Blackstone Group L.P.
Form 8-K
February 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **February 13, 2018**

The Blackstone Group L.P.

(Exact name of Registrant as specified in its charter)

Delaware	**001-33551**	**20-8875684**
(State or other jurisdiction of incorporation)	***(Commission File Number)***	***(I.R.S. Employer Identification No.)***

345 Park Avenue	**10154**

New York, New York
(Address of principal executive offices) *(Zip Code)*

(212) 583-5000

(Registrant s telephone number, including area code)

NOT APPLICABLE

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On February 13, 2018, Blackstone issued a press release announcing that Jonathan D. Gray has been appointed President and Chief Operating Officer of Blackstone Group Management L.L.C., the general partner (the General Partner) of The Blackstone Group L.P. (the Partnership and, together with the General Partner, Blackstone). In connection with the appointment of Mr. Gray, which will be effective March 1, 2018, Hamilton E. James will transition from his current role as President and Chief Operating Officer and will continue in a full-time role as Executive Vice Chairman of the General Partner. Mr. Gray and Mr. James will also continue to serve as members of the board of directors of our General Partner and as members of Blackstone s Management Committee.

Mr. Gray, age 48, most recently served as Global Head of Real Estate, a position he held since 2012. Mr. Gray is also a member of the board of directors of our General Partner. Mr. Gray became a member of the board of directors of our General Partner effective February 24, 2012. He also sits on the firm s Management Committee. Since joining Blackstone in 1992, Mr. Gray has helped build the largest real estate platform in the world with $115.3 billion in investor capital under management. He was promoted to Managing Director in 2000, Senior Managing Director in 2001 and Global Co-Head of Real Estate in 2005. Mr. Gray currently serves as Chairman of the board of directors of Hilton Worldwide Holdings Inc. and Nevada Property 1 LLC (The Cosmopolitan of Las Vegas). He is also a member of the board of directors of Invitation Homes Inc. Mr. Gray also previously served as a board member of Brixmor Property Group Inc. and La Quinta Holdings Inc. He also serves on the board of Harlem Village Academies and Trinity School. Mr. Gray and his wife, Mindy, established the Basser Center for BRCA at the University of Pennsylvania School of Medicine focused on the prevention and treatment of certain genetically caused cancers. Mr. Gray received a BS in Economics from the Wharton School, as well as a BA in English from the College of Arts and Sciences at the University of Pennsylvania.

As described in our Annual Report on Form 10-K for the year ended December 31, 2016, Mr. Gray receives compensation as an employee of Blackstone and invests in and alongside Blackstone s funds. In addition, an entity currently controlled by Mr. Gray, and an entity previously jointly controlled by Mr. Gray (in which he no longer holds an interest), each wholly own aircraft that we use for business purposes in the course of our operations. Mr. Gray paid for his respective ownership interest in the aircraft himself and bore his respective share of the operating, personnel and maintenance costs associated with their operation. The hourly payments we make for such use are based on market rates.

Item 7.01 Regulation FD Disclosure.

A copy of the press release regarding the matters described above has been furnished as Exhibit 99.1 to this Current Report on Form 8-K.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Press Release, dated February 13, 2018.

SIGNATURE

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 hereunto duly authorized.

Date: February 16, 2018

The Blackstone Group L.P.
By: Blackstone Group Management L.L.C.,

its General Partner

/s/ John G. Finley
John G. Finley
Chief Legal Officer

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26,089

20,985

Distributions per common share and OP unit

$
1.1400

$
1.1400

Distributions paid as a % of funds from operations core

93
%

101
%

(1) Excludes 112,400 square feet of gross leasable area in three office buildings sold on December 31, 2014, Zeta, Royal Crest and Featherwood, located in Houston, Texas.
(2) Excludes (i) new acquisitions, through the earlier of attainment of 90% occupancy or 18 months of ownership, and (ii) properties that are undergoing significant redevelopment or re-tenanting.
(3) For an explanation and reconciliation of funds from operations to net income, see “Funds From Operations” below.
(4) For an explanation and reconciliation of property net operating income to net income, see “Property Net Operating Income” below.

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Property revenues. We had rental income and tenant reimbursements of approximately $72,382,000 for the year ended December 31, 2014 as compared to $60,492,000 for the year ended December 31, 2013, an increase of $11,890,000, or 20%. The year ended December 31, 2014 included $10,762,000 in increased revenues from New Store operations. We define "New Stores" as properties acquired since the beginning of the period being compared. For purposes of comparing the year ended December 31, 2014 to the year ended December 31, 2013, New Stores include properties acquired between January 1, 2013 and December 31, 2014. During the twelve months ended December 31, 2014, Same Store revenues increased $1,128,000 in the aggregate. We define "Same Stores" as properties owned during the entire period being compared. For purposes of comparing the year ended December 31, 2014 to the year ended December 31, 2013, Same Stores include properties owned from January 1, 2013 to December 31, 2014. Same Store average occupancy increased from 85.6% for the year ended December 31, 2013 to 86.1% for the year ended December 31, 2014, increasing Same Store revenue $303,000. The Same Store revenue rate per average leased square foot increased $0.23 for the year ended December 31, 2014 to $15.66 per average leased square foot as compared to the year ended December 31, 2013 revenue rate per average leased square foot of $15.43, increasing Same Store revenue $825,000. The revenue rate per average leased square feet is calculated by dividing the total revenue by the average square feet leased during the period.

Property expenses. Our property expenses were $25,152,000 for the year ended December 31, 2014, as compared to $22,678,000 for the year ended December 31, 2013, an increase of $2,474,000, or 11%. The primary components of total property expenses, Same Store property expenses and New Store property expenses are detailed in the tables below (in thousands):

	Year Ended December 31,		Increase	% Increase
Overall Property Expenses	2014	2013	(Decrease)	(Decrease)
Real estate taxes	$9,747	$8,599	$1,148	13 %
Utilities	4,235	3,518	717	20 %
Contract services	4,295	3,894	401	10 %
Repairs and maintenance	2,370	2,120	250	12 %
Bad debt	1,573	1,649	(76)	(5)%
Labor and other	2,932	2,898	34	1 %
Total	$25,152	$22,678	$2,474	11 %

	Year Ended December 31,		Increase	% Increase
Same Store Property Expenses	2014	2013	(Decrease)	(Decrease)
Real estate taxes	$7,703	$7,715	$(12)	— %
Utilities	3,497	3,320	177	5 %
Contract services	3,596	3,660	(64)	(2)%
Repairs and maintenance	1,973	2,035	(62)	(3)%
Bad debt	1,279	1,571	(292)	(19)%
Labor and other	2,448	2,818	(370)	(13)%
Total	$20,496	$21,119	$(623)	(3)%

	Year Ended December 31,		Increase	% Increase
New Store Property Expenses	2014	2013	(Decrease)	(Decrease)
Real estate taxes	$2,044	$884	$1,160	131 %
Utilities	738	198	540	273 %
Contract services	699	234	465	199 %
Repairs and maintenance	397	85	312	367 %
Bad debt	294	78	216	277 %
Labor and other	484	80	404	505 %
Total	$4,656	$1,559	$3,097	199 %

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Real estate taxes. Real estate taxes increased $1,148,000, or 13%, during the year ended December 31, 2014 as compared to 2013, primarily as a result of New Stores real estate taxes, which increased $1,160,000. Same Store real estate taxes decreased $12,000 for the year ended December 31, 2014 as compared to the year ended December 31, 2013. We actively work to keep our valuations and resulting taxes low because a majority of these taxes are charged to our tenants through triple net leases, and we strive to keep these charges to our tenants as low as possible.

Utilities. Utilities increased $717,000, or 20%, during the year ended December 31, 2014 as compared to 2013. The increase in utility expenses was primarily attributable to New Store increases of $540,000 for the year ended December 31, 2014. Same Store utilities expenses increased approximately $177,000, or 5%, during the year ended December 31, 2014 as compared to 2013. The majority of the Same Store increase was attributable to increased electricity usage and related charges.

Contract services. Contract services increased $401,000, or 10%, during the year ended December 31, 2014 as compared to 2013, primarily as a result of New Store contract services, which increased $465,000. Same Store contract services decreased $64,000, or 2%.

Repairs and maintenance. Repairs and maintenance increased $250,000, or 12%, during the year ended December 31, 2014 as compared to 2013. New Store repairs and maintenance increased $312,000 for the year ended December 31, 2014 as compared to 2013. Same Store repairs and maintenance decreased $62,000, or 3%, during year ended December 31, 2014 as compared to 2013.

Bad debt. Bad debt for the year ended December 31, 2014 decreased $76,000, or 5%, as compared to 2013. New Store bad debt increased $216,000 for the year ended December 31, 2014 as compared to the year ended December 31, 2013. Same Store bad debt decreased $292,000 or 19% for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The overall bad debt expense was approximately 2% of revenue for the year ended December 31, 2014 and approximately 3% of revenue for the year ended December 31, 2013. We vigorously pursue past due accounts, but expect collection of rents to continue to be challenging for the foreseeable future.

Labor and other. Labor and other expenses increased $34,000, or 1%, for year ended December 31, 2014 as compared to 2013. New Store labor and other expenses increased $404,000 for the year ended December 31, 2014 as compared to 2013. Same Store labor and other expenses decreased $370,000, or 13%, during year ended December 31, 2014 as compared to 2013.

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

	Year ended December 31,		Increase	% Increase
	2014	2013	(Decrease)	(Decrease)
Same store (48 properties)				
Property revenues				
Rental revenues	$43,585	$43,006	$579	1 %
Other revenues	12,574	12,025	549	5 %
Total property revenues	56,159	55,031	1,128	2 %
Property expenses				
Property operation and maintenance	12,793	13,394	(601)	(4)%
Real estate taxes	7,703	7,725	(22)	— %
Total property expenses	20,496	21,119	(623)	(3)%
Total same store net operating income	35,663	33,912	1,751	5 %
New store (15 properties)				
Property revenues				
Rental revenues	12,708	4,291	8,417	196 %
Other revenues	3,515	1,170	2,345	200 %
Total property revenues	16,223	5,461	10,762	197 %
Property expenses				
Property operation and maintenance	2,612	685	1,927	281 %
Real estate taxes	2,044	874	1,170	134 %
Total property expenses	4,656	1,559	3,097	199 %
Total new store net operating income	11,567	3,902	7,665	196 %
Total property net operating income	47,230	37,814	9,416	25 %
Less total other expenses, provision for income taxes and loss on disposal of assets	41,881	34,193	7,688	22 %
Income from continuing operations	5,349	3,621	1,728	48 %
Income from discontinued operations, net of taxes	2,397	298	2,099	704 %
Net income	$7,746	$3,919	$3,827	98 %

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Other expenses. Our other expenses were $41,488,000 for the year ended December 31, 2014, as compared to $33,851,000 for the year ended December 31, 2013, an increase of $7,637,000, or 23%. The primary components of other expenses, net are detailed in the table below (in thousands):

	Year Ended December 31,		Increase	% Increase
	2014	2013	(Decrease)	(Decrease)
General and administrative	$15,274	$10,912	$4,362	40 %
Depreciation and amortization	15,725	13,100	2,625	20 %
Interest expense	10,579	9,975	604	6 %
Interest, dividend and other investment income	(90)	(136)	46	(34)%
Total other expenses	$41,488	$33,851	$7,637	23 %

General and administrative. General and administrative expenses increased approximately $4,362,000, or 40%, for the year ended December 31, 2014 as compared to 2013. The increase in general and administrative expenses included increased share-based compensation costs of $2,381,000, increased payroll costs of $1,601,000, increased acquisition costs of $176,000, increased office expenses of $113,000 and increased other expenses of $91,000.

