these indentures. Instructions on how you can get copies of these documents are provided in the section titled “Where You Can Find More Information.”

#### Subscription Rights

We may issue subscription rights to purchase our common stock, preferred stock or debt securities. These subscription rights may be offered independently or together with any other security offered hereby and may or may not be transferable by the stockholder receiving the subscription rights in such offering.

#### Units

We may issue units comprised of one or more of the other classes of securities issued by us as described in this prospectus in any combination. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit.

## RISK FACTORS

An investment in our securities involves a high degree of risk. The prospectus supplement applicable to each offering of our securities will contain a discussion of the risks applicable to an investment in our securities. Prior to making a decision about investing in our securities, you should carefully consider the specific factors discussed in the section titled “Risk Factors” in the applicable prospectus supplement, together with all of the other information contained or incorporated by reference in the prospectus supplement or appearing or incorporated by reference in this prospectus. You should also consider the risks, uncertainties and assumptions discussed under “Part I—Item 1A—Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, and “Part II—Item 1A—Risk Factors” in our Quarterly Reports on Form 10-Q for the three months ended March 31, 2016 and June 30, 2016, all of which are incorporated herein by reference, and as may be amended, supplemented or superseded from time to time by other reports we file with the SEC in the future and any prospectus supplement related to a particular offering.

## FORWARD-LOOKING STATEMENTS

This prospectus, each prospectus supplement and the information incorporated by reference in this prospectus and each prospectus supplement contain certain statements that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words “anticipate,” “could,” “expect,” “believe,” “goal,” “plan,” “intend,” “estimate,” “may,” “seek,” “potential,” “project,” “should,” “would,” “will,” and similar expressions and variations thereof are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Those statements appear in this prospectus, any accompanying prospectus supplement and the documents incorporated herein and therein by reference, particularly in the sections entitled “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business,” and include statements regarding the intent, belief or current expectations of the company and management that are subject to known and unknown risks, uncertainties and assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to those discussed in the section titled “Risk Factors” set forth above.

This prospectus, any prospectus supplement and the information incorporated by reference in this prospectus and any prospectus supplement also contain statements that are based on management’s current expectations and beliefs, including estimates and projections about our company, industry, financial condition, results of operations and other matters. These statements are not guarantees of future performance and are subject to numerous risks, uncertainties, and assumptions that are difficult to predict.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we do not plan to publicly update or revise any forward-looking statements contained herein after we distribute this prospectus, whether as a result of any new information, future events or otherwise.

## RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for each of the periods indicated. You should read these ratios in connection with our financial statements and accompanying notes, and our annual report on Form 10-K for the year ended December 31, 2015, incorporated by reference in this prospectus.

	Year Ended December 31,				Six Months Ended June 30,
	2012	2013	2014	2015	2016
Ratio of earnings to fixed charges	—	—	—	—	—
Deficiency of earnings available to cover fixed charges	(3,785)	(28)(14,886)	(65,450)	(204,738)	(34,300)

For purposes of calculating the ratio of earnings to fixed charges, earnings represents the difference between (i) the sum of (a) pre-tax income from continuing operations before adjustment for income or loss from equity investees; (b) fixed charges; (c) amortization of capitalized interest; (d) distributed income of equity investees; and (e) pre-tax losses of equity investees for which charges arising from guarantees are included in fixed charges and (ii) the sum of (a) interest capitalized; (b) preference security dividend requirements of consolidated subsidiaries; and (c) the non-controlling interest in pre-tax income of subsidiaries that have not incurred fixed charges. Fixed charges represents the sum of (a) interest expensed and capitalized, (b) amortized premiums, discounts and capitalized expenses related to indebtedness, (c) an estimate of the interest within rental expense and (d) preference security dividend requirements of consolidated subsidiaries. The portion of total rental expense that represents the interest factor is estimated to be approximately 25%.

Currently, we have no shares of preferred stock outstanding and we have not paid any dividends on preferred stock in the periods presented. Therefore, the ratios of earnings to combined fixed charges and preferred stock dividends are not different from the ratios of earnings to fixed charges.

#### USE OF PROCEEDS

Unless otherwise indicated in the prospectus supplement, we will use the net proceeds from the sale of securities offered by this prospectus for general corporate purposes, which may include working capital, capital expenditures, and other corporate expenses. In addition, we may use a portion of the net proceeds for acquisitions of complementary products, technologies or businesses, although we do not have any plans, agreements or commitments related to any such acquisitions at this time. The timing and amount of our actual expenditures will be based on many factors, including cash flows from operations and the anticipated growth of our business. As a result, unless otherwise indicated in the prospectus supplement, our management will have broad discretion to allocate the net proceeds of the offerings. Pending their ultimate use, we intend to invest the net proceeds in short-term, investment-grade, interest-bearing instruments.

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**DIVIDEND POLICY**

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends on our common stock in the foreseeable future, if at all. Any future determination to declare dividends will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant. In addition, our loan agreement contains restrictions on our ability to pay dividends.

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## DESCRIPTION OF CAPITAL STOCK

The following description summarizes the most important terms of our capital stock and does not purport to be complete and is qualified in its entirety by the provisions of our amended and restated certificate of incorporation and second amended and restated bylaws, which documents are incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and the applicable provisions of the Delaware General Corporation Law (the "DGCL").

### General

Our authorized capital stock consists of one billion (1,000,000,000) shares of common stock, \$0.001 par value per share, and one hundred million (100,000,000) shares of undesignated preferred stock, \$0.001 par value per share.

### Common Stock

#### Outstanding Shares

On June 30, 2016, there were 44,438,214 shares of common stock outstanding, held of record by 160 stockholders. Our board of directors is authorized, without stockholder approval, to issue additional shares of our capital stock.

#### Dividend Rights

Subject to preferences that may be applicable to any then outstanding preferred stock, holders of our common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds. We have never declared or paid cash dividends on any of our capital stock and currently do not anticipate paying any cash dividends after this offering or in the foreseeable future.

#### Voting Rights

There are 1,000,000,000 shares of common stock authorized for issuance. Pursuant to our amended and restated certificate of incorporation, each holder of our common stock is entitled to one vote for each share on all matters submitted to a vote of stockholders; provided, however, that, except as otherwise required by law, holders of our common stock, as such, shall not be entitled to vote on any amendment to our amended and restated certificate of incorporation that relates solely to the terms of one or more outstanding series of preferred stock if the holders of such affected series are entitled, either separately or together with the holders of one or more other such series, to vote thereon pursuant to our amended and restated certificate of incorporation. Pursuant to our amended and restated certificate of incorporation and second amended and restated bylaws, corporate actions can generally be taken by a majority of our board and/or stockholders holding a majority of our outstanding shares, except as otherwise indicated in the section entitled "Anti-takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws," where certain amendments to our amended and restated certificate of incorporation and second amended and restated bylaws require the vote of at least 66 % of our then outstanding voting securities. Additionally, our stockholders do not have cumulative voting rights in the election of directors. Accordingly, holders of a plurality of the votes cast at a meeting of stockholders will be able to elect all of the directors then standing for election.

#### Right to Receive Liquidation Distributions

In the event of our liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any then outstanding shares of preferred stock.

#### Rights and Preferences

Holders of our common stock have no preemptive, conversion, subscription or other rights, and there are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock that we may designate in the future.

#### Fully Paid and Nonassessable

All of our outstanding shares of common stock are, and the shares of common stock to be issued pursuant to this offering, when paid for, will be fully paid and nonassessable.

#### Preferred Stock

Our board of directors has the authority, without further action by our stockholders, to issue up to 100,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of common stock. The issuance of preferred stock by us could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change of control of our company or other corporate action. No shares of preferred stock are outstanding, and we have no present plan to issue any shares of preferred stock.

#### Stock Options

As of June 30, 2016, there were 7,577,847 shares of our common stock issuable upon exercise of outstanding stock options, at a weighted-average exercise price of \$3.68 per share.

#### Restricted Stock Units

As of June 30, 2016, there were 3,026,658 shares of our common stock issuable upon vesting of restricted stock units.

#### Warrants

As of June 30, 2016, we had no outstanding warrants to purchase shares of our common stock or our preferred stock.

#### Exclusive Forum for Adjudication of Disputes

In our Definitive Proxy Statement for our 2016 Annual Meeting of Stockholders, or the 2016 Proxy Statement, filed with the SEC on April 29, 2016, we submitted a proposal to the stockholders to amend our amended and restated bylaws to provide for the following provision:

“Unless the corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any current or former director, officer or other employee of the corporation to the corporation or the corporation’s stockholders, (iii) any action asserting a claim arising pursuant to any provision of the General Corporation Law of the State of Delaware, or (iv) any action asserting a claim governed by the internal affairs doctrine shall be a state or federal court located within the State of Delaware (a “Chosen Court”), in all cases subject to the Chosen Court having personal jurisdiction over the indispensable parties named as defendants. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the corporation shall be deemed to have notice of and consented to the provisions of this bylaw.”

This amendment to our amended and restated bylaws took effect immediately upon the approval at our 2016 Annual Meeting by the holders of a majority of the shares present at such meeting in person or by proxy and entitled to vote thereon.