Total compensation recognized in earnings for share-based payments for the years ended December 31, 2014 and 2013 was $4.7 million and $2.3 million, respectively. Based on our current financial projections, we expect approximately 81% of the unvested awards to vest over the next 54 months. As of December 31, 2014, there was approximately $15.7 million, in unrecognized compensation cost related to outstanding non-vested performance-based shares, which are expected to vest over a period of 54 months and approximately $0.8 million in unrecognized compensation cost related to outstanding non-vested time-based shares, which are expected to be recognized over a period of approximately 27 months beginning on January 1, 2015.

We expect to record approximately $16.5 million in share-based compensation subsequent to the year ended December 31, 2014. The unrecognized share-based compensation cost is expected to vest over a weighted average period of 38 months. The dilutive impact of the performance-based shares will be included in the denominator of the earnings per share calculation beginning in the period that the performance conditions are expected to be met.

Depreciation and amortization. Depreciation and amortization increased $2,625,000, or 20%, for the year ended December 31, 2014 as compared to 2013. New Store depreciation increased $1,901,000 and Same Store depreciation increased $667,000. The increase in Same Store depreciation is attributable to redevelopment and re-tenanting investments. Depreciation on corporate assets and amortization of commission costs increased $57,000.

Interest expense. Interest expense increased $604,000, or 6%, for the year ended December 31, 2014 as compared to 2013. An increase in our average outstanding notes payable balance of $59,113,000 accounted for $2,176,000 in increased interest expense, offset by a decrease in our effective interest rate to 3.26% for the year ended December 31, 2014 versus 3.68% for the year ended December 31, 2013, resulting in a $1,255,000 decrease in interest expense. Early extinguishment of debt fees of $169,000 incurred during the twelve months ended December 31, 2013 and decreased amortized loan fees of $148,000 both decreased interest expense for the year ended December 31, 2014 as compared to the year ended December 31, 2013.

Interest, dividend and other investment income. Interest, dividend and other investment income decreased $46,000, or 34%, for the year ended December 31, 2014 as compared to 2013. During the year ended December 31, 2014, our gains on sales of investments in available-for-sale securities decreased $41,000, our dividend income decreased $12,000 and our interest income increased $7,000 as compared to the amounts realized during the year ended December 31, 2013.

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

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

	Year Ended December 31,	
	2014	2013
Property revenues		
Rental revenues	$1,560	$1,565
Other revenues	66	88
Total property revenues	1,626	1,653
Property expenses		
Property operation and maintenance	562	664
Real estate taxes	172	168
Total property expenses	734	832
Other expenses		
Interest expense	314	329
Depreciation and amortization	58	175
Total other expense	372	504
Income before loss on disposal of assets and income taxes	520	317
Provision for income taxes	(10)	(12)
Gain (loss) on sale or disposal of property or assets in discontinued operations	1,887	(7)
Income from discontinued operations	$2,397	$298

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Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

The following table provides a general comparison of our results of operations for the years ended December 31, 2013 and December 31, 2012 (dollars in thousands, except per share data):

	Year Ended December 31,			
	2013		2012	
Number of properties owned and operated[1]	57		48	
Aggregate gross leasable area (sq. ft.)	4,853,930		4,162,291	
Ending occupancy rate - operating portfolio[2]	88	%	87	%
Ending occupancy rate - all properties	87	%	85	%
Total property revenues	$60,492		$44,994	
Total property expenses	22,678		16,842	
Total other expenses	33,851		27,945	
Provision for income taxes	293		275	
Loss on disposal of assets	49		97	
Income (loss) from continuing operations	3,621		(165	)
Income from discontinued operations, net of taxes	298		218	
Net income	3,919		53	
Less: Net income attributable to noncontrolling interests	125		3	
Net income attributable to Whitestone REIT	$3,794		$50	
Funds from operations core[3]	$20,796		$13,742	
Property net operating income [4]	37,814		28,152	
Distributions paid on common shares and OP units	20,985		16,328	
Distributions per common share and OP unit	$1.1400		$1.1400	
Distributions paid as a % of funds from operations core	101	%	119	%

(1) Excludes 112,400 square feet of gross leasable area in three office buildings sold on December 31, 2014, Zeta, Royal Crest and Featherwood, located in Houston, Texas.
(2) Excludes (i) new acquisitions, through the earlier of attainment of 90% occupancy or 18 months of ownership, and (ii) properties that are undergoing significant redevelopment or re-tenanting.
(3) For an explanation and reconciliation of funds from operations to net income, see “Funds From Operations” below.
(4) For an explanation and reconciliation of property net operating income to net income, see “Property Net Operating Income” below.

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Property revenues. We had rental income and tenant reimbursements of approximately $60,492,000 for the year ended December 31, 2013 as compared to $44,994,000 for the year ended December 31, 2012, an increase of $15,498,000, or 34%. The year ended December 31, 2013 included $15,178,000 in increased revenues from New Store operations. We define “New Stores” as properties acquired since the beginning of the period being compared. For purposes of comparing the year ended December 31, 2013 to the year ended December 31, 2012, New Stores include properties acquired between January 1, 2012 and December 31, 2013. During the twelve months ended December 31, 2013, Same Store revenues increased $320,000 in the aggregate. We define “Same Stores” as properties owned during the entire period being compared. For purposes of comparing the year ended December 31, 2013 to the year ended December 31, 2012, Same Stores include properties owned from January 1, 2013 to December 31, 2014. Same Store average occupancy increased from 85.2% for the year ended December 31, 2012 to 86.9% for the year ended December 31, 2013, increasing Same Store revenue $805,000. The Same Store revenue rate per average leased square foot decreased $0.16 for the year ended December 31, 2013 to $13.90 per average leased square foot as compared to the year ended December 31, 2012 revenue rate per average leased square foot of $14.06, decreasing Same Store revenue $485,000. The revenue rate per average leased square feet is calculated by dividing the total revenue by the average square feet leased during the period.

Property expenses. Our property expenses were $22,678,000 for the year ended December 31, 2013, as compared to $16,842,000 for the year ended December 31, 2012, an increase of $5,836,000, or 35%. The primary components of total property expenses, Same Store property expenses and New Store property expenses are detailed in the tables below (in thousands):

	Year Ended December 31,		Increase	% Increase
Overall Property Expenses	2013	2012	(Decrease)	(Decrease)
Real estate taxes	$8,599	$6,215	$2,384	38 %
Utilities	3,518	2,858	660	23 %
Contract services	3,894	2,765	1,129	41 %
Repairs and maintenance	2,120	1,680	440	26 %
Bad debt	1,649	986	663	67 %
Labor and other	2,898	2,338	560	24 %
Total	$22,678	$16,842	$5,836	35 %

	Year Ended December 31,		Increase	% Increase
Same Store Property Expenses	2013	2012	(Decrease)	(Decrease)
Real estate taxes	$5,885	$5,665	$220	4 %
Utilities	2,765	2,710	55	2 %
Contract services	2,810	2,535	275	11 %
Repairs and maintenance	1,578	1,557	21	1 %
Bad debt	1,269	856	413	48 %
Labor and other	2,143	2,245	(102)	(5)%
Total	$16,450	$15,568	$882	6 %

	Year Ended December 31,		Increase	% Increase
New Store Property Expenses	2013	2012	(Decrease)	(Decrease)
Real estate taxes	$2,714	$550	$2,164	393 %
Utilities	753	148	605	409 %
Contract services	1,084	230	854	371 %
Repairs and maintenance	542	123	419	341 %
Bad debt	380	130	250	192 %
Labor and other	755	93	662	712 %
Total	$6,228	$1,274	$4,954	389 %

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Real estate taxes. Real estate taxes increased $2,384,000, or 38%, during the year ended December 31, 2013 as compared to 2012, primarily as a result of New Stores real estate taxes, which increased $2,164,000. Same Store real estate taxes increased $220,000 for the year ended December 31, 2013 as compared to the year ended December 31, 2012. The Same Store increase was primarily attributable to increases in 2013 property values of several of our Houston properties. We actively work to keep our valuations and resulting taxes low because a majority of these taxes are charged to our tenants through triple net leases, and we strive to keep these charges to our tenants as low as possible.

Utilities. Utilities increased $660,000, or 23%, during the year ended December 31, 2013 as compared to 2012. The increase in utility expenses was primarily attributed to New Store increases of $605,000 for the year ended December 31, 2013. Same Store utilities expenses increased approximately $55,000 during the year ended December 31, 2013 as compared to 2012. The majority of the Same Store increase was attributable to electricity usage and related charges.

Contract services. Contract services increased $1,129,000, or 41%, during the year ended December 31, 2013 as compared to 2012, primarily as a result of New Store contract services, which increased $854,000. Same Store contract services increased $275,000, or 11%.

Repairs and maintenance. Repairs and maintenance increased $440,000, or 26%, during the year ended December 31, 2013 as compared to 2012. New Store repairs and maintenance increased $419,000 for the year ended December 31, 2013 as compared to 2012. Same Store repairs and maintenance increased $21,000, or 1%, during year ended December 31, 2013 as compared to 2012.

Bad debt. Bad debt for the year ended December 31, 2013 increased $663,000, or 67%, as compared to 2012. The increase for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was comprised of $250,000 from New Store bad debt and $413,000 from Same Store bad debt. The overall bad debt expense was approximately 3% of revenue for the year ended December 31, 2013 and approximately 2% of revenue for the year ended December 31, 2012. We vigorously pursue past due accounts, but expect collection of rents to continue to be challenging for the foreseeable future.

Labor and other. Labor and other expenses increased $560,000, or 24%, for year ended December 31, 2013 as compared to 2012. New Store labor and other expenses increased $662,000 for the year ended December 31, 2013 as compared to 2012. Same Store labor and other expenses decreased $102,000, or 5%, during year ended December 31, 2013 as compared to 2012.

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

	Year ended December 31, 2013	2012	Increase (Decrease)	% Increase (Decrease)
Same store (42 properties)				
Property revenues				
Rental revenues	$32,667	$31,997	$670	2 %
Other revenues	9,439	9,789	(350)	(4)%
Total property revenues	42,106	41,786	320	1 %
Property expenses				
Property operation and maintenance	10,552	9,884	668	7 %
Real estate taxes	5,898	5,684	214	4 %
Total property expenses	16,450	15,568	882	6 %
Total same store net operating income	25,656	26,218	(562)	(2)%
New store (15 properties)				
Property revenues				
Rental revenues	14,630	2,601	12,029	462 %
Other revenues	3,756	607	3,149	519 %
Total property revenues	18,386	3,208	15,178	473 %
Property expenses				
Property operation and maintenance	3,527	743	2,784	375 %
Real estate taxes	2,701	531	2,170	409 %
Total property expenses	6,228	1,274	4,954	389 %
Total new store net operating income	12,158	1,934	10,224	529 %
Total property net operating income	37,814	28,152	9,662	34 %
Less total other expenses, provision for income taxes and loss on disposal of assets	34,193	28,317	5,876	21 %
Income (loss) from continuing operations	3,621	(165)	3,786	(2,295)%
Income from discontinued operations, net of taxes	298	218	80	37 %
Net income	$3,919	$53	$3,866	7,294 %

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Other expenses. Our other expenses were $33,851,000 for the year ended December 31, 2013, as compared to $27,945,000 for the year ended December 31, 2012, an increase of $5,906,000, or 21%. The primary components of other expenses, net are detailed in the table below (in thousands):

	Year Ended December 31,		Increase	% Increase
	2013	2012	(Decrease)	(Decrease)
General and administrative	$10,912	$7,616	$3,296	43 %
Depreciation and amortization	13,100	9,889	3,211	32 %
Executive relocation expense	—	2,177	(2,177)	(100)%
Interest expense	9,975	8,553	1,422	17 %
Interest, dividend and other investment income	(136)	(290)	154	(53)%
Total other expenses	$33,851	$27,945	$5,906	21 %

General and administrative. General and administrative expenses increased approximately $3,296,000, or 43%, for the year ended December 31, 2013 as compared to 2012. The increase in general and administrative expenses included increased share-based compensation costs of $1,573,000, increased payroll of costs of $732,000, increased office expenses of $368,000, increased travel expenses of $316,000, increased legal fees of $240,000 and increased other expenses of $67,000. The increase in share-based compensation is due to expense related to additional employee grants and expenses related to the expected vesting of performance-based shares. As of December 31, 2013, there was approximately $1.9 million in unrecognized compensation cost related to outstanding nonvested performance-based and time-based shares that are expected to be recognized over a weighted-average period of approximately 13 months.

Executive relocation expense. The executive relocation expense of $2,177,000 for the year ended December 31, 2012 relates to the disposition of an executive's residence and our obligation to pay certain expenses incurred in connection therewith pursuant to the relocation arrangement entered into with such executive. See Note 12 to the accompanying consolidated financial statements for further discussion.

Depreciation and amortization. Depreciation and amortization increased $3,211,000, or 32%, for the year ended December 31, 2013 as compared to 2012. New Store depreciation increased $2,385,000 and Same Store depreciation increased $804,000. The increase in Same Store depreciation is attributable to redevelopment and re-tenanting investments. Depreciation on corporate assets and amortization of commission costs increased $22,000.

Interest expense. Interest expense increased $1,422,000, or 17%, for the year ended December 31, 2013 as compared to 2012. An increase in our average outstanding notes payable balance of $88,818,000 accounted for $4,491,000 in increased interest expense, offset by a decrease in our effective interest rate to 3.68% for the year ended December 31, 2013 versus 5.06% for the year ended December 31, 2012, resulting in a $3,271,000 decrease in interest expense. Early extinguishment of debt fees of $169,000 and increased amortized loan fees of $33,000 both increased interest expense for the year ended December 31, 2013 as compared to the year ended December 31, 2012.

Interest, dividend and other investment income. Interest, dividend and other investment income decreased $154,000, or 53%, for the year ended December 31, 2013 as compared to 2012. During the year ended December 31, 2013, our gains on sales of investments in available-for-sale securities decreased $70,000, our dividend income decreased $122,000 and our interest income increased $38,000 as compared to the amounts realized during the year ended December 31, 2012.

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

	Year Ended December 31,	
	2013	2012
Property revenues		
Rental revenues	$1,565	$1,533
Other revenues	88	27
Total property revenues	1,653	1,560
Property expenses		
Property operation and maintenance	664	628
Real estate taxes	168	169
Total property expenses	832	797
Other expenses		
Interest expense	329	340
Depreciation and amortization	175	179
Total other expense	504	519
Income before loss on disposal of assets and income taxes	317	244
Provision for income taxes	(12)	(15)
Loss on disposal of assets in discontinued operations	(7)	(11)
Income from discontinued operations	$298	$218

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Reconciliation of Non-GAAP Financial Measures

Funds From Operations (“FFO”)

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

Management uses FFO as a supplemental measure to conduct and evaluate our business because there are certain limitations associated with using U.S. GAAP net income (loss) alone as the primary measure of our operating performance.

Historical cost accounting for real estate assets in accordance with U.S. GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Because real estate values instead have historically risen or fallen with market conditions, management believes that the presentation of operating results for real estate companies that use historical cost accounting is insufficient by itself. In addition, securities analysts, investors and other interested parties use FFO as the primary metric for comparing the relative performance of equity REITs.

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

FFO Core

Management believes that the computation of FFO in accordance with NAREIT's definition includes certain items that are not indicative of the results provided by our operating portfolio and affect the comparability of our period-over-period performance. These items include, but are not limited to, legal settlements, non-cash share-based compensation expense, rent support agreement payments received from sellers on acquired assets and acquisition costs. Therefore, in addition to FFO, management uses FFO Core, which we define to exclude such items. Management believes that these adjustments are appropriate in determining FFO Core as they are not indicative of the operating performance of our assets. In addition, we believe that FFO Core is a useful supplemental measure for the investing community to use in comparing us to other REITs as many REITs provide some form of adjusted or modified FFO. However, there can be no assurance that FFO Core presented by us is comparable to the adjusted or modified FFO of other REITs.

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

	Year Ended December 31,		
	2014	2013	2012
FFO AND FFO CORE			
Net income attributable to Whitestone REIT	$7,586	$3,794	$50
Depreciation and amortization of real estate assets [1]	15,950	13,339	10,108
Loss (gain) on disposal or sale of assets [1]	(1,776)	56	112
Net income attributable to noncontrolling interests [1]	160	125	3
FFO	$21,920	$17,314	$10,273

Share-based compensation expense	$4,736	$2,284	$725
Acquisition costs	1,341	1,010	698
Rental support payments received	156	188	—
Relocation arrangement	—	—	2,177
Legal recoveries, net	—	—	(131)
FFO Core	$28,153	$20,796	$13,742

(1) Inlcudes amounts from discontinued operations.

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Property Net Operating Income ("NOI")

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

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

	Year Ended December 31,		
PROPERTY NET OPERATING INCOME ("NOI")	2014	2013	2012
Net income attributable to Whitestone REIT	$7,586	$3,794	$50
General and administrative expenses	15,274	10,912	7,616
Depreciation and amortization	15,725	13,100	9,889
Executive relocation expense	—	—	2,177
Interest expense	10,579	9,975	8,553
Interest, dividend and other investment income	(90)	(136)	(290)
Provision for income taxes	282	293	275
Loss on sale or disposal of assets	111	49	97
Income from discontinued operations	(510)	(298)	(218)
Gain on sale of property	(1,887)	—	—
Net income attributable to noncontrolling interests	160	125	3
NOI	$47,230	$37,814	$28,152

Taxes

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

Inflation

We anticipate that the majority of 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.

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Off-Balance Sheet Arrangements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

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

Fixed Interest Rate Debt

As of December 31, 2014, $224.0 million, or approximately 57%, of our outstanding debt was subject to fixed interest rates, which limit the risk of fluctuating interest rates. Though a change in the market interest rates affects the fair market value, it does not impact net income to shareholders or cash flows. Our total outstanding fixed interest rate debt has an average effective interest rate at this time of approximately 3.81% per annum with expirations ranging from 2014 to 2024 (see Note 8 to our accompanying consolidated financial statements for further detail). Holding other variables constant, a 1% increase or decrease in interest rates would cause a $9.8 million decline or increase, respectively, in the fair value for our fixed rate debt.

Variable Interest Rate Debt

As of December 31, 2014, $170.1 million, or approximately 43%, of our outstanding debt was subject to floating interest rates of LIBOR plus 1.35% to 1.95% and not currently subject to a hedge. The impact of a 1% increase or decrease in interest rates on our floating rate debt would result in a decrease or increase, respectively, of annual net income of approximately $1.7 million.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item 8 is incorporated by reference to our Financial Statements beginning on page F-1 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this Annual Report on Form 10-K, as of December 31, 2014, an evaluation was performed under the supervision and with the participation of the Company's management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. In performing this evaluation, management reviewed the selection, application and monitoring of our historical accounting policies. Based on that evaluation, the CEO and CFO concluded that as of December 31, 2014, these disclosure controls and procedures were effective and designed to ensure that the information required to be disclosed in our reports filed with the SEC is recorded, processed, summarized and reported on a timely basis. In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Management is required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

The Company's independent registered public accounting firm has issued a report on the effectiveness of the Company's internal control over financial reporting, which appears on page F-3 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There have been no changes during the Company's quarter ended December 31, 2014, in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

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PART III

Item 10. Trustees, Executive Officers and Corporate Governance.

The information required by Item 10 of Form 10-K is incorporated herein by reference to such information as set forth in the definitive proxy statement for our 2015 annual meeting of shareholders.

Item 11. Executive Compensation.

The information required by Item 11 of Form 10-K is incorporated herein by reference to such information as set forth in the definitive proxy statement for our 2015 annual meeting of shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

The following table provides information regarding our equity compensation plans as of December 31, 2014:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	— (1)	$—	629,178 (2)
Equity compensation plans not approved by security holders	—	—	— (3)
Total	—	$—	629,178

(1) Excludes 3,119,221 common shares subject to outstanding restricted common share units granted pursuant to our 2008 Long-Term Equity Incentive Ownership Plan, as amended (the "Plan").

(2) Pursuant the Plan, the maximum aggregate number of common shares that may be issued under the Plan will be increased upon each issuance of common shares by the Company 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 the Company and OP units issued and outstanding (other than units issued to or held by the Company).

(3) Excludes 8,333 restricted common shares issued to trustees outside the Plan.

The remaining information required by Item 12 of Form 10-K is incorporated by reference to such information as set forth in the definitive proxy statement for our 2015 annual meeting of shareholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 of Form 10-K is incorporated herein by reference to such information as set forth in the definitive proxy statement for our 2015 annual meeting of shareholders.

Item 14. Principal Accountant Fees and Services.

The information required by Item 14 of Form 10-K is incorporated herein by reference to such information as set forth in the definitive proxy statement for our 2015 annual meeting of shareholders.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

1. Financial Statements. The list of our financial statements filed as part of this Annual Report on Form 10-K is set forth on page F-1 herein.

2. Financial Statement Schedules.

a. Schedule II - Valuation and Qualifying Accounts

b. Schedule III - Real Estate and Accumulated Depreciation

All other financial statement schedules have been omitted because the required information of such schedules is not present, is not present in amounts sufficient to require a schedule or is included in the consolidated financial statements.