#### Registration Rights

Certain holders of shares of our common stock that converted from shares of our convertible preferred stock, or their permitted transferees, and our founders, or their permitted transferees, are entitled to certain rights with respect to the registration of such shares under the Securities Act of 1933, as amended, or the Securities Act. We refer to these shares as “registrable securities.” These rights are provided under the terms of an investor rights agreement between us and the holders of registrable securities and, subject to certain exceptions, include demand registration rights, piggyback registration rights and Form S-3 registration rights. In any registration made pursuant to such investor rights agreement, all fees, costs and expenses of underwritten registrations will be borne by us, and all selling expenses, including estimated underwriting discounts and selling commissions, will be borne by the holders of the registrable securities being registered.

These registration rights will terminate as to a given holder of registrable securities upon the earliest of (a) three (3) years following the closing date of our initial public offering, or September 25, 2016, or (b) such time after our initial public offering that all registrable securities held by such holder can be sold in any three (3) month period without registration in compliance with Rule 144 under the Securities Act.

#### Demand Registration Rights

Under the terms of our investor rights agreement, we will be required, upon the written request of holders of at least 50% of the then outstanding registrable securities, to register, as soon as practicable, all or a portion of the registrable securities for public resale. We are required to effect only two registrations pursuant to this provision of our investor rights agreement. Such request for registration must cover a number of shares with an anticipated aggregate offering price of \$10,000,000 (exclusive of underwriters' discounts and commissions). We will not be required to effect a demand registration during the period beginning 90 days prior to the filing and 180 days following the effectiveness of a registration statement relating to a public offering of our securities.

#### Piggyback Registration Rights

The holders of registrable securities are entitled to certain piggyback registration rights. If we register any of our securities for our own account, after the completion of this offering, the holders of these shares are entitled to include their shares in the registration. Both we and the underwriters of any underwritten offering have the right to limit the number of shares registered by these holders for marketing reasons, subject to limitations set forth in our investor rights agreement.

#### Form S-3 Registration Rights

The holders of registrable securities are entitled to certain Form S-3 registration rights. If we are eligible to file a registration statement on Form S-3, these holders have the right, upon their written request, to have such shares registered by us if the proposed aggregate offering price of such shares is at least \$1,000,000, subject to exceptions set forth in our investor rights agreement.

#### Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws

The provisions of Delaware law, our amended and restated certificate of incorporation and our second amended and restated bylaws contain provisions that could have the effect of delaying, deferring, or discouraging another person from acquiring control of us. These provisions and certain provisions of Delaware law, which are summarized below, could discourage takeovers, coercive or otherwise. These provisions are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire us because negotiation of these proposals could result in an improvement of their terms.

#### Undesignated Preferred Stock

Our board of directors has the ability to designate and issue preferred stock with voting or other rights or preferences that could deter hostile takeovers or delay changes in our control or management.

#### Limits on Ability of Stockholders to Act by Written Consent or Call a Special Meeting

Our amended and restated certificate of incorporation provides that our stockholders may not act by written consent. This limit on the ability of stockholders to act by written consent may lengthen the amount of time required to take stockholder actions. As a result, the holders of a majority of our capital stock would not be able to amend the second amended and restated bylaws or remove directors without holding a meeting of stockholders called in accordance with our second amended and restated bylaws.

In addition, our second amended and restated bylaws further provide that special meetings of our stockholders may be called only by the chairman of our board of directors, our chief executive officer, our president (in the absence of a chief executive officer), or our board of directors. A stockholder may not call a special meeting, which may delay the ability of our stockholders to force consideration of a proposal or for holders controlling a majority of our capital stock to take any action, including the removal of directors.

#### Requirements for Advance Notification of Stockholder Nominations and Proposals

Our second amended and restated bylaws contain advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the

direction of our board of directors or a committee of the board of directors. These advance notice procedures may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed and may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of our company.

#### Board Classification

Our board of directors is divided into three classes. The directors in each class serve for a three-year term, one class being elected each year by our stockholders. This system of electing and removing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us, because it generally makes it more difficult for stockholders to replace a majority of the directors.

#### Delaware Anti-Takeover Statute

We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, Section 203 prohibits a publicly held Delaware corporation from engaging, under certain circumstances, in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder unless:

- prior to the date of the transaction, our board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, but not the outstanding voting stock owned by the interested stockholder, (i) shares owned by persons who are directors and also officers and (ii) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or subsequent to the date of the transaction, the business combination is approved by our board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 % of the outstanding voting stock that is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of a corporation's outstanding voting stock. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our board of directors does not approve in advance. We also anticipate that Section 203 may discourage attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

The provisions of Delaware law and the provisions of our amended and restated certificate of incorporation and second amended and restated bylaws could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they might also inhibit temporary fluctuations in the market

price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions might also have the effect of preventing changes in our management. It is also possible that these provisions could make it more difficult to accomplish transactions that stockholders might otherwise deem to be in their best interests.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Computershare, N.A. The transfer agent and registrar's address is 250 Royall Street, Canton, MA 02021. Our shares of common stock are issued in uncertificated form only, subject to limited circumstances.

**Market Listing**

Our common stock is listed on The NASDAQ Global Select Market under the symbol "FUEL."

## DESCRIPTION OF THE WARRANTS

## General

We may issue warrants for the purchase of our debt securities, preferred stock or common stock, or any combination thereof. Warrants may be issued independently or together with our debt securities, preferred stock or common stock and may be attached to or separate from any offered securities. Each series of warrants will be issued under a separate warrant agreement to be entered into between us and a bank or trust company, as warrant agent. The warrant agent will act solely as our agent in connection with the warrants. The warrant agent will not have any obligation or relationship of agency or trust for or with any holders or beneficial owners of warrants. This summary of certain provisions of the warrants is not complete. For the terms of a particular series of warrants, you should refer to the prospectus supplement for that series of warrants and the warrant agreement for that particular series.

## Debt Warrants

The prospectus supplement relating to a particular issue of warrants to purchase debt securities will describe the terms of the debt warrants, including the following:

- the title of the debt warrants;
- the offering price for the debt warrants, if any;
- the aggregate number of the debt warrants;

## Other expenses (income)

General and administrative	1,625	2,170	3,054	4,133
Depreciation and amortization	1,710	1,791	3,418	3,347
Interest expense	1,470	1,425	2,898	2,827
Interest income	(11 )	(39 )	(22 )	(124 )
Total other expenses	4,794	5,347	9,348	10,183
Income (loss) from continuing operations before loss on disposal of assets and income taxes	141	(710 )	204	(921 )
Provision for income taxes	(57 )	(53 )	(111 )	(110 )
Loss on disposal of assets	(12 )	(68 )	(53 )	(100 )
Income (loss) from continuing operations	72	(831 )	40	(1,131 )
Loss from discontinued operations	-	(378 )	-	(188 )
Gain on sale of properties from discontinued operations	-	3,619	-	3,619
Net income	72	2,410	40	2,300
Less: Net income attributable to noncontrolling interests	25	878	14	837
Net income attributable to Whitestone REIT	\$ 47	\$ 1,532	\$ 26	\$ 1,463

See notes to Condensed Consolidated Financial Statements

WHITESTONE REIT AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(Unaudited)

(in thousands, except per share data)	Three Months ended June 30,		Six Months ended June 30,	
	2009	2008 (revised)	2009	2008 (revised)
Earnings per share - basic				
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$0.00	\$(0.05 )	\$0.00	\$(0.07 )
Income from discontinued operations attributable to Whitestone REIT	0.00	0.20	0.00	0.22
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.00	\$0.15	\$0.00	\$0.15
Earnings per share - diluted				
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$0.00	\$(0.05 )	\$0.00	\$(0.07 )
Income from discontinued operations attributable to Whitestone REIT	0.00	0.20	0.00	0.22
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.00	\$0.15	\$0.00	\$0.15
Weighted average number of common shares outstanding:				
Basic	9,707	9,903	9,707	9,952
Diluted	9,899	9,903	9,910	9,952
Dividends declared per common share	\$0.1125	\$0.1500	\$0.2250	\$0.3000
Condensed Consolidated Statements of Comprehensive Income:				
Net income	\$72	\$2,410	\$40	\$2,300
Other comprehensive gain (loss)				
Unrealized gain (loss) on cash flow hedging activities	0	423	0	(169 )
Comprehensive income	72	2,833	40	2,131
Less: Comprehensive income attributable to noncontrolling interests	25	1,033	14	770
Comprehensive income attributable to Whitestone REIT	\$47	\$1,800	\$26	\$1,361

See notes to Condensed Consolidated Financial Statements



WHITESTONE REIT AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
 (in thousands)

	Common Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Income Deficit	Accumulated Other Comprehensive Income Loss	Shareholders' Equity	Noncontrolling Interests Units	Dollars	Total Equity	
Balance, December 31, 2008 (revised)	9,707	\$10	\$69,188	\$(23,307)	\$-	\$45,891	4,740	\$21,281	\$67,172
OP units issued at \$5.15 per unit in connection with property acquisition	-	-	-	-	-	-	704	3,625	3,625
Share-based compensation	630	-	378	-	-	378	-	-	378
Dividends and distributions	-	-	-	(2,209)	-	(2,209)	-	(1,146)	(3,355)
Net income	-	-	-	26	-	26	-	14	40
Balance, June 30, 2009 (unaudited)	10,337	\$10	\$69,566	\$(25,490)	\$-	\$44,086	5,444	\$23,774	\$67,860