3. Exhibits. The list of exhibits filed as part of this Annual Report on Form 10-K in response to Item 601 of Regulation S-K is submitted on the Exhibit Index attached hereto and incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 2, 2015	By:	/s/ James C. Mastandrea James C. Mastandrea, Chairman and CEO

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints James C. Mastandrea and David K. Holeman, and each of them, acting individually, as his attorney-in-fact, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

March 2, 2015	/s/ James C. Mastandrea James C. Mastandrea, Chairman and CEO (Principal Executive Officer)
March 2, 2015	/s/ David K. Holeman David K. Holeman, Chief Financial Officer (Principal Financial and Principal Accounting Officer)
March 2, 2015	/s/ Daryl J. Carter Daryl J. Carter, Trustee
March 2, 2015	/s/ Donald F. Keating Donald F. Keating, Trustee
March 2, 2015	/s/ Paul T. Lambert Paul T. Lambert, Trustee
March 2, 2015	/s/ Jack L. Mahaffey Jack L. Mahaffey, Trustee

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of
Whitestone REIT:

We have audited the accompanying consolidated balance sheets of Whitestone REIT and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2014. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedules as listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Whitestone REIT and subsidiaries as of December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the years in the three year period ended December 31, 2014 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Whitestone REIT and subsidiaries' internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 2, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Pannell Kerr Forster of Texas, P.C.

Houston, Texas
March 2, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of
Whitestone REIT:

We have audited the internal control over financial reporting of Whitestone REIT and subsidiaries (the “Company”) as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Whitestone REIT and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2014, and our report dated March 2, 2015, expressed an unqualified opinion on those consolidated financial statements.

/s/ Pannell Kerr Forster of Texas, P.C.

Houston, Texas
March 2, 2015

Whitestone REIT and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 31, 2014	2013
ASSETS		
Real estate assets, at cost		
Property	$673,655	$537,872
Accumulated depreciation	(71,587)	(63,112)
Total real estate assets	602,068	474,760
Cash and cash equivalents	4,236	6,491
Marketable securities	973	877
Escrows and acquisition deposits	4,092	2,094
Accrued rents and accounts receivable, net of allowance for doubtful accounts	11,834	9,768
Unamortized lease commissions and loan costs	8,879	6,143
Prepaid expenses and other assets	2,215	2,085
Other assets - discontinued operations	—	5,756
Total assets	$634,297	$507,974
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable	$394,093	$261,372
Accounts payable and accrued expenses	15,882	12,500
Tenants' security deposits	4,372	3,472
Dividends and distributions payable	6,627	6,418
Other liabilities - discontinued operations	—	3,297
Total liabilities	420,974	287,059
Commitments and contingencies:	—	—
Equity:		
Preferred shares, $0.001 par value per share; 50,000,000 shares authorized; none issued and outstanding as of December 31, 2014 and December 31, 2013, respectively	—	—
Common shares, $0.001 par value per share; 400,000,000 shares authorized; 22,835,695 and 21,943,700 issued and outstanding as of December 31, 2014 and December 31, 2013, respectively	23	22
Additional paid-in capital	304,078	291,571
Accumulated deficit	(93,938)	(75,721)
Accumulated other comprehensive loss	(91)	(54)
Total Whitestone REIT shareholders' equity	210,072	215,818
Noncontrolling interest in subsidiary	3,251	5,097
Total equity	213,323	220,915
Total liabilities and equity	$634,297	$507,974

See the accompanying notes to consolidated financial statements.

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Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands, except per share data)

	Year Ended December 31,		
	2014	2013	2012
Property revenues			
Rental revenues	$56,293	$47,297	$34,598
Other revenues	16,089	13,195	10,396
Total property revenues	72,382	60,492	44,994
Property expenses			
Property operation and maintenance	15,405	14,079	10,627
Real estate taxes	9,747	8,599	6,215
Total property expenses	25,152	22,678	16,842
Other expenses (income)			
General and administrative	15,274	10,912	7,616
Depreciation and amortization	15,725	13,100	9,889
Executive relocation expense	—	—	2,177
Interest expense	10,579	9,975	8,553
Interest, dividend and other investment income	(90)	(136)	(290)
Total other expense	41,488	33,851	27,945
Income from continuing operations before loss on sale or disposal of assets and income taxes	5,742	3,963	207
Provision for income taxes	(282)	(293)	(275)
Loss on sale or disposal of assets	(111)	(49)	(97)
Income (loss) from continuing operations	5,349	3,621	(165)
Income from discontinued operations	510	298	218
Gain on sale of property from discontinued operations	1,887	—	—
Income from discontinued operations	2,397	298	218
Net income	7,746	3,919	53
Less: Net income attributable to noncontrolling interests	160	125	3
Net income attributable to Whitestone REIT	$7,586	$3,794	$50

See the accompanying notes to consolidated financial statements.

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Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands, except per share data)

	Year Ended December 31, 2014	2013	2012
Basic Earnings Per Share:			
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.23	$0.19	$(0.01)
Income from discontinued operations attributable to Whitestone REIT	0.10	0.02	$0.01
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$0.33	$0.21	$0.00
Diluted Earnings Per Share:			
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.22	$0.19	$(0.01)
Income from discontinued operations attributable to Whitestone REIT	0.10	0.01	$0.01
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$0.32	$0.20	$0.00
Weighted average number of common shares outstanding:			
Basic	22,278	18,027	13,496
Diluted	22,793	18,273	13,613
Distributions declared per common share / OP unit	$1.1400	$1.1400	$1.1400
Consolidated Statements of Comprehensive Income			
Net income	$7,746	$3,919	$53
Other comprehensive gain (loss)			
Unrealized gain (loss) on cash flow hedging activities	(136)	173	1
Unrealized gain on available-for-sale marketable securities	96	180	920
Comprehensive income	7,706	4,272	974
Less: Comprehensive income attributable to noncontrolling interests	160	136	57
Comprehensive income attributable to Whitestone REIT	$7,546	$4,136	$917

See the accompanying notes to consolidated financial statements.

Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands, except per share and unit data)

	Common Shares		Additional		Accumulated Other	Total	Noncontrolling Interests		
			Paid-in	Accumulated	Comprehensive	Shareholders'			Total
	Shares	Amount	Capital	Deficit	Loss	Equity	Units	Dollars	Equity
Balance, December 31, 2011	11,438	$10	$158,127	$(41,060)	$(1,119)	$115,958	1,361	$14,749	$130,707
Exchange of noncontrolling interest OP units for common shares	676	1	7,272	—	(127)	7,146	(676)	(7,146)	—
Exchange offer costs	—	—	(479)	—	—	(479)	—	—	(479)
Issuance of common shares [(1)]	4,830	5	58,674	—	(13)	58,666	—	13	58,679
Issuance of common shares under dividend reinvestment plan	7	—	90	—	—	90	—	—	90
Shared-based compensation	(8)	—	553	—	—	553	—	—	553
Distributions	—	—	—	(16,820)	—	(16,820)	—	(817)	(17,637)
Unrealized gain on change in fair value of cash flow hedge	—	—	—	—	1	1	—	—	1
Unrealized gain on change in fair value of available-for sale marketable securities	—	—	—	—	866	866	—	54	920
Net income	—	—	—	50	—	50	—	3	53
Balance, December 31,	16,943	16	224,237	(57,830)	(392)	166,031	685	6,856	172,887

2012

Exchange of noncontrolling interest OP units for common shares	123	1	1,236	—	(3)	1,234	(123)	(1,234)	—
Exchange offer costs	—	—	(40)	—	—	(40)	—	—	(40)
Issuance of common shares - ATM Program (2)	282	—	4,191	—	—	4,191	—	—	4,191
Issuance of common shares under dividend reinvestment plan	7	—	99	—	—	99	—	—	99
Issuance of common shares - overnight offering (3)	4,600	5	59,691	—	—	59,696	—	—	59,696
Share-based compensation	(11)	—	2,157	—	—	2,157	—	—	2,157
Distributions	—	—	—	(21,685)	—	(21,685)	—	(662)	(22,347)
Unrealized gain on change in fair value of cash flow hedge	—	—	—	—	167	167	—	6	173
Unrealized gain on change in fair value of available-for sale marketable securities	—	—	—	—	174	174	—	6	180
Net income	—	—	—	3,794	—	3,794	—	125	3,919
Balance, December 31, 2013	21,944	22	291,571	(75,721)	(54)	215,818	562	5,097	220,915
Exchange of noncontrolling interest OP units for common shares	164	1	1,484	—	2	1,487	(164)	(1,487)	—

Exchange offer costs	—	—	(136)	—	—	(136)	—	—	(136)
Issuance of common shares - ATM Program [4]	456	—	6,458	—	—	6,458	—	—	6,458
Issuance of common shares under dividend reinvestment plan	7	—	94	—	—	94	—	—	94
Repurchase of common shares [5]	(2)	—	(24)	—	—	(24)	—	—	(24)
Share-based compensation	267	—	4,631	—	—	4,631	—	—	4,631
Distributions	—	—	—	(25,803)	—	(25,803)	—	(518)	(26,321)
Unrealized loss on change in fair value of cash flow hedge	—	—	—	—	(133)	(133)	—	(3)	(136)
Unrealized gain on change in fair value of available-for sale marketable securities	—	—	—	—	94	94	—	2	96
Net income	—	—	—	7,586	—	7,586	—	160	7,746
Balance, December 31, 2014	22,836	$23	$304,078	$(93,938)	$(91)	$210,072	398	$3,251	$213,323

[1] Net of offering costs of $3.1 million.
[2] Net of offering costs of $0.2 million.
[3] Net of offering costs of $2.6 million.
[4] Net of offering costs of $0.1 million.
[5] During the year ended December 31, 2014, the Company acquired common shares held by employees who tendered owned common shares to satisfy the tax withholding on the lapse of certain restrictions on restricted shares.