See notes to Condensed Consolidated Financial Statements

WHITESTONE REIT AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(in thousands)	Six Months ended June 30,	
	2009	2008 (revised)
Cash flows from operating activities:		
Net income (loss) from continuing operations	\$ 26	\$ (720 )
Net income from discontinued operations	-	2,183
Net income	26	1,463
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,418	3,347
Net income (loss) attributable to noncontrolling interest	14	(411 )
Loss on sale or disposal of assets	53	100
Bad debt expense	464	222
Share-based compensation	497	-
Changes in operating assets and liabilities:		
Escrows and acquisition deposits	1,185	291
Accrued rent and accounts receivable	(1,201 )	320
Unamortized lease commissions and loan costs	(292 )	(522 )
Prepaid expenses and other assets	222	(107 )
Accounts payable and accrued expenses	(1,199 )	(1,303 )
Tenants' security deposits	30	(17 )
Net cash provided by operating activities	3,217	1,200
Net cash provided by operating activities of discontinued operations	-	8
Cash flows from investing activities:		
Acquisitions of real estate	(5,619 )	-
Additions to real estate	(1,683 )	(3,100 )
Net cash used in investing activities	(7,302 )	(3,100 )
Net cash used in investing activities of discontinued operations	-	(8 )
Cash flows from financing activities:		
Dividends paid on common shares and common share equivalents	(2,319 )	(3,062 )
Distributions paid to OP unit holders	(1,062 )	(1,817 )
Proceeds from notes payable	9,791	11,404
Repayments of notes payable	(1,008 )	(6,377 )
Payments of loan origination costs	(288 )	(1,004 )
Net cash provided by (used in) financing activities	5,114	(856 )
Net increase (decrease) in cash and cash equivalents	1,029	(2,756 )
Cash and cash equivalents at beginning of period	12,989	10,811
Cash and cash equivalents at end of period	\$ 14,018	\$ 8,055
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 2,668	\$ 2,819
Cash paid for taxes	\$ 223	\$ 224

Non cash investing and financing activities:		
Disposal of fully depreciated real estate	\$ 504	\$ 586
Financed insurance premiums	\$ 478	\$ 464
Disposal of real estate in settlement of lawsuit	\$ -	\$ 7,844
Acquisition of real estate asset in exchange for OP Units	\$ 3,625	\$ -

See notes to Condensed Consolidated Financial Statements

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WHITESTONE REIT AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

(Unaudited)

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

1. Interim Financial Statements

The condensed consolidated financial statements included in this report are unaudited; however, amounts presented in the condensed consolidated balance sheet as of December 31, 2008 are derived from our audited consolidated financial statements at that date. The unaudited financial statements as of June 30, 2009 have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information on a basis consistent with the annual audited consolidated financial statements and with the instructions to Form 10-Q, except for the adoptions in the first quarter of 2009 of Statement of Financial Accounting Standards (“SFAS”) No. 160, “Noncontrolling Interests in Consolidated Financial Statements” (“SFAS No. 160”); Financial Accounting Standards Board (“FASB”) Staff Position EITF No. 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities” (“FSP EITF No. 03-6-1”); SFAS No. 141(R), “Business Combinations” (“SFAS No. 141(R)”), which is applied prospectively to business combinations with acquisition dates on or after January 1, 2009; and SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”), for all nonfinancial assets and nonfinancial liabilities not recognized or disclosed at fair value in the condensed consolidated financial statement on a recurring basis. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements.

The impact of SFAS No. 160 is discussed in more detail in Note 2, Summary of Significant Accounting Policies. The impact of FSP EITF No. 03-6-1, is discussed in more detail in Note 8, Earnings Per Share.

The condensed 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, 2009 and the results of operations for the three and six month periods ended June 30, 2009 and 2008, the condensed consolidated statement of changes in equity for the six month period ended June 30, 2009 and cash flows for the six month periods ended June 30, 2009 and 2008. All of these adjustments are of a normal recurring nature. The results of operations for the interim period 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 which are included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Business. Whitestone was formed as a real estate investment trust, pursuant to the Texas Real Estate Investment Trust Act on August 20, 1998. In July 2004, Whitestone changed its state of organization from Texas to Maryland pursuant to a merger of Whitestone directly with and into a Maryland real estate investment trust formed for the sole purpose of effectuating the reorganization and the conversion of each outstanding common share of beneficial interest of the Texas entity into 1.42857 common shares of beneficial interest of the Maryland entity (the “Common Shares”). Whitestone serves 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. Whitestone currently conducts substantially all of its operations and activities through the Operating Partnership. As the general partner of the Operating Partnership, Whitestone has the exclusive power to manage and conduct the business of the Operating Partnership, subject to certain customary exceptions. As of June 30, 2009 and December 31, 2008, we owned and operated 36 and 35 retail, warehouse and office properties, respectively, in and around Houston, Dallas, San Antonio, Chicago and Phoenix.

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, 2009 and

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WHITESTONE REIT AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

(Unaudited)

December 31, 2008, we owned a majority of the partnership interests in the Operating Partnership. Consequently, the accompanying condensed consolidated financial statements include the accounts of the Operating Partnership. All significant inter-company balances have been eliminated. Noncontrolling interest in the accompanying condensed 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 year. Issuance of additional Common Shares and units of limited partnership interest in the Operating Partnership that are convertible into 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.

**Use of Estimates.** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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, estimates supporting our impairment analysis for the carrying values of our real estate assets and the estimated fair value of interest rate swaps. Actual results could differ from those estimates.

**Reclassifications.** We have reclassified certain prior fiscal year amounts in the accompanying condensed consolidated financial statements in order to be consistent with the current fiscal year presentation, including changes resulting from the adoption of SFAS No. 160 on January 1, 2009, as discussed later in this Note 2. Other than the changes resulting from the implementation of SFAS No. 160, these reclassifications had no effect on net loss or equity.

**Share-Based Compensation.** From time to time the Company awards nonvested Common Shares or Common Share Units to trustees, executive officers and employees which may be converted into Common Shares under the 2008 Long-Term Equity Incentive Ownership Plan (the "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 using the fair market value of the shares as of the grant date, in accordance with SFAS No. 123R, "Share-Based Payments," as revised ("SFAS No. 123R"). For the three and six months ended June 30, 2009, the Company recognized approximately \$0.3 and \$0.5 million in share-based compensation expense. No share-based compensation expense was recognized prior to 2009 as no awards had been granted.

**Noncontrolling Interests.** In December 2007, the FASB issued SFAS No. 160 which is effective for fiscal years beginning on or after December 15, 2008. We adopted SFAS No. 160 effective January, 2009. 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 condensed consolidated balance sheets but separate from Whitestone's equity as prescribed by SFAS No. 160. On the consolidated statements of operations and comprehensive loss, subsidiaries are reported at the consolidated amount, including both the amount attributable to Whitestone and noncontrolling interests. Consolidated statements of changes in equity are included for both quarterly and annual financial statements, including beginning balances, activity for the period and ending balances for shareholders' equity, noncontrolling interests and total equity.

See Whitestone's Annual Report on Form 10-K for the year ended December 31, 2008 for further discussion on significant accounting policies.

Recent Accounting Pronouncements. In September 2006, the FASB issued SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles and expands disclosures about fair value measurements. The statement

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WHITESTONE REIT AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

(Unaudited)

does not require new fair value measurements but is applied to the extent other accounting pronouncements require or permit fair value measurements. The statement emphasizes fair value as a market-based measurement which should be determined based upon assumptions market participants would use in pricing an asset or a liability. In February 2008, FASB issued FSP 157-2, "Effective Date of FASB Statement 157" ("FSP 157-2") which deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis to fiscal years beginning after November 15, 2008. Adoption of SFAS No. 157 on January 1, 2009 did not have a material effect on the Company.

In December 2007, FASB issued SFAS No. 141(R) which replaces SFAS No. 141, "Business Combinations" which, among other things, establishes principles and requirements for how an acquiring entity recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed (including intangibles) and any noncontrolling interests in the acquired entity. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Adoption of SFAS No. 141(R) on January 1, 2009 impacts our accounting for acquisitions and related transaction costs.

In December 2007, FASB issued SFAS No. 160. SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of SFAS No. 141(R). SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We adopted SFAS No. 160 on January 1, 2009.

In March 2008, FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Currently, we do not have any derivative instrument or hedging activities.

In June 2008, the FASB issued FSP EITF No. 03-6-1, "Determining Whether Instruments Granted in Share-based Payment Transactions are Participating Securities" ("FSP EITF No. 03-6-1"). FSP EITF No. 03-6-1 affects entities which accrue non-returnable cash dividends on share-based payment awards during the awards' service period. FASB concluded unvested share-based payment awards which are entitled to cash dividends, whether paid or unpaid, are participating securities any time the common shareholders receive dividends. Because the awards are considered participating securities, the issuing entity is required to apply the two-class method of computing basic and diluted earnings per share, as prescribed by EITF No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128.". FSP EITF No. 03-6-1 is effective for fiscal years beginning after December 15, 2008, and early adoption is not permitted. Adoption on January 1, 2009 impacts our earnings per share ("EPS") calculation, as specified in Note 8.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165"). SFAS 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity



should recognize events or transactions occurring after the balance sheet date in its financial statements, and disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. SFAS 165 is effective for financial periods ending after June 15, 2009. The Company is adhering to the requirements of SFAS 165 starting in the second

WHITESTONE REIT AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

(Unaudited)

quarter of 2009.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)," ("SFAS 167"), which changes the approach to determining the primary beneficiary of a variable interest entity and requires companies to more frequently assess whether they must consolidate a VIE. This new standard is effective on the first annual reporting period that begins after November 15, 2009. We are currently assessing the potential impacts, if any, on our consolidated financial statements.

### 3. Derivatives and Hedging

On September 28, 2007, we entered into an interest rate swap transaction which we designated as a cash flow hedge. The effective date of the swap transaction was October 1, 2007, had a total notional amount of \$70 million, and fixed the swap rate at 4.77% plus the LIBOR margin through October 1, 2008. The purpose of this swap was to mitigate the risk of future fluctuations in interest rates on our variable rate debt. We determined that this swap was highly effective in offsetting future variable interest cash flows on variable rate debt. This interest rate swap matured on October 1, 2008 and was not renewed by us.

Whitestone elected to implement SFAS No. 157 with the one-year deferral permitted by FASB Staff Position No. FAS 157-2. FSP No. 157-2, which was issued February 2008, defers the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities measured at fair value, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis.

SFAS No. 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

- Level 1 – Observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Other inputs that are observable directly or indirectly, such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
  - Level 3 – Unobservable inputs for which there is little or no market data and which the Company makes its own assumptions about how market participants would price the assets and liabilities.

All of our derivative instruments which are included in the fair value requirements fall under the Level 2 criteria. Interest rate swaps are valued by a third-party consultant using modeling techniques that include market inputs such as interest rate yield curves.

### 4. Real Estate

As of June 30, 2009, we owned 36 commercial properties in the Houston, Dallas, San Antonio, Phoenix and Chicago areas comprising approximately 3.0 million square feet of total area.



WHITESTONE REIT AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2009

(Unaudited)

## 5. Accrued Rent and Accounts Receivable, net

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

	June 30, 2009	December 31, 2008
Tenant receivables	\$ 2,543	\$ 2,733
Accrued rent	3,755	3,644
Insurance receivable	1,068	-
Allowance for doubtful accounts	(1,759 )	(1,497 )
Other receivables	10	-
<b>Totals</b>	<b>\$ 5,617</b>	<b>\$ 4,880</b>

During the quarter ended June 30, 2009, we settled six of our sixteen insurance claims related to damages to our properties from Hurricane Ike for \$1.7 million, of which we have received \$0.6 million, \$0.2 million of which is held in escrow pending completion of the repairs.

We expect to settle the reimbursement amounts for the remaining ten properties during the third quarter of 2009.

## 6. Unamortized Leasing Commissions and Loan Costs

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

	June 30, 2009	December 31, 2008
Leasing commissions	\$ 4,387	\$ 4,412
Deferred financing costs	2,224	1,921
<b>Total cost</b>	<b>6,611</b>	<b>6,333</b>
Less: accumulated amortization leasing commissions	(1,933 )	(1,842 )
Less: accumulated amortization deferred financing costs	(379 )	(153 )
<b>Total cost, net of accumulated amortization</b>	<b>\$ 4,299</b>	<b>\$ 4,338</b>

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## 7. Debt

Mortgages and other notes payable consist of the following (in thousands):

Description	June 30, 2009	December 31, 2008
Fixed rate notes		
\$10.0 million 6.04% Note, due 2014	\$ 9,715	\$ 9,782
\$11.2 million 6.52% Note, due 2015	11,107	11,159
\$21.4 million 6.53% Note, due 2013	20,996	21,263
\$24.5 million 6.56% Note, due 2013	24,500	24,500
\$ 9.9 million 6.63% Note, due 2014	9,881	-
\$ 0.5 million 5.05% Note, due 2009	306	40
Floating rate notes		
\$ 6.4 million LIBOR + 2.00% Note, due 2009	6,400	6,400
\$26.9 million LIBOR + 2.60% Note, due 2013	26,504	26,859
	\$ 109,409	\$ 100,003

Floating Rate Notes. On January 25, 2008, we entered into a \$6.4 million term loan agreement with KeyBank. The term loan was secured by a pledge of the partnership interests in Whitestone REIT Operating Partnership III, L.P. ("WROP III"), and Whitestone Pima Norte LLC ("WPN"), a wholly owned subsidiary of the Operating Partnership that was formed to hold title to our Pima Norte property purchased in October 2007. At June 30, 2009 and December 31, 2008, WROP III owned 13 and 17 properties, respectively, and WPN owned 1 property.

This loan contains certain financial covenants, some of which we were not in compliance with as of June 30, 2009, including the secured debt to fair market value ratio covenant. This loan was paid in full on July 25, 2009.

Our loans are subject to customary financial covenants. As of June 30, 2009, we are in compliance with all loan covenants other than the \$6.4 million term loan described above, which was paid in full on its maturity date July 25, 2009.

Annual maturities of notes payable as of June 30, 2009, are due as set forth below (in thousands):

Year	Principal
2009	\$ 7,671
2010	2,276
2011	2,402
2012	2,534
2013	66,457
	28,069

2014 and  
thereafter

Total	\$ 109,409
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8. Earnings Per Share

Basic earnings per share for Whitestone's common shareholders is calculated by dividing income (loss) from continuing operations excluding amounts attributable to unvested restricted shares, income from discontinued operations, and the net income (loss) attributable to non-controlling interests by Whitestone's weighted-average common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income (loss) attributable to common shareholders excluding amounts attributable to unvested restricted shares, income from discontinued operations, and the net income (loss) attributable to non-controlling interests by the weighted-average number of common shares including any dilutive unvested restricted shares.

On January 1, 2009, Whitestone adopted FSP EITF No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities," ("FSP EITF No. 03-6-1"), which addresses whether share-based payment transaction instruments are considered participating securities prior to vesting, and in which all unvested stock awards which contain non-forfeitable rights to dividends, whether paid or unpaid, are to be included in the number of shares outstanding in Whitestone's basic and diluted earnings per share ("EPS") calculations.

Certain of Whitestone's performance restricted common shares are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the three and six months ended June 30, 2009, basic EPS was not impacted by the two-class method because the Company's participating securities are not obligated to participate in net operating losses, and diluted EPS was not impacted because the inclusion of these securities would have had an anti-dilutive effect on diluted EPS. During the three months ended June 30, 2009 and 2008, 5,443,797 and 5,452,187 OP Units, respectively, were excluded from the calculation of diluted earnings per share because their effect would be anti-dilutive. During the six months ended June 30, 2009 and 2008, 5,443,797 and 5,630,261 OP Units, respectively, were excluded from the calculation of diluted earnings per share because their effect would be anti-dilutive.

For the three months and six months ended June 30, 2009, distributions of \$71,000 and \$135,000 respectively, were made to the holders of certain restricted share units, \$64,000 and \$121,000 of which, respectively, were charged against earnings. No distributions were made on the performance restricted shares prior to 2009. See Note 14 for information related to restricted shares under the long-term equity incentive share plan.

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(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Numerator:</b>				
Income (loss) from continuing operations	\$72	\$(831 )	\$40	\$(1,131 )
Less: Net loss (income) attributable to noncontrolling interests	(25 )	302	(14 )	411
Dividends paid on unvested restricted shares	(7 )	-	(14 )	-
Undistributed earnings attributable to unvested restricted shares	-	-	-	-
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	40	(529 )	12	(720 )
Income from discontinued operations attributable to Whitestone REIT	-	3,241	-	3,431
Less: Net income attributable to noncontrolling interests	-	(1,180 )	-	(1,248 )
Income from discontinued operations attributable to Whitestone REIT	-	2,061	-	2,183
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$40	\$1,532	\$12	\$1,463
<b>Denominator</b>				
Weighted average number of common shares - basic	9,707	9,903	9,707	9,952
Effect of dilutive securities:				
Unvested restricted shares	192	-	203	-
Weighted average number of common shares - dilutive	9,899	9,903	9,910	9,952
<b>Basic earnings per common share:</b>				
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$-	\$(0.05 )	\$-	\$(0.07 )
Income from discontinued operations attributable to Whitestone REIT	-	0.20	-	0.22
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$-	\$0.15	\$-	\$0.15
<b>Diluted earnings per common share:</b>				
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$-	\$(0.05 )	\$-	\$(0.07 )
Less: Net income attributable to noncontrolling interests	-	0.20	-	0.22
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$-	\$0.15	\$-	\$0.15

## 9. Income Taxes

Federal income taxes are not assessed against us because we intend to and believe we qualify as a real estate investment trust ("REIT") under the provisions of the Internal Revenue Code of 1986, as amended. Our shareholders include their proportionate taxable income in their individual tax returns. As a REIT, we must distribute at least 90% of our ordinary 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, share-based compensation and rental revenue.