See the accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income (loss) from continuing operations	$5,349	$3,621	$(165)
Net income from discontinued operations	2,397	298	218
Net income	7,746	3,919	53
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,725	13,100	9,889
Amortization of deferred loan costs	899	1,046	1,426
Amortization of notes payable discount	304	463	317
Gain on sale of marketable securities	—	(41)	(110)
Loss on sale or disposal of assets and properties	111	49	97
Bad debt expense	1,602	1,638	986
Share-based compensation	4,631	2,284	725
Changes in operating assets and liabilities:			
Escrows and acquisition deposits	(1,998)	4,920	(1,103)
Accrued rent and accounts receivable	(3,668)	(3,589)	(2,906)
Related party receivable	—	652	(652)
Unamortized lease commissions	(1,526)	(1,170)	(943)
Prepaid expenses and other assets	605	938	(506)
Accounts payable and accrued expenses	2,257	(1,242)	2,754
Tenants' security deposits	900	561	798
Net cash provided by operating activities	25,191	23,230	10,607
Net cash provided by operating activities of discontinued operations	450	654	611
Cash flows from investing activities:			
Acquisitions of real estate	(129,439)	(119,102)	(98,350)
Additions to real estate	(9,330)	(6,138)	(10,664)
Investments in marketable securities	—	—	(750)
Proceeds from sales of marketable securities	—	747	5,508
Net cash used in investing activities	(138,769)	(124,493)	(104,256)
Net cash provided by (used in) investing activities of discontinued operations	7,311	(153)	(151)
Cash flows from financing activities:			
Distributions paid to common shareholders	(25,539)	(20,294)	(15,324)
Distributions paid to OP unit holders	(550)	(691)	(1,004)
Proceeds from issuance of common shares, net of offering costs	6,458	63,887	58,679
Payments of exchange offer costs	(136)	(40)	(479)
Proceeds from revolving credit facility, net	85,300	65,800	58,000
Proceeds from notes payable	47,300	105,710	—
Repayments of notes payable	(3,306)	(110,829)	(4,112)
Payments of loan origination costs	(3,036)	(2,796)	(1,688)
Repurchase of common shares	(24)	—	—
Net cash provided by financing activities	106,467	100,747	94,072
Net cash used in financing activities of discontinued operations	(2,905)	(38)	(34)
Net increase (decrease) in cash and cash equivalents	(2,255)	(53)	849
Cash and cash equivalents at beginning of period	6,491	6,544	5,695

Cash and cash equivalents at end of period	$4,236	$6,491	$6,544

See the accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Supplemental disclosure of cash flow information:			
Cash paid for interest	$9,562	$9,179	$7,137
Cash paid for taxes	$238	$237	$326
Non cash investing and financing activities:			
Disposal of fully depreciated real estate	$6,092	$278	$—
Financed insurance premiums	$888	$883	$856
Value of shares issued under dividend reinvestment plan	$94	$99	$90
Acquired interest rate swap	$—	$—	$1,901
Debt discount on acquired note payable	$—	$—	$(1,329)
Value of common shares exchanged for OP units	$1,484	$1,236	$7,272
Change in fair value of available-for-sale securities	$96	$180	$920
Change in fair value of cash flow hedge	$(136)	$173	$1
Debt assumed with acquisitions of real estate	$2,586	$11,100	$9,166
Interest supplement assumed with acquisition of real estate	$—	$932	$—

See the accompanying notes to consolidated financial statements.

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WHITESTONE REIT AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2014

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Whitestone REIT ("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, we changed our state of organization from Texas to Maryland pursuant to a merger where we merged directly with and into a Maryland real estate investment trust formed for the sole purpose of the reorganization and the conversion of each of our outstanding common shares of beneficial interest of the Texas entity into 1.42857 common shares of beneficial interest of the Maryland entity. We serve as the general partner of Whitestone REIT Operating Partnership, L.P. (the "Operating Partnership" or "WROP" or "OP"), which was formed on December 31, 1998 as a Delaware limited partnership. We currently conduct substantially all of our operations and activities through the Operating Partnership. As the general partner of the Operating Partnership, we have the exclusive power to manage and conduct the business of the Operating Partnership, subject to certain customary exceptions. As of December 31, 2014, 2013 and 2012, we owned and operated 63, 60, and 51 properties, respectively, including retail, warehouse and office properties 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 December 31, 2014, 2013 and 2012, we owned a majority of the partnership interests in the Operating Partnership. Consequently, the accompanying consolidated financial statements include the accounts of the Operating Partnership. All significant inter-company balances have been eliminated. Noncontrolling interest in the accompanying consolidated financial statements represents the share of equity and earnings of the Operating Partnership allocable to holders of partnership interests other than us. Net income or loss is allocated to noncontrolling interests based on the weighted-average percentage ownership of the Operating Partnership during the year. Issuance of additional common shares of beneficial interest in Whitestone (the "common shares") and units of limited partnership interest in the Operating Partnership that are convertible into cash or, at our option, common shares on a one-for-one basis (the "OP units") changes the percentage of 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 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, the estimated fair value of interest rate swaps and the estimates supporting our impairment analysis for the carrying values of our real estate assets. Actual results could differ from those estimates.

Reclassifications. We have reclassified certain prior year amounts in the accompanying consolidated financial statements in order to be consistent with the current fiscal year presentation. These reclassifications had no effect on net income, total assets, total liabilities or equity. During 2012, we reclassified the amortization of our loan fees, previously classified as general and administrative expenses, to interest expense for all periods presented. On June 27, 2012, our Class A and Class B common shares were consolidated into a single class of common shares. See Note 13 for additional discussion related to the consolidation of Class A and Class B common shares into a single class of common shares. During 2014, we reclassified certain properties classified as discontinued operations to conform to the current year presentation. See Note 4 for additional discussion.

Share-Based Compensation. From time to time, we award nonvested restricted common share awards or restricted common share unit awards, which may be converted into common shares, to executive officers and employees under our 2008 Long-Term Equity Incentive Ownership Plan (the “2008 Plan”). The vast majority of the awarded shares and units vest when certain performance conditions are met. We recognize compensation expense when achievement of the performance conditions is probable based on management’s most recent estimates using the fair value of the shares as of the grant date. We recognized \$4.7 million, \$2.3 million and \$0.7 million in share-based compensation expense for the years ended December 31, 2014, 2013 and 2012, respectively.

Noncontrolling Interests. Noncontrolling interests are the portion of equity in a subsidiary not attributable to a parent. The ownership interests not held by the parent are considered noncontrolling interests. Accordingly, we have reported noncontrolling interests in equity on the consolidated balance sheets but separate from Whitestone's equity. On the consolidated statements of operations and comprehensive income, 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.

Revenue Recognition. All leases on our properties are classified as operating leases, and the related rental income is recognized on a straight-line basis over the terms of the related leases. Differences between rental income earned and amounts due per the respective lease agreements are capitalized or charged, as applicable, to accrued rents and accounts receivable. Percentage rents are recognized as rental income when the thresholds upon which they are based have been met. Recoveries from tenants for taxes, insurance, and other operating expenses are recognized as revenues in the period the corresponding costs are incurred. We have established an allowance for doubtful accounts against the portion of tenant accounts receivable which is estimated to be uncollectible.

Cash and Cash Equivalents. We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents as of December 31, 2014 and 2013 consisted of demand deposits at commercial banks and brokerage accounts.

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

Real Estate

Development Properties. Land, buildings and improvements are recorded at cost. Expenditures related to the development of real estate are carried at cost which includes capitalized carrying charges and development costs. Carrying charges (interest and real estate taxes) are capitalized as part of construction in progress. The capitalization of such costs ceases when the property, or any completed portion, becomes available for occupancy. For the year ended December 31, 2014, approximately $93,000 and $58,000 in interest expense and real estate taxes, respectively, were capitalized. For the year ended December 31, 2013, approximately $114,000 and $100,000 in interest expense and real estate taxes, respectively, were capitalized. For the year ended December 31, 2012, approximately $176,000 and $147,000 in interest expense and real estate taxes, respectively, were capitalized.

Acquired Properties and Acquired Lease Intangibles. We allocate the purchase price of the acquired properties to land, building and improvements, identifiable intangible assets and to the acquired liabilities based on their respective fair values at the time of purchase. Identifiable intangibles include amounts allocated to acquired out-of-market leases, the value of in-place leases and customer relationship value, if any. We determine fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends and specific market and economic conditions that may affect the property. Factors considered by management in our analysis of determining the as-if-vacant property value include an estimate of carrying costs during the expected lease-up periods considering market conditions, and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and estimates of lost rentals at market rates during the expected lease-up periods, tenant demand and other economic conditions. Management also estimates costs to execute similar leases including leasing commissions, tenant improvements, legal and other related expenses. Intangibles related to out-of-market leases and in-place lease value are recorded as acquired lease intangibles and are amortized as an adjustment to rental revenue or amortization expense, as appropriate, over the remaining terms of the underlying leases. Premiums or discounts on acquired out-of-market debt are amortized to interest expense over the remaining term of such debt.

WHITESTONE REIT AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2014

Depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of 5 to 39 years for improvements and buildings, respectively. Tenant improvements are depreciated using the straight-line method over the life of the improvement or remaining term of the lease, whichever is shorter.

Impairment. We review our properties for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of the assets, including accrued rental income, may not be recoverable through operations. We determine whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the estimated residual value of the property, with the carrying cost of the property. If impairment is indicated, a loss will be recorded for the amount by which the carrying value of the property exceeds its fair value. Management has determined that there has been no impairment in the carrying value of our real estate assets as of December 31, 2014.

Accrued Rents and Accounts Receivable. Included in accrued rent and accounts receivable are base rents, tenant reimbursements and receivables attributable to recording rents on a straight-line basis. An allowance for the uncollectible portion of accrued rents and accounts receivable is determined based upon customer credit-worthiness (including expected recovery of our claim with respect to any tenants in bankruptcy), historical bad debt levels, and current economic trends. As of December 31, 2014 and 2013, we had an allowance for uncollectible accounts of $5.0 million and $3.6 million, respectively. As of December 31, 2014, 2013 and 2012, we recorded bad debt expense in the amount of $1.6 million, $1.6 million and $1.0 million, respectively, related to tenant receivables that we specifically identified as potentially uncollectible based on our assessment of each tenant's credit-worthiness. Bad debt expenses and any related recoveries are included in property operation and maintenance expense.

Unamortized Lease Commissions and Loan Costs. Leasing commissions are amortized using the straight-line method over the terms of the related lease agreements. Loan costs are amortized on the straight-line method over the terms of the loans, which approximates the interest method. Costs allocated to in-place leases whose terms differ from market terms related to acquired properties are amortized over the remaining life of the respective leases.

Prepaids and Other Assets. Prepaids and other assets include escrows established pursuant to certain mortgage financing arrangements for real estate taxes and insurance and acquisition deposits which include earnest money deposits on future acquisitions. As part of the executive relocation arrangement discussed in Note 12, we issued a note receivable for $975,000 to the buyer, with an interest rate of 4.5% and a maturity of December 31, 2013. On December 5, 2013, the note was renewed through June 30, 2014 and bears interest at a rate of 5.2% during the renewal period. We are currently working with the buyer to renew the note receivable.

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

State Taxes. We are subject to the Texas Margin Tax, which is computed by applying the applicable tax rate (1% for us) to the profit margin, which, generally, will be determined for us as total revenue less a 30% standard deduction. Although the Texas Margin Tax is not considered an income tax, FASB ASC 740, "Income Taxes" ("ASC 740") applies to the Texas Margin Tax. We have recorded a margin tax expense of $0.3 million for the Texas Margin Tax for each of the years ended December 31, 2014, 2013 and 2012.

Fair Value of Financial Instruments. Our financial instruments consist primarily of cash, cash equivalents, accounts receivable, accounts and notes payable and investments in marketable securities. The carrying value of cash, cash equivalents, accounts receivable and accounts payable are representative of their respective fair values due to their short-term nature. The fair value of our long-term debt, consisting of fixed rate secured notes, variable rate secured notes and an unsecured revolving credit facility aggregate to approximately $394.9 million and $262.0 million as compared to the book value of approximately $394.1 million and $264.3 million as of December 31, 2014 and 2013, respectively. The fair value of our long-term debt is estimated on a Level 2 basis (as provided by ASC 820, “Fair Value Measurements and Disclosures” (“ASC 820”)), using a discounted cash flow analysis based on the borrowing rates currently available to us for loans with similar terms and maturities, discounting the future contractual interest and principal payments.

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WHITESTONE REIT AND SUBSIDIARIES
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December 31, 2014

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 2014 and 2013. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2014 and current estimates of fair value may differ significantly from the amounts presented herein.

Derivative Instruments and Hedging Activities. We occasionally utilize derivative financial instruments, principally interest rate swaps, to manage our exposure to fluctuations in interest rates. We have established policies and procedures for risk assessment, and the approval, reporting and monitoring of derivative financial instruments. We recognize our interest rate swaps as cash flow hedges with the effective portion of the changes in fair value recorded in comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. Any ineffective portion of a cash flow hedges' change in fair value is recorded immediately into earnings. Our cash flow hedges are determined using Level 2 inputs under ASC 820. Level 2 inputs represent quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable. As of December 31, 2014, we consider our cash flow hedges to be highly effective.

Concentration of Risk. Substantially all of our revenues are obtained from office, warehouse and retail locations in the Houston, Dallas, San Antonio, Phoenix and Chicago metropolitan areas. We maintain cash accounts in major U.S. financial institutions. The terms of these deposits are on demand to minimize risk. The balances of these accounts sometimes exceed the federally insured limits, although no losses have been incurred in connection with these deposits.

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

3. MARKETABLE SECURITIES

All of our marketable securities were classified as available-for-sale securities as of December 31, 2014, 2013 and 2012. Available-for-sale securities consist of the following (in thousands):

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

	December 31, 2013			
	Amortized Cost	Gains in Accumulated	Losses in Accumulated	Estimated Fair Value

		Other Comprehensive Income	Other Comprehensive Income	
Real estate sector common stock	$1,106	$—	$(229)	$877
Total available-for-sale securities	$1,106	$—	$(229)	$877

During the year ended December 31, 2014, no available-for-sale securities were sold. During the years ended December 31, 2013 and 2012, available-for-sale securities were sold for total proceeds of $747,000 and $5,508,000, respectively. The gross realized gains and losses on these sales totaled $44,000 and $3,000, respectively, in 2013, and $152,000 and $42,000, respectively, in 2012. For the purpose of determining gross realized gains and losses, the cost of securities sold is based on specific identification. A net unrealized holding loss on available-for-sale securities in the amount of $133,000 and $229,000 for the years ended December 31, 2014 and 2013, respectively, has been included in accumulated other comprehensive income.

4. REAL ESTATE

As of December 31, 2014, we owned 63 commercial properties in the Houston, Dallas, San Antonio, Phoenix and Chicago areas comprised of approximately 5.5 million square feet of gross leasable area.

Property Acquisitions. On December 24, 2014, we acquired the hard corner at our Village Square at Dana Park property for approximately $4.7 million, in exchange for the assumption of a $2.6 million non-recourse loan and cash of $2.1 million. The 12,047 square foot property was 88% leased at the time of purchase and is located in the Mesa submarket of Phoenix, Arizona. Revenue and income of $10,000 and $6,000, respectively, have been included in our results of operations for the year ended December 31, 2014 since the date of acquisition.

On December 24, 2014, we acquired The Shops at Williams Trace, a property that meets our Community Centered Property strategy, for approximately $20.2 million in cash and net prorations. The 132,991 square foot property was 87% leased at the time of purchase and is located in Sugar Land, Texas. Revenue and income of $49,000 and $41,000, respectively, have been included in our results of operations for the year ended December 31, 2014 since the date of acquisition.

On December 24, 2014, we acquired Williams Trace Plaza, a property that meets our Community Centered Property strategy, for approximately $20.4 million in cash and net prorations. The 129,222 square foot property was 95% leased at the time of purchase and is located in Sugar Land, Texas. Revenue and income of $40,000 and $32,000, respectively, have been included in our results of operations for the year ended December 31, 2014 since the date of acquisition.

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

On November 5, 2014, we acquired Fulton Ranch Towne Center, a property that meets our Community Centered Property strategy, for approximately $29.3 million in cash and net prorations. The 113,281 square foot property was 86% leased at the time of purchase and is located in Chandler, Arizona. Revenue and income of $399,000 and $228,000, respectively, have been included in our results of operations for the year ended December 31, 2014 since the date of acquisition.

On November 5, 2014, we acquired The Promenade at Fulton Ranch, a property that meets our Community Centered Property strategy, for approximately $18.6 million in cash and net prorations. The 98,792 square foot property was 76% leased at the time of purchase and is located in Chandler, Arizona. Revenue and income of $283,000 and $146,000, respectively, have been included in our results of operations for the year ended December 31, 2014 since the date of acquisition.

On September 19, 2014, we acquired The Strand at Huebner Oaks, a property that meets our Community Centered Property strategy, for approximately $18.0 million in cash and net prorations. The 73,920 square foot property was 90% leased at the time of purchase and is located in San Antonio, Texas. Revenue and income of $553,000 and $339,000, respectively, have been included in our results of operations for the year ended December 31, 2014 since the date of acquisition.

On July 1, 2014, we acquired Heritage Trace Plaza, a property that meets our Community Centered Property strategy, for approximately $20.1 million in cash and net prorations. The 70,431 square foot property was 98% leased at the time of purchase and is located in Fort Worth, Texas. Revenue and income of $938,000 and $473,000, respectively, have been included in our results of operations for the year ended December 31, 2014 since the date of acquisition.

On December 5, 2013, we acquired Market Street at DC Ranch, a property that meets our Community Centered Property strategy, for approximately $37.4 million in cash and net prorations. The 241,280 square foot property was 80% leased at the time of purchase and is located in Scottsdale, Arizona.

On October 17, 2013, we acquired a 2.50 acre parcel for $2.8 million in cash and net prorations. The parcel is located in Spring, Texas, a suburb of Houston, and is contiguous to our Corporate Park Woodland property. At the time of purchase, the parcel had 16,220 square feet and was 63% leased.

On October 7, 2013, we acquired Fountain Hills Plaza, a property that meets our Community Centered Property strategy, for approximately $20.6 million in cash and net prorations. The 111,289 square foot property was 87% leased at the time of purchase and is located in Fountain Hills, Arizona, a suburb of Phoenix.

On June 28, 2013, we acquired Anthem Marketplace, a property that meets our Community Centered Property strategy, for approximately $23.3 million in cash and net prorations. The 113,293 square foot property was 100% leased at the time of purchase and is located in Phoenix, Arizona. In the same purchase, we also acquired an adjacent development pad site of 0.83 acres.

On June 19, 2013, we acquired Mercado at Scottsdale Ranch, a property that meets our Community Centered Property strategy, for approximately $21.3 million, including the assumption of a $11.1 million non-recourse loan, a $0.9 million interest rate supplement and cash of $9.3 million. The 118,730 square foot property was 100% leased at the time of purchase and is located in Scottsdale, Arizona.

On March 28, 2013, we acquired Headquarters Village Shopping Center, a property that meets our Community Centered Property strategy, for approximately $25.7 million in cash and net prorations. The 89,134 square foot property was 100% leased at the time of purchase and is located in Plano, Texas.

On December 28, 2012, we acquired the Shops at Pecos Ranch, a property that meets our Community Centered Property strategy, for approximately $19.0 million in cash and net prorations. The 78,767 square foot property was 100% leased at the time of purchase and is located in Chandler, Arizona, a suburb of Phoenix.

On September 21, 2012, we acquired Village Square at Dana Park, a property that meets our Community Centered Property strategy, for approximately $46.5 million in cash and net prorations. The 310,979 square foot property was 71% leased at the time of purchase and is located in the Mesa submarket of Phoenix, Arizona. In the same purchase, we also acquired an adjacent development parcel of 4.7 acres for approximately $4.0 million in cash.

On September 21, 2012, we acquired Fountain Square, a property that meets our Community Centered Property strategy, for approximately $15.4 million in cash and net prorations. The 118,209 square foot property was 76% leased at the time of purchase and is located in Scottsdale, Arizona.

On August 8, 2012, we acquired Paradise Plaza, a property that meets our Community Centered Property strategy, for approximately $16.3 million, including the assumption of a $9.2 million non-recourse loan, and cash of $7.1 million. The 125,898 square foot property was 100% leased at the time of purchase and is located in Paradise Valley, Arizona, a suburb of Phoenix.

On May 29, 2012, we acquired Sunset at Pinnacle Peak, formerly the Shops at Pinnacle Peak, a property that meets our Community Centered Property strategy, for approximately $6.4 million in cash and net prorations. The 41,530 square foot property was 76% leased at the time of purchase and is located in North Scottsdale, Arizona.

Unaudited pro forma results of operations. The pro forma unaudited results summarized below reflect our consolidated pro forma results of operations as if our acquisitions for the years ended December 31, 2014, 2013 and 2012 were acquired on January 1, 2012 and includes no other material adjustments:

INCOME STATEMENT DATA	Year Ended December 31,

	2014	2013	2012
Operating revenue	$82,818	$81,798	$79,445
Net income	$10,910	$10,422	$9,072

Acquisition costs. Acquisition-related costs of $1,341,000, $1,010,000 and $698,000 are included in general and administrative expenses in our income statements for the years ended December 31, 2014, 2013 and 2012, respectively.

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

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

	Year Ended December 31,		
	2014	2013	2012
Property revenues	$1,626	$1,653	$1,560
Property expenses	734	832	797
Depreciation and amortization	314	329	340
Interest expense	58	175	179
Provision for income taxes	10	12	11
Loss on sale or disposal of assets	—	7	15
Operating income from discontinued operations	510	298	218
Gain on sale of property from discontinued operations	1,887	—	—
Income from discontinued operations	$2,397	$298	$218

5. ACCRUED RENTS AND ACCOUNTS RECEIVABLE, NET

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

	December 31,	
	2014	2013
Tenant receivables	$7,998	$5,623
Accrued rents and other recoveries	8,800	7,758
Allowance for doubtful accounts	(4,964)	(3,613)
Totals	$11,834	$9,768

6. UNAMORTIZED LEASE COMMISSIONS AND LOAN COSTS

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

	December 31,	
	2014	2013
Leasing commissions	$5,936	$6,306
Deferred financing cost	5,785	5,146
Total cost	11,721	11,452
Less: leasing commissions accumulated amortization	(2,373)	(3,378)
Less: deferred financing cost accumulated amortization	(469)	(1,931)
Total cost, net of accumulated amortization	$8,879	$6,143

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A summary of expected future amortization of deferred costs is as follows (in thousands):

Years Ended December 31,	Leasing Commissions	Deferred Financing Costs	Total
2015	$935	$1,198	$2,133
2016	788	1,191	1,979
2017	626	1,041	1,667
2018	422	900	1,322
2019	272	299	571
Thereafter	520	687	1,207
Total	$3,563	$5,316	$8,879

7. FUTURE MINIMUM LEASE INCOME

We lease the majority of our properties under noncancelable operating leases, which provide for minimum base rents plus, in some instances, contingent rents based upon a percentage of the tenants' gross receipts. A summary of minimum future rents to be received (exclusive of renewals, tenant reimbursements, and contingent rents) under noncancelable operating leases in existence as of December 31, 2014 is as follows (in thousands):