In May 2006, the State of Texas adopted the Texas Margin Tax effective with franchise tax reports filed on or after January 1, 2008. The Texas Margin Tax is computed by applying the applicable tax rate (1% for us) to the profit margin, which generally will be determined for us as total revenue less a 30% standard deduction. Although House Bill 3 states that the Texas Margin Tax is not an income tax, SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109") applies to the Texas Margin Tax. We have recorded a margin tax provision of approximately \$57,000 and \$111,000 for the three and six months ended June 30, 2009, respectively. Additionally, we recorded a margin tax provision of approximately

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\$53,000 and \$110,000 for the three and six months ended June 30, 2008, respectively.

## 10. Equity

Dividends and distributions. The following tables summarize the cash dividends/distributions paid to holders of Common Shares and holders of OP Units for the four quarters of 2008 and the first two quarters of 2009.

Dividend per Common Share	Whitestone Shareholders Quarter Dividend Paid	Total Amount Paid (in thousands)
\$ 0.1500	Qtr. ended 03/31/08	\$ 1,500
0.1500	Qtr. ended 06/30/08	1,529
0.1500	Qtr. ended 09/30/08	1,456
0.1125	Qtr. ended 12/31/08	1,093
0.1125	Qtr. ended 03/31/09	1,156
0.1125	Qtr. ended 06/30/09	1,163

Distribution per OP Unit	OP Unit Holders Including Noncontrolling Unit Holders Quarter Distribution Paid	Total Amount Paid (in thousands)
\$ 0.1500	Qtr. ended 03/31/08	\$ 2,317
0.1500	Qtr. ended 06/30/08	2,423
0.1500	Qtr. ended 09/30/08	2,113
0.1125	Qtr. ended 12/31/08	1,585
0.1125	Qtr. ended 03/31/09	1,687
0.1125	Qtr. ended 06/30/09	1,694

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## 11. Commitments and Contingencies

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 condensed consolidated financial statements.

Hurricane Ike. Our 31 properties in Houston had minor to moderate harm, ranging from broken signage to uprooted landscaping; other properties had more significant issues, such as damaged roofing and exterior siding. We maintain casualty and business interruption insurance at levels that we believe are adequate and have determined that 16 of these properties will have an insurance claim. During the quarter ended June 30, 2009, insurance reimbursements were determined on 6 of the 16 properties. We expect to settle the insurance claims for the remaining 10 properties during the third quarter of 2009.

## 12. Property Dispositions

On May 30, 2008, as part of our settlement with Hartman Management L.P. and Allen R. Hartman ("Hartman"), we exchanged two retail properties, Garden Oaks, a 95,046 square foot retail property located in Houston, Texas and Northeast Square, a 40,525 square foot retail property located in Houston, Texas, for \$11.4 million. The \$11.4 million purchase price was paid by Hartman in the form of 293,961.54 Common Shares and 1,068,451.271 OP Units.

The following is a summary of income (loss) from discontinued operations for the three and six months ended June 30, 2009 and 2008:

	Three Months ended June 30,		Six Months ended June 30,	
	2009	2008	2009	2008
<b>Property Revenues</b>				
Rental revenues	\$ -	\$ 59	\$ -	\$ 333
Other revenues	-	133	-	225
Total property revenues	-	192	-	558
<b>Property Expenses</b>				
Property operation and maintenance	-	109	-	170
Real estate taxes	-	87	-	133
Total property expenses	-	196	-	303
<b>Other expense</b>				
General and administrative	-	221	-	221
Depreciation and amortization	-	151	-	218
Total other expense	-	372	-	439
<b>Loss before loss on disposal of assets and income taxes</b>				
	-	(376 )	-	(184 )

Gain on sale of properties	-	3,619	-	3,619
Provision for income taxes	-	(2 )	-	(4 )
Income from discontinued operations	\$ -	\$ 3,241	\$ -	\$ 3,431

### 13. Acquisitions

On January 16, 2009, we acquired a 41,396 square foot garden style mixed use property in Buffalo Grove, Illinois for approximately \$9.4 million, including cash of \$5.5 million, issuance of

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703,912 OP Units worth \$3.6 million and credit for net prorations of \$0.3 million. The property, Spoerlein Commons, is a two story complex of retail, medical and professional office tenants. James C. Mastandrea, our Chairman, President and Chief Executive Officer, was the controlling limited partner of Midwest Development Venture IV, the seller of Spoerlein Commons, and had an ownership interest in the property and was entitled to a portion of the proceeds from the sale of the property to the Operating Partnership. Because of Mr. Mastandrea's relationship with the seller, a special committee of the independent members of the Board of Trustees, including Donald F. Keating, Jack L. Mahaffey, and Chris A. Minton, negotiated the terms of the transaction, which included the use of an independent appraiser to value the property. This purchase was accounted for using the acquisition method as prescribed under SFAS No. 141(R). The assets acquired and liabilities accrued in this transaction were recorded at their estimated fair value at the time of purchase.

#### 14. Incentive Share Plan

On July 29, 2008, our shareholders approved the 2008 Long-Term Equity Incentive Ownership Plan (the "Plan"). The Plan provides that awards may be made with respect to Common Shares or OP Units, which may be converted into Common Shares of Whitestone. The Plan authorizes awards in respect of an aggregate of 2,063,885 Common Shares. The maximum aggregate number of Common Shares that may be issued under the Plan will be increased upon each issuance of Common Shares by Whitestone (including issuances pursuant to the Plan) so that at any time the maximum number of shares that may be issued under the Plan shall equal 12.5% of the aggregate number of Common Shares of Whitestone and OP Units issued and outstanding (other than treasury shares and/or units issued to or held by Whitestone).

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

On January 6, 2009, the Compensation Committee, pursuant to the Plan, granted to certain of its officers restricted common share awards (the "Restricted Shares") and restricted common share unit awards (the "Restricted Units") subject to certain restrictions. The Restricted Shares and Restricted Units will vest based on certain performance goals (as specified in the award agreement). The grantee is the record owner of the Restricted Shares and has all rights of a shareholder with respect to the Restricted Shares, including the right to vote the Restricted Shares and to receive dividends and distributions with respect to the Restricted Shares. The grantee has no rights of a shareholder with respect to the Restricted Units, including no right to vote the Restricted Units and no right to receive current dividends and distributions with respect to the Restricted Units until the units are fully vested and convertible to Common Shares of Whitestone.

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A summary of the stock-based incentive plan activity as of and for the six months ended June 30, 2009 is as follows:

	Shares		Weight-Average Grant Date Fair Value
Non-vested at January 1, 2009	-	\$	-
Granted	1,786,187		4.13
Vested	-		-
Forfeited	(9,000	)	3.71
Non-vested at June 30, 2009	1,777,187	\$	4.13

Total compensation recognized in earnings for share-based payments for the three and six months ended June 30, 2009 was \$0.3 and \$0.5 million, respectively. There was no share-based compensation expense prior to 2009. As of June 30, 2009, there was \$0.4 million of total unrecognized compensation cost related to outstanding nonvested shares issued under the Plan, which is expected to be recognized over a weighted-average period of six months. The fair value of the shares granted during the six months ended June 30, 2009 was determined based on observable market transactions occurring near the date of the grants.

#### 15. Grants to Trustees

On March 25, 2009, each of our five independent trustees was granted 5,000 restricted common shares which vest in equal installments in 2010, 2011, and 2012. These shares were granted pursuant to individual grant agreements and were not pursuant to our 2008 Long-Term Equity Incentive Ownership Plan. The 25,000 shares had a weighted average grant date fair value of \$4.94 per share, resulting in total unrecognized compensation cost of \$0.1 million, which is expected to be recognized over a weighted-average period of approximately three years. The fair value of the shares granted during the six months ended June 30, 2009 was determined based on observable market transactions occurring near the date of the grants.

#### 16. Segment Information

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

#### 17. Related Party Transactions

##### Spoerlein Commons Acquisition

On January 16, 2009, Whitestone, operating through the Operating Partnership, acquired Spoerlein Commons, a mixed use-garden style complex of retail, medical, and professional office tenants located in Buffalo Grove, Illinois. The Operating Partnership acquired Spoerlein Commons pursuant to the terms and conditions of the purchase, sale and contribution agreement dated December 18, 2008 (the "Agreement") between the Operating Partnership and Bank One, Chicago, NA, as trustee under a trust agreement dated January 29, 1986 ("Seller"). Midwest Development Venture IV, an Illinois limited partnership ("Midwest"), is the sole beneficiary of the Seller under the trust agreement.

Spoerlein Commons represents an acquisition for Whitestone, and a substantial equity investment on behalf of the Seller. In exchange for Spoerlein Commons, the Operating Partnership paid the Seller \$5,500,000, received credit for net proration of \$275,854 and issued 703,912 OP Units, valued at \$5.15 per Unit, for a total purchase price of \$9,401,000.

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Midwest, the sole beneficiary of the Seller, is entitled to all earnings and proceeds from the sale of Spoerlein Commons. James C. Mastandrea, our Chairman, President and Chief Executive Officer, is the controlling limited partner in Midwest and as such, had an ownership interest in Spoerlein Commons and is entitled to a portion of the proceeds from the sale of Spoerlein Commons to the Operating Partnership. Because of Mr. Mastandrea's relationship with the Seller, a special committee of the independent members of the Board of Trustees including Donald F. Keating, Jack L. Mahaffey, and Chris A. Minton determined the terms of the transaction, which included the use of an independent appraiser to value Spoerlein Commons.

No brokerage commission was paid by Whitestone for this acquisition, and in relation to Mr. Mastandrea's investment, there was no front-end-load, meaning that 100% of the amount paid is working for the benefit of Whitestone's shareholders.

In connection with the closing of Spoerlein Commons and the investment on behalf of the Seller, the Operating Partnership issued 703,912 OP Units to Midwest for its contribution of Spoerlein Commons to the Operating Partnership. The OP Units were issued in reliance on the exemption from registration provided by Section 4(2) under the Securities Act of 1933, as amended. The issuance was not effected using any form of general advertising or general solicitation and the issuance was made to a qualified investor.

The OP Units are convertible on a one-for-one basis into Common Shares at any time after July 1, 2009 in accordance with the terms of the Operating Partnership's Limited Partnership Agreement, as amended (the "Limited Partnership Agreement"). The Seller is not entitled to any distributions with respect to the OP Units prior to June 30, 2009.

#### 18. Subsequent Events

We have disclosed the following subsequent events in accordance with SFAS 165. Subsequent events have been evaluated through August 13, 2009, the date the financial statements were filed.

On July 25, 2009, the stated maturity date, we paid the \$6.4 million term loan with KeyBank.



## 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 condensed consolidated financial statements and the notes thereto included in this quarterly report on Form 10-Q (the "Report"). For more detailed information regarding the basis of presentation for the following information, you should read the notes to the condensed consolidated financial statements included in this Report.

This Report contains forward-looking statements, 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," "seeks," "estimates" or the negative of such terms and variations of these words and similar expressions. 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 to not 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 foregone 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;
    - construction costs that may exceed estimates or construction delays;
    - increases in interest rates;
  - availability of credit equity or significant disruption in the credit or equity markets;
    - litigation risks;
    - lease-up risks;
  - inability to obtain new tenants upon the expiration of existing leases;
- inability to generate sufficient cash flows due to market conditions, competition, uninsured losses, changes in tax or other applicable laws; and
  - the potential 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, 2008, as previously filed with the Securities and Exchange Commission (the “SEC”).

## Executive Overview

We are a self-administered real estate investment trust (“REIT”) engaged in owning and operating income-producing real properties. Our investments include retail, office and warehouse properties located in the Houston, Dallas, San Antonio, Chicago and Phoenix metropolitan areas. Whitestone serves as the general partner of Whitestone REIT Operating Partnership, L.P. (the “Operating Partnership,” or “WROP” or “OP”), which was formed on December 31, 1998 as a Delaware limited partnership. Whitestone currently conducts substantially all of its operations and activities through the Operating Partnership. As the general partner of the Operating Partnership, Whitestone has the exclusive power to manage and conduct the business of the Operating Partnership, subject to certain customary exceptions. As of June 30, 2009, we owned and operated 36 commercial properties consisting of:

- Seventeen retail properties containing approximately 1.1 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation) of \$61.0 million.
- Eight office properties containing approximately 0.7 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation) of \$55.6 million.
- Eleven office/warehouse properties containing approximately 1.2 million square feet of leasable space and having a total carrying amount (net of accumulated depreciation) of \$42.8 million.

Our primary source of income and cash is rents associated with commercial leases. Our business objective is to increase shareholder value by employing a value-added investment strategy. This strategy is focused on owning and renovating commercial real estate assets in markets with positive demographic trends, achieving diversification by property type and location, and acquiring properties within our targeted returns.

As of June 30, 2009, we had 694 total tenants. We have a diversified tenant base with our largest tenant comprising only 2.7% of our total revenues for the three and six months ended June 30, 2009. 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 employ 55 full-time employees as of June 30, 2009. As a self-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.

We believe that one of the key measures of our performance is property occupancy. Occupancy for the total portfolio was 82% at June 30, 2009, compared to 85% as of June 30, 2008. We executed 127 new and renewal leases during the six months ended June 30, 2009, totaling approximately 300,000 square feet and \$11.4 million in total lease value.

In the fourth quarter of 2006, our Board approved our five-year business plan. The key elements of the plan are as follows:

- Maximize value in current properties through operational focus and redevelopment;
- Grow through strategic acquisitions of commercial properties in high potential markets, including properties outside of Texas;
- Dispose of non-core properties and reinvest the capital in redevelopment of existing properties or acquisition of core properties in high potential markets;
- Raise capital using a combination of the private and public equity and debt markets, as well as joint ventures; and
  - Bring liquidity to our stock by listing on a national stock exchange.

A summary of our progress on the execution of this five year plan is described in the following sections on redevelopment, acquisitions and dispositions.

#### Redevelopment

We completed the redevelopment of the Westchase Plaza Retail and Office Center located in Houston, Texas during the three months ended March 31, 2009. The total redevelopment of this center cost approximately \$1.7 million, and it added approximately 6,600 square feet of leasable office space.

#### Acquisitions

On January 16, 2009, we acquired a 41,396 square foot garden style mixed use property in Buffalo Grove, Illinois for approximately \$9.4 million. The property, Spoerlein Commons, is a two story complex of retail, medical and professional office tenants. James C. Mastandrea, our Chairman, President and Chief Executive Officer, was the controlling limited partner of Midwest Development Venture IV, the seller of Spoerlein Commons, and had an ownership interest in the property and was entitled to a portion of the proceeds from the sale of the property to the Operating Partnership. Because of Mr. Mastandrea's relationship with the seller, a special committee of the independent members of the Board of Trustees, including Donald F. Keating, Jack L. Mahaffey, and Chris A. Minton, negotiated the terms of the transaction, which included the use of an independent appraiser to value the property.

#### Dispositions (discontinued operations)

On May 30, 2008, as part of our settlement with Hartman Management L.P. and Allen R. Hartman ("Hartman"), we exchanged two retail properties, Garden Oaks, a 95,046 square foot retail property located in Houston, Texas and Northeast Square, a 40,525 square foot retail property located in Houston, Texas, for \$11.4 million. The \$11.4 million purchase price was paid by Hartman in the form of 293,961.54 Whitestone Common Shares (the "Common Shares") and 1,068,451.271 units of ownership interest in our Operating Partnership (the "OP Units").

## Critical Accounting Policies

In preparing the condensed 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 at 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 Form 10-K for the year ended December 31, 2008, under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no significant changes to these policies during the first six months of 2009 except for the adoptions in the first quarter of 2009 of Statement of Financial Accounting Standards ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No. 160"); Financial Accounting Standards Board ("FASB") Staff Position EITF No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" ("FSP EITF No. 03-6-1"); SFAS 141(R), "Business Combinations," which is applied prospectively to business combinations with acquisition dates on or after January 1, 2009; and SFAS No. 157, "Fair Value Measurements" (SFAS No. 157), for all nonfinancial assets and nonfinancial liabilities. For disclosure regarding recent accounting pronouncements and the anticipated impact they will have on our operations, please refer to Note 2 of the condensed consolidated financial statements.

## Results of Operations

## Comparison of the Three Month Periods Ended June 30, 2009 and 2008

The following tables provide a general comparison of our results of operations for the three months ended June 30, 2009 and 2008 (in thousands, except for aggregate gross leasable area):

	June 30, 2009	June 30, 2008
Number of properties owned and operated	36	35
Aggregate gross leasable area (sq. ft.)	3,039,300	2,957,492
Ending occupancy rate	82 %	85 %
Total property revenues	\$ 8,203	\$ 7,750
Total property expenses	3,268	3,113
Total other expenses	4,794	5,347
Provision for income taxes	57	53
Loss on disposal of assets	12	68
Income (loss) from continuing operations	72	(831 )
Loss from discontinued operations	-	(378 )
Gain on sale of properties from discontinued operations	-	3,619
Net income	72	2,410
Less: Net income attributable to noncontrolling interests	25	878
Net income attributable to Whitestone REIT	\$ 47	\$ 1,532
Funds from operations (1)	\$ 1,633	\$ 426
Dividends and distributions paid on common shares and OP Units	1,694	2,303
Per common share and OP unit	\$ 0.1125	\$ 0.1500
Dividends paid as a % of funds from operations	104 %	541 %

(1) For a reconciliation of funds from operations to net income, see Funds From Operations below.



Property revenues. Substantially all of our revenue is derived from rents received from the use of our properties. We had rental income and tenant reimbursements of approximately \$8.2 million for the three months ended June 30, 2009 as compared to \$7.8 million for the three months ended June 30, 2008, an increase of \$0.4 million, or 5%. The increase is primarily attributable to the addition of our Spoerlein Commons property during January 2009.