Years Ended December 31,	Minimum Future Rents
2015	$59,186
2016	50,889
2017	41,289
2018	30,721
2019	22,257
Thereafter	68,886
Total	$273,228

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8. DEBT

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

Description	December 31, 2014	2013
Fixed rate notes		
$10.5 million, LIBOR plus 2.00% Note, due September 24, 2018 (1)	$10,460	$10,500
$50.0 million, 0.84% plus 1.35% to 1.90% Note, due February 17, 2017 (2)	50,000	50,000
$37.0 million 3.76% Note, due December 1, 2020	36,090	37,000
$6.5 million 3.80% Note, due January 1, 2019	6,355	6,500
$19.0 million 4.15% Note, due December 1, 2024	19,000	—
$20.2 million 4.28% Note, due June 6, 2023	20,200	20,200
$14.0 million 4.34% Note, due September 11, 2024	14,000	—
$14.3 million 4.34% Note, due September 11, 2024	14,300	—
$1.0 million 4.75% Note, due December 31, 2014	—	1,087
$16.5 million 4.97% Note, due September 26, 2023	16,450	16,450
$15.1 million 4.99% Note, due January 6, 2024	15,060	15,060
$9.2 million, Prime Rate less 2.00%, due December 29, 2017 (3)	7,888	7,875
$2.6 million 5.46% Note, due October 1, 2023	2,583	—
$11.1 million 5.87% Note, due August 6, 2016	11,607	11,900
Floating rate notes		
Unsecured line of credit, LIBOR plus 1.40% to 1.95%, due November 7, 2018	120,100	84,800
$50.0 million, LIBOR plus 1.35% to 1.90% Note, due November 7, 2019	50,000	—
	$394,093	$261,372

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

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

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

Our mortgage debt was collateralized by 20 operating properties as of December 31, 2014 with a combined net book value of $216.9 million and 19 operating properties as of December 31, 2013 with a combined net book value of $161.1 million. Our loans contain restrictions that would require the payment of prepayment penalties for the acceleration of outstanding debt and are secured by deeds of trust on certain of our properties and the assignment of certain rents and leases associated with those properties.

On December 24, 2014, we assumed a $2.6 million promissory note as part of our acquisition of the hard corner at Village Square at Dana Park (see Note 4). The 5.46% fixed interest rate note matures October 1, 2023.

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

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

On November 7, 2014, we, through our Operating Partnership, entered into an unsecured credit facility (the “2014 Facility”) with the lenders party thereto, with BMO Capital Markets, Wells Fargo Securities, LLC, Merrill Lynch, Pierce,

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Fenner & Smith Incorporated, and U.S. Bank, National Association, as co-lead arrangers and joint book runners, and Bank of Montreal, as administrative agent (the “Agent”). The 2014 Facility amended and restated our previous unsecured credit facility. Proceeds from the 2014 Facility were used for general corporate purposes, including property acquisitions, debt repayment, capital expenditures, the expansion, redevelopment and re-tenanting of properties in our portfolio and working capital. We intend to use the additional proceeds from the 2014 Facility for general corporate purposes, including property acquisitions, debt repayment, capital expenditure, the expansion, redevelopment and re-tenanting of properties in our portfolio and working capital.

The 2014 Facility is comprised of three tranches:

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

The 2014 Facility includes an accordion feature that will allow the Operating Partnership to increase the borrowing capacity to $700 million, upon the satisfaction of certain conditions. The Revolver will mature on November 7, 2018, with an option to extend for one additional year to November 7, 2019, subject to certain conditions, including payment of an extension fee. The Term Loan 1 will mature on February 17, 2017, and the Term Loan 2 will mature on November 7, 2019.

Borrowings under the 2014 Facility accrue interest (at the Operating Partnership's option) at a Base Rate or an Adjusted LIBOR plus an applicable margin based upon our then existing leverage. The applicable margin for Adjusted LIBOR borrowings ranges from 1.40% to 1.95% for the Revolver and 1.35% to 1.90% for the term loans. Base Rate means the higher of: (a) the Agent's prime commercial rate, (b) the sum of (i) the average rate quoted by the Agent by two or more federal funds brokers selected by the Agent for sale to the Agent at face value of federal funds in the secondary market in an amount equal or comparable to the principal amount for which such rate is being determined, plus (ii) 1/2 of 1.00%, and (c) the LIBOR rate for such day plus 1.00%. Adjusted LIBOR means LIBOR divided by one minus the Eurodollar Reserve Percentage. The Eurodollar Reserve Percentage means the maximum reserve percentage at which reserves are imposed by the Board of Governors of the Federal Reserve System on eurocurrency liabilities.

We will serve as the guarantor for funds borrowed by the Operating Partnership under the 2014 Facility. The 2014 Facility contains customary terms and conditions, including, without limitation, affirmative and negative covenants such as information reporting requirements, maximum secured indebtedness to total asset value, minimum EBITDA (earnings before interest, taxes, depreciation, amortization or extraordinary items) to fixed charges, and maintenance of a minimum net worth. The 2014 Facility also contains customary events of default with customary notice and cure, including, without limitation, nonpayment, breach of covenant, misrepresentation of representations and warranties in a material respect, cross-default to other major indebtedness, change of control, bankruptcy and loss of REIT tax status.

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

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

On December 23, 2013, we, operating through our subsidiary, Whitestone Woodlake Plaza, LLC, a Delaware limited liability company, entered into a $6.5 million promissory note (the “Woodlake Note”), with a fixed interest rate of 3.80% payable to Western Reserve Life Assurance Company of Ohio and a maturity of January 1, 2019. Proceeds from the Woodlake Note were used to repay a portion of our unsecured revolving credit facility.

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On December 16, 2013, we, operating through our subsidiary, Whitestone Anthem Marketplace, LLC, a Delaware limited liability company, entered into a $15.1 million promissory note (the “Anthem Note”), with a fixed interest rate of 4.99% payable to Citigroup Global Markets Realty Corporation and a maturity of January 6, 2024. Proceeds from the Anthem Note were used to repay a portion of our unsecured revolving credit facility.

On November 26, 2013, we, operating through our subsidiary, Whitestone Industrial-Office LLC, a Texas limited liability company (“Whitestone Industrial”), entered into a $37.0 million promissory note (the “Industrial Note”), with a fixed interest rate of 3.76% payable to Jackson Life National Insurance Company and a maturity of December 1, 2020. Proceeds from the Industrial Note were used to repay our existing $26.9 million floating rate loan that matured on December 1, 2013. The remainder of the proceeds were used to pay off approximately $10.1 million in fixed rate indebtedness maturing in 2014.

The Industrial Note is a non-recourse loan secured by Whitestone Industrial's nine properties, including Corporate Park Woodland, Holly Hall Industrial Park, Interstate 10 Warehouse, Main Park, Plaza Park, Westbelt Plaza, Westgate Service Center, Corporate Park West and Dairy Ashford.

On September 26, 2013, we, operating through our subsidiary, Whitestone Uptown Tower, LLC, a Delaware limited liability company (“Whitestone Uptown”), entered into a $16.5 million promissory note (the “Uptown Note”), with a fixed interest rate of 4.97% payable to Morgan Stanley Capital Holdings LLC and a maturity of September 26, 2023. Proceeds from the Uptown Note were used to repay a portion of our unsecured revolving credit facility.

On September 24, 2013, we, operating through our subsidiary, Whitestone Terravita Marketplace, LLC, a Delaware limited liability company (“Whitestone Terravita”), entered into a $10.5 million promissory note (the “Terravita Note”), with an applicable interest rate of LIBOR plus 2.00%, payable to Bank of America, N.A. and a maturity of September 24, 2018. Proceeds from the Terravita Note were used to repay a portion of our unsecured revolving credit facility.

The Terravita Note is a non-recourse loan secured by Whitestone Terravita's Terravita Marketplace property, located in Scottsdale, Arizona, and a limited guarantee by the Operating Partnership. In conjunction with the Terravita Note, a deed of trust was executed by Whitestone Terravita that contains customary terms and conditions, including representations, warranties and covenants by Whitestone Terravita that include, without limitation, assignment of rents, warranty of title, insurance requirements and maintenance, use and management of the property.

On June 19, 2013, we assumed a $11.1 million promissory note as part of our acquisition of Mercado at Scottsdale Ranch (see Note 4). The 5.87% fixed interest rate note matures on August 16, 2016. In conjunction with our acquisition, we received an interest rate supplement from the seller in the amount of $932,000, which we will accrete into expense over the life of the note. As a result of the supplement, the imputed interest rate is 3.052%, which we consider to be an appropriate market rate.

On May 31, 2013, we, operating through our subsidiary, Whitestone Pinnacle of Scottsdale, LLC, a Delaware limited liability company (“Whitestone Pinnacle”), refinanced our $14.1 million promissory note, with an applicable interest rate of 5.695% and a maturity of June 1, 2013, with a $20.2 million promissory note (the “Pinnacle Note”) payable to Cantor Commercial Real Estate Lending, L.P. with an applicable interest rate of 4.2805%, and a maturity of June 6, 2023.

The Pinnacle Note is a non-recourse loan secured by Whitestone Pinnacle's Pinnacle of Scottsdale property, located in Scottsdale, Arizona, and a limited guarantee by Whitestone. In conjunction with the Pinnacle Note, a deed of trust was executed by Whitestone Pinnacle that contains customary terms and conditions, including representations, warranties and covenants by Whitestone Pinnacle that include, without limitation, assignment of rents, warranty of title, insurance requirements and maintenance, use and management of the property.

The Pinnacle Note contains events of default that include, among other things, non-payment and default under the deed of trust. Upon occurrence of an event of default, the lender is entitled to accelerate all obligations of Whitestone Pinnacle. The lender will also be entitled to receive the entire unpaid balance and unpaid interest at a default rate.

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On August 8, 2012, we assumed a $9.2 million variable rate note as part of our acquisition of Paradise Plaza (See Note 4). The variable rate is based on the prime rate less 2.00% and matures on December 29, 2017. We consider the variable rate to be below-market and have imputed an interest rate of 4.13%, which we consider to be an appropriate market rate. As a result, we recorded a discount on the note of $1.3 million, which will amortize into interest expense over the life of the loan. See Note 9 for a discussion of the interest rate swap included with this note.

As of December 31, 2014, $220.1 million was drawn on the 2014 Facility, and our remaining borrowing capacity was $279.9 million, assuming that we use proceeds of the 2014 Facility to acquire properties, or to repay debt on properties, that are eligible to be included in the unsecured borrowing base.

Certain other of our loans are subject to customary covenants. As of December 31, 2014, we were in compliance with all loan covenants.