Property expenses. Our total property expenses were \$3.3 million for the three months ended June 30, 2009, as compared to \$3.1 million for the three months ended June 30, 2008, an increase of \$0.2 million, or 6%. The primary components of operating expense are detailed in the table below (in thousands):

	Three Months Ended June 30,	
	2009	2008
Real estate taxes	\$ 1,063	\$ 925
Utilities	608	662
Contract services	548	536
Repairs and maintenance	383	659
Bad debt	246	31
Hurricane Ike repairs, net of insurance reimbursements	(51 )	-
Labor and other	471	300
Total property expenses	\$ 3,268	\$ 3,113

Increases during 2009 in real estate taxes and bad debt expense increased property expenses a total of approximately \$350,000. The increase of \$138,000 in real estate taxes is the result of increased assessed values on our properties and the addition of the Spoerlein Commons property during January 2009. Bad debt for the three months ended June 30, 2009 was \$215,000 more than the same period in 2008. The increase in bad debt is driven by slower paying tenants and abandonments. We vigorously pursue past due accounts, but expect for collection of rents to continue to be challenging for the foreseeable future. Hurricane Ike repairs, net of insurance reimbursements includes the known insurance reimbursements for six of the sixteen properties we filed claims on. We expect to settle the reimbursement amounts for the remaining ten properties during the third quarter of 2009.

Other expenses. Our other expenses were \$4.8 million for the three months ended June 30, 2009, as compared to \$5.3 million for the three months ended June 30, 2008, a decrease of \$0.5 million, or 10%. The primary components of other expense, net are detailed in the table below (in thousands):

	Three Months Ended June 30,	
	2009	2008
General and administrative	\$ 1,625	\$ 2,170
Depreciation and amortization	1,710	1,791
Interest expense	1,470	1,425
Interest income	(11 )	(39 )
Total other expenses	\$ 4,794	\$ 5,347

General and administrative. The decrease of \$0.5 million in general and administrative expense is primarily due to decreased legal fees as a result of the settlement of the litigation with Mr. Hartman and Hartman Management, L.P. in May 2008, offset by share-based compensation that was incurred in 2009 but not 2008. Legal fees were \$103,000 for the three months ended June 30, 2009, as compared to \$997,000 for the same period in 2008. Share-based compensation was \$256,000 and \$0 for the three months ended June 30, 2009 and 2008, respectively. The share-based compensation is tied to performance measures, and we expect quarterly share-based compensation expense to remain at current levels for the rest of 2009.

Depreciation and amortization. Depreciation and amortization decreased \$81,000 for the three months ended June 30, 2009, as compared to the three months ended June 30, 2008.

Interest expense, net. Interest expense for the three months ended June 30, 2009 was \$1.5 million, an increase of \$45,000 over the same period in 2008. An increase in the average outstanding note payable balance of \$21.2 million accounted for approximately \$341,000 in increased interest expense during 2009, while a lower effective interest rate of 1.1% per annum (excluding amortized loan fees) accounted for approximately \$296,000 in decreased interest expense during 2009. The decrease in interest income of approximately \$28,000 is primarily due to lower interest rates of return on our deposits.

Discontinued Operations. Discontinued operations are comprised of the two properties known as Garden Oaks and Northeast Square. The two properties were transferred to Mr. Hartman and Hartman Management, L.P. as part of a legal settlement on May 30, 2008. Below is a recap of income from discontinued operations (in thousands):

	Three Months ended June 30,	
	2009	2008
<b>Property Revenues</b>		
Rental revenues	\$ -	\$ 59
Other revenues	-	133
Total property revenues	-	192
<b>Property Expenses</b>		
Property operation and maintenance	-	109
Real estate taxes	-	87
Total property expenses	-	196
<b>Other expense</b>		
General and administrative	-	221
Depreciation and amortization	-	151
Total other expense	-	372
<b>Loss before loss on disposal of assets and income taxes</b>		
	-	(376 )
Gain on sale of properties	-	3,619
Provision for income taxes	-	(2 )
<b>Income from discontinued operations</b>	<b>\$ -</b>	<b>\$ 3,241</b>





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Comparison of the Six Month Periods Ended June 30, 2009 and 2008

The following tables provide a general comparison of our results of operations for the six months ended June 30, 2009 and 2008 (in thousands, except for aggregate gross leasable area):

	June 30, 2009	June 30, 2008
Number of properties owned and operated	36	35
Aggregate gross leasable area (sq. ft.)	3,039,300	2,957,492
Ending occupancy rate	82 %	85 %
Total property revenues	\$ 16,247	\$ 15,506
Total property expenses	6,695	6,244
Total other expenses	9,348	10,183
Provision for income taxes	111	110
Loss on disposal of assets	53	100
Income (loss) from continuing operations	40	(1,131 )
Loss from discontinued operations	-	(188 )
Gain on sale of properties from discontinued operations	-	3,619
Net income	40	2,300
Less: Net income attributable to noncontrolling interests	14	837
Net income attributable to Whitestone REIT	\$ 26	\$ 1,463
Funds from operations (1)	\$ 3,189	\$ 1,799
Dividends and distributions paid on common shares and OP Units	3,381	4,675
Per common share and OP unit	\$ 0.2250	\$ 0.3000
Dividends paid as a % of funds from operations	106 %	260 %

(1) For a reconciliation of funds from operations to net income, see Funds From Operations below.

Property revenues. We had rental income and tenant reimbursements of approximately \$16.2 million for the six months ended June 30, 2009 as compared to \$15.5 million for the six months ended June 30, 2008, an increase of \$0.7 million, or 5%. The increase is primarily attributable to the addition of our Spoerlien Commons property during January 2009.

Property expenses. Our total property expenses were \$6.7 million for the six months ended June 30, 2009, as compared to \$6.2 million for the six months ended June 30, 2008, an increase of \$0.5 million, or 8%. The primary components of operating expense are detailed in the table below (in thousands):

	Six Months Ended June 30, 2009	2008
Real estate taxes	\$ 2,112	\$ 1,933
Utilities	1,226	1,357
Contract services	1,091	1,061
Repairs and maintenance	751	972
Bad debt	464	222
Hurricane Ike repairs, net of insurance reimbursements	190	-
Labor and other	861	699
Total property expenses	\$ 6,695	\$ 6,244



Increases during 2009 in real estate taxes, bad debt expense and repairs attributable to Hurricane Ike increased property expenses by a total of approximately \$600,000. The increase of \$179,000 in real estate taxes is the result of increased assessed values on our properties and the addition of the Spoerlein Commons property during January 2009. Bad debt for the six months ended June 30, 2009 was \$242,000 more than the same period in 2008. The increase in bad debt is driven by slower paying tenants and abandonments. We vigorously pursue past due accounts, but expect for collection of rents to continue to be challenging for the foreseeable future. Hurricane Ike repairs, net of insurance reimbursements includes the known insurance reimbursements for six of the sixteen properties we filed claims on. We expect to settle the reimbursement amounts for the remaining ten properties during the third quarter of 2009.

Other expense. Our other expenses were \$9.3 million for the six months ended June 30, 2009, as compared to \$10.2 million for the six months ended June 30, 2008, a decrease of \$0.9 million, or 9%. The primary components of other expense, net are detailed in the table below (in thousands):

	Six Months Ended June 30,	
	2009	2008
General and administrative	\$ 3,054	\$ 4,133
Depreciation and amortization	3,418	3,347
Interest expense	2,898	2,827
Interest income	(22 )	(124 )
Total other expenses	\$ 9,348	\$ 10,183

General and administrative. The decrease of \$1.1 million in general and administrative expense is primarily due to decreased legal fees as a result of the settlement of the litigation with Mr. Hartman and Hartman Management, L.P. in May 2008, offset by share-based compensation that was incurred in 2009 but not 2008. Legal fees were \$166,000 for the six months ended June 30, 2009, as compared to \$1,660,000 for the same period in 2008. Share-based compensation was \$497,000 and \$0 for the six months ended June 30, 2009 and 2008, respectively.

Depreciation and amortization. Depreciation and amortization increased \$71,000 for the six months ended June 30, 2009, as compared to the six months ended June 30, 2008.

Interest expense, net. Interest expense for the six months ended June 30, 2009 was \$2,898,000, an increase of \$71,000 over the same period in 2008. An increase in the average outstanding note payable balance of \$19.6 million accounted for approximately \$640,000 in increased interest expense during 2009, while a lower effective interest rate of 1.1% per annum (excluding amortized loan fees) accounted for approximately \$569,000 in decreased interest expense during 2009. The decrease in interest income of approximately \$102,000 is primarily due to lower interest rates of return on our deposits.

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Discontinued Operations. Discontinued operations are comprised of the two properties known as Garden Oaks and Northeast Square. The two properties were transferred to Mr. Hartman and Hartman Management, L.P. as part of a legal settlement on May 30, 2008. Below is a recap of income from discontinued operations (in thousands):

	Six Months ended June 30,	
	2009	2008
<b>Property Revenues</b>		
Rental revenues	\$ -	\$ 333
Other revenues	-	225
Total property revenues	-	558
<b>Property Expenses</b>		
Property operation and maintenance	-	170
Real estate taxes	-	133
Total property expenses	-	303
<b>Other expense</b>		
General and administrative	-	221
Depreciation and amortization	-	218
Total other expense	-	439
<b>Loss before loss on disposal of assets and income taxes</b>		
	-	(184 )
Gain on sale of properties	-	3,619
Provision for income taxes	-	(4 )
<b>Income from discontinued operations</b>	<b>\$ -</b>	<b>\$ 3,431</b>

**Funds From Operations**

The National Association of Real Estate Investment Trusts (“NAREIT”) defines funds from operations (“FFO”) as net income (loss) available to common shareholders computed in accordance with U.S. generally accepted accounting principles (“GAAP”), excluding gains or losses from sales of operating real estate assets 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 GAAP net income alone as the primary measure of our operating performance. Historical cost accounting for real estate assets in accordance with 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. There can be no assurance that FFO presented by us is comparable to similarly titled measures of other REITs.

FFO should not be considered as an alternative to net income or other measurements under 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.

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Below is the calculation of FFO and the reconciliation to net income (loss), which we believe is the most comparable GAAP financial measure (in thousands):

## Reconciliation of Non-GAAP Financial Measures

	Three Months Ended June,		Six Months Ended June,	
	2009	2008	2009	2008
Net income attributable to Whitestone REIT	\$ 47	\$ 1,532	\$ 26	\$ 1,463
Depreciation and amortization of real estate assets (1)	1,549	1,567	3,096	3,017
Loss (gain) on sale or disposal of assets (1)	12	(3,551 )	53	(3,519 )
Net income attributable to noncontrolling interests	25	878	14	838
FFO	\$ 1,633	\$ 426	\$ 3,189	\$ 1,799

(1) Including amounts for discontinued operations

## Liquidity and Capital Resources

## Overview

Our primary liquidity demands are distributions to the holders of our Common Shares and holders of OP Units, capital improvements and repairs and maintenance for our properties, acquisition of additional properties, tenant improvements and debt repayments.

Primary sources of capital for funding our acquisitions and redevelopment programs are cash flows generated from operating activities, issuances of notes payable, sales of Common Shares, sales of OP Units and sales of non-core properties.

Our capital structure includes non-recourse secured debt that we assumed or originated on certain properties. We may hedge the future cash flows of certain debt transactions principally through interest rate swaps with major financial institutions.

During the six months ended June 30, 2009, our cash provided from operating activities was \$3.2 million and our total distributions were \$3.4 million. Therefore, we had distributions in excess of cash flow from operations of approximately \$0.2 million.

We anticipate that cash flows from operating activities and our borrowing capacity will provide adequate capital for our working capital requirements, anticipated capital expenditures and scheduled debt payments during the next 12 months. 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.

## Cash and Cash Equivalents

We had cash and cash equivalents of \$14.0 million as of June 30, 2009, as compared to \$13.0 million on December 31, 2008. The increase of \$1.0 million was primarily the result of the following:

## Sources of Cash

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- Proceeds of \$9.5 million from issuance of notes payable net of origination costs.
- Cash provided from operations of \$3.2 million.

Uses of Cash

- Payment of dividends and distributions of \$3.4 million to holders of Common Shares and OP Units.

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- Payment of loans of \$1.0 million.
- Additions to real estate of \$7.3 million.

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

#### Debt

Mortgages and other notes payable consist of the following (in thousands):

Description	June 30, 2009	December 31, 2008
Fixed rate notes		
\$10.0 million 6.04% Note, due 2014	\$ 9,715	\$ 9,782
\$11.2 million 6.52% Note, due 2015	11,107	11,159
\$21.4 million 6.53% Note, due 2013	20,996	21,263
\$24.5 million 6.56% Note, due 2013	24,500	24,500
\$ 9.9 million 6.63% Note, due 2014	9,881	-
\$ 0.5 million 5.05% Note, due 2009	306	40
Floating rate notes		
\$ 6.4 million LIBOR + 2.00% Note, due 2009	6,400	6,400
\$26.9 million LIBOR + 2.60% Note, due 2013	26,504	26,859
	\$ 109,409	\$ 100,003

Floating Rate Notes. On January 25, 2008, we entered into a \$6.4 million term loan agreement with KeyBank. The term loan was secured by a pledge of the partnership interests in Whitestone REIT Operating Partnership III, L.P. (“WROP III”), and Whitestone Pima Norte LLC (“WPN”), a wholly owned subsidiary of the Operating Partnership that was formed to hold title to our Pima Norte property purchased in October 2007. At June 30, 2009 and December 31, 2008, WROP III owned 13 and 17 properties, respectively, and WPN owned 1 property.

This loan contains certain financial covenants, some of which we were not in compliance with as of June 30, 2009, including the secured debt to fair market value ratio covenant. This loan was paid in full on its maturity date July 25, 2009.

Our loans are subject to customary financial covenants. As of June 30, 2009, we are in compliance with all loan covenants other than the \$6.4 million term loan described above which was paid in full on July 25, 2009.

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Annual maturities of notes payable as of June 30, 2009, are due as set forth below (in thousands):

Year	Principal
2009	\$ 7,671
2010	2,276
2011	2,402
2012	2,534
2013	66,457
2014 and thereafter	28,069
<b>Total</b>	<b>\$ 109,409</b>

### 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 we believe have potential for increasing value. We also may have unexpected capital expenditures or improvements for our existing assets. Additionally, we intend to invest in similar properties outside of Texas 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.

### Distributions

The following distributions for Common Shares and OP Units were paid or declared payable during the three months ended June 30, 2009 and the year ended December 31, 2008 (in thousands):

Period	2009 Status	2009 Amount	Per Share /OP Unit	2008 Amount	Per Share /OP Unit
January -March	Paid	\$1,687	\$0.1125	\$2,371	\$0.1500
April - June	Paid	\$1,694	\$0.1125	\$2,507	\$0.1500
July - September	Payable	\$1,775	\$0.1125	\$2,168	\$0.1500
October - December				\$1,626	\$0.1125

### Taxes

We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (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 such a manner as to qualify to be taxed as a REIT, and we intend to operate so as to remain qualified as a REIT for federal income tax purposes.

### Inflation

We anticipate that our leases will continue to be triple-net leases or otherwise provide that tenants pay for increases in operating expenses and will contain provisions that we believe will mitigate the effect of inflation. In addition, many of our leases are for terms of less than five years, which allows us to adjust rental rates to reflect inflation and other changing market conditions when the leases expire. Consequently, increases due to inflation, as well as ad valorem tax rate increases, generally do not have a significant adverse effect upon our operating results.

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.

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#### Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements as of June 30, 2009 and December 31, 2008.

#### 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 is the risk of loss arising from adverse changes in market rates and prices. The principal market risk to which we are exposed is the risk related to interest rate fluctuations. Based upon the nature of our operations, we are not subject to foreign exchange or commodity risk. We will be exposed to changes in interest rates as a result of our financial instruments consisting of loans that have floating interest rates. As of June 30, 2009, we had \$32.9 million of loans with floating interest rates. All of our financial instruments were entered into for other than trading purposes. As of June 30, 2009, we did not have a fixed rate hedge in place, leaving \$32.9 million subject to interest rate fluctuations. The impact of a 1% increase or decrease in interest rates on our debt would result in a decrease or increase of net income of approximately \$0.3 million, respectively.

#### Item 4T. 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 Rule 13a-15(e) of 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, 2009 (the end of the period covered by this Quarterly Report on Form 10-Q).

##### Changes in Internal Control Over Financial Reporting

During the quarter ended June 30, 2009, there have been no changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 condensed consolidated financial statements.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

At our annual meeting of shareholders held on May 7, 2009, our shareholders voted on the following three matters:

1. The re-election of James C. Mastandrea as trustee, to serve until the 2012 annual meeting of shareholders. The votes cast with respect to Mr. Mastandrea were as follows:

Votes For	Votes Withheld
4,720,943	1,407,011

2. The re-election of Jack L. Mahaffey as trustee, to serve until the 2012 annual meeting of shareholders. The votes cast with respect to Mr. Mahaffey were as follows:

Votes For	Votes Withheld
4,666,971	1,460,983

3. The ratification of Pannell Kerr Forster of Texas, P.C. to serve as the registered independent public accounting firm:

Votes For	Votes Against	Votes Abstain
5,605,467	315,435	207,052

Item 5. Other Information

None.



Item 6. Exhibits

The list of exhibits filed as part of this Quarterly Report on Form 10-Q in response to Item 601 of Regulation S-K is submitted on the Exhibit Index attached hereto.

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 13, 2009            /s/ James C. Mastandrea  
James C. Mastandrea  
Chief Executive Officer  
(Chief Executive Officer)

Date: August 13, 2009            /s/ David K. Holeman  
David K. Holeman  
Chief Financial Officer  
(Chief Financial and Chief Accounting Officer)



EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Amendment and Restatement of Declaration of Trust of Whitestone REIT (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)
3.2	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)
3.3	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)
4.1	Specimen certificate for common shares of beneficial interest, par value \$.001 (previously filed as and incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-11, Commission File No. 333-111674, filed on December 31, 2003)
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
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

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\* Filed herewith.

\*\* Furnished herewith.