Annual maturities of notes payable as of December 31, 2014 are due during the following years:

Year	Amount Due (in thousands)
2015	$1,855
2016	13,269
2017	60,213
2018	132,236
2019	58,049
Thereafter	128,471
Total	$394,093

Contractual Obligations

As of December 31, 2014, we had the following contractual obligations:

		Payment due by period (in thousands)			
Contractual Obligations	Total	Less than 1 year (2014)	1 - 3 years (2015 - 2016)	3 - 5 years (2017 - 2018)	More than 5 years (after 2018)
Long-Term Debt - Principal	$394,093	$1,855	$73,482	$190,285	$128,471
Long-Term Debt - Fixed Interest	52,544	7,702	13,976	11,862	19,004
Long-Term Debt - Variable Interest (1)	9,206	3,134	4,411	1,661	—
Unsecured credit facility - Unused commitment fee (2)	2,741	700	1,400	641	—
Operating Lease Obligations	49	29	20	—	—
Total	$458,633	$13,420	$93,289	$204,449	$147,475

(1) As of December 31, 2014, we had two loans totaling $170.1 million which bore interest at a floating rate. The variable interest rate payments are based on LIBOR plus 1.35% to LIBOR plus 1.95%, which reflects our new interest rates under our 2014 Facility. The information in the table above reflects our projected interest rate obligations for the floating rate payments based on one-month LIBOR as of December 31, 2014, of 0.17%.

(2) The unused commitment fees on our unsecured credit facility, payable quarterly, are based on the average daily unused amount of our unsecured credit facility. The fees are 0.20% for facility usage greater than 50% or 0.25% for facility usage less than 50%. The information in the table above reflects our projected obligations for our unsecured credit facility based on our December 31, 2014 balance of $220.1 million.

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9. DERIVATIVES AND HEDGING ACTIVITIES

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

	Balance Sheet Location	Estimated Fair Value
Interest rate swaps:		
December 31, 2014	Accounts payable and accrued expenses	$1,016
December 31, 2013	Accounts payable and accrued expenses	$1,231

On November 1, 2013, we, through our subsidiary, Whitestone Terravita, entered into an interest rate swap with Bank of America, N.A. that fixed the LIBOR portion of our $10.5 million term loan at 1.55%. See Note 8 for additional information regarding the Terravita Note. The swap began on November 1, 2013 and will mature on September 24, 2018. We have designated the interest rate swap as a cash flow hedge with the effective portion of the changes in fair value to be recorded in comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. The ineffective portion of the change in fair value, if any, will be recognized directly in earnings.

On March 8, 2013, we, through our Operating Partnership, entered into an interest rate swap with U.S. Bank National Association that fixed the LIBOR portion of our $50.0 million term loan under our unsecured credit facility at 0.84%. See Note 8 for additional information regarding our credit facility. The swap began on January 7, 2014 and will mature on February 3, 2017. We have designated the interest rate swap as a cash flow hedge with the effective portion of the changes in fair value to be recorded in comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. The ineffective portion of the change in fair value, if any, will be recognized directly in earnings.

On August 8, 2012, as part of our acquisition of Paradise Plaza (see Note 4), we assumed a $9.2 million variable rate note (see Note 8). The note included an interest rate swap that had a fixed interest rate of 5.72%. We have designated the interest rate swap as a cash flow hedge with the effective portion of the changes in fair value recorded in comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. The ineffective portion of the change in fair value, if any, is recognized directly in earnings.

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

Year Ended	Amount Recognized as Comprehensive Income (Loss)	Location of Loss Recognized in Earnings	Amount of Loss Recognized in Earnings [1]
2014	$(136)	Interest expense	$(838)
2013	$173	Interest expense	$(363)
2012	$1	Interest expense	$(146)

(1) Amounts represent the effective portions of our interest rate swaps. We did not recognize any ineffective portion of our interest rate swaps in earnings for the years ended December 31, 2014, 2013 and 2012.

10. EARNINGS PER SHARE

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

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Certain of our performance-based 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. During the years ended December 31, 2014, 2013 and 2012, 471,310, 595,782 and 848,284 OP units, respectively, were excluded from the calculation of diluted earnings per share because their effect would be anti-dilutive.

For the years ended December 31, 2014, 2013 and 2012, distributions of $272,000, $177,000 and $194,000, respectively, were made to the holders of certain restricted common shares, $71,000, $127,000 and $172,000 of which were charged against earnings, respectively. See Note 14 for information related to restricted common shares under the 2008 Plan.

(in thousands, except per share data)	Year Ended December 31, 2014	2013	2012
Numerator:			
Income (loss) from continuing operations	$5,349	$3,621	$(165)
Less: Net (income) loss attributable to noncontrolling interests	(111)	(115)	10
Distributions paid on unvested restricted shares	(201)	(50)	(22)
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	5,037	3,456	(177)
Income from discontinued operations	2,397	298	218
Less: Net income attributable to noncontrolling interests	(49)	(10)	(13)
Income from discontinued operations attributable to Whitestone REIT	2,348	288	205
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$7,385	$3,744	$28
Denominator:			
Weighted average number of common shares - basic	22,278	18,027	13,496
Effect of dilutive securities:			
Unvested restricted shares	515	246	117
Weighted average number of common shares - dilutive	22,793	18,273	13,613
Earnings Per Share:			
Basic:			
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.23	$0.19	$(0.01)
Income from discontinued operations attributable to Whitestone REIT	0.10	0.02	0.01
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$0.33	$0.21	$0.00
Diluted:			
Income (loss) from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.22	$0.19	$(0.01)
Income from discontinued operations attributable to Whitestone REIT	0.10	0.01	0.01
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$0.32	$0.20	$0.00

11. FEDERAL INCOME TAXES

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

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

For federal income tax purposes, the cash distributions to shareholders are characterized as follows for the years ended December 31:

	2014		2013		2012	
Ordinary income (unaudited)	53.3	%	38.5	%	34.1	%
Return of capital (unaudited)	21.3	%	61.3	%	65.2	%
Capital gain distributions (unaudited)	25.4	%	0.2	%	0.7	%
Total	100.0	%	100.0	%	100.0	%

12. RELATED PARTY TRANSACTIONS

Executive Relocation. On July 9, 2010, upon the unanimous recommendation of our Compensation Committee, we entered into an arrangement with Mr. Mastandrea with respect to the disposition of his residence in Cleveland, Ohio. Mr. Mastandrea listed the residence in the second half of 2007 and has had to pay for security, taxes, insurance and maintenance expenses related to the residence. Under the relocation arrangement as amended on August 9, 2012, we agreed to pay Mr. Mastandrea the shortfall, if any, in the amount realized from the sale of the Cleveland residence, below $2,450,000, plus tax on the amount of such payment at the maximum federal income tax rate. The amount of the shortfall was to be paid in a combination of cash and common shares at the market value of the shares, as determined upon agreement between Mr. Mastandrea and the Compensation Committee.
In addition, the arrangement required us to continue paying the previously agreed upon cost of housing expenses for the Mastandrea family in Houston, Texas for a period of one year following the date of sale of the residence. We had previously agreed to reimburse Mr. Mastandrea for out-of-pocket moving costs including packing, temporary storage, transportation and moving supplies.

On December 21, 2012, Mr. Mastandrea sold the residence to a third party for a price of $1,125,000. Pursuant to the relocation arrangement, we paid cash of $1,325,000, representing the shortfall of the amount realized from the sale of the property, and $852,000, which represented moving expenses and closing costs incurred by Mr. Mastandrea and federal taxes. No common shares were issued. The total expense incurred by us of $2,177,000 is shown separately in our consolidated financial statements. In addition, we issued a note receivable for $975,000 to the buyer, with an interest rate of 4.5% and a maturity of December 31, 2013. On December 5, 2013, the note was renewed through June 30, 2014 and bears interest at a rate of 5.2% during the renewal period. We are currently working with the buyer to renew the note receivable. As a result of this transaction, we also recorded a related party receivable of $652,000, which represents the federal income tax withholding not deducted from our payment to Mr. Mastandrea. Subsequent to December 31, 2012, we received the $652,000 and paid it to the federal government on behalf of Mr. Mastandrea.

13. EQUITY

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

Reclassification of common shares and transfer of listing

On June 27, 2012, we filed with the State Department of Assessments and Taxation of Maryland amendments to our declaration of trust that (i) reclassified each issued and unissued Class A common share of beneficial interest, par value $0.001 per share (the “Class A common shares”) into one Class B common share of beneficial interest, par value $0.001 per share (the “Class B common shares”) and (ii) changed the designation of all of the Class B common shares to “common shares.” The amendment setting forth the reclassification of the Class A common shares into Class B common shares was approved by our shareholders at the 2012 annual meeting of shareholders held on May 22, 2012. The amendment approving the redesignation of the Class B common shares to common shares was approved by our board of trustees and did not require shareholder approval. On June 29, 2012, we transferred the listing of our common shares to the New York Stock Exchange under our existing ticker symbol “WSR.” As a result of the transfer, we voluntarily delisted our common shares from the NYSE MKT LLC effective June 28, 2012.

Equity Offerings

On October 8, 2013, we completed the sale of 4,000,000 common shares, $0.001 par value per share, and on October 28, 2013, upon the underwriters' exercise of the over-allotment option, we completed the sale of 600,000 additional common shares, at a price to the public of $13.54 per share. Total net proceeds from the offering, including the over-allotment shares, and after deducting the underwriting discount and offering expenses, were approximately $59.7 million, which we contributed to the Operating Partnership in exchange for OP units. The Operating Partnership used the net proceeds from this offering for general corporate purposes, which included acquisitions of additional properties, the repayment of outstanding indebtedness, capital expenditures (including tenant improvements), the expansion, redevelopment and/or re-tenanting of properties in our portfolio, working capital and other general purposes.

On June 19, 2013, we entered into five equity distribution agreements for an at-the-market distribution program. Pursuant to the terms and conditions of the agreements, we can issue and sell up to an aggregate of $50 million of our common shares. Actual sales will depend on a variety of factors to be determined by us from time to time, including (among others) market conditions, the trading price of our common shares, capital needs and our determinations of the appropriate sources of funding for us, and will be made in transactions that will be deemed to be “at-the-market” offerings as defined in Rule 415 under the Securities Act of 1933, as amended. We have no obligation to sell any of our common shares, and could at any time suspend offers under the agreements or terminate the agreements. For the year ended December 31, 2014, we sold 456,090 common shares under the equity distribution program, with net proceeds to us of approximately $6.4 million. In connection with such sales, we paid compensation of $0.1 million to the sales agents. For the year ended December 31, 2013, we sold 282,239 common shares under the equity distribution program, with net proceeds to us of approximately $4.2 million. In connection with such sales, we paid compensation of $0.2 million to the sales agents.

On August 28, 2012, we completed the sale of 4,830,000 common shares, $0.001 par value per share, including 630,000 common shares pursuant to the exercise of the underwriters' over-allotment option, at a price to the public of $12.80 per share. Total net proceeds from the offering, including over-allotment shares, and after deducting the underwriting discount and offering expenses, were approximately $58.7 million, which we used for general corporate purposes, including property acquisitions, debt repayment, capital expenditures, the expansion, redevelopment and/or re-tenanting of properties in our portfolio, working capital and other general purposes.

Exchange Offers

On May 10, 2012, we commenced a third offer to exchange Class B common shares on a one-for-one basis for (i) up to 867,789 outstanding Class A common shares; and (ii) up to 453,642 outstanding OP units (the “Third Exchange

Offer"). The Third Exchange Offer expired on June 8, 2012, and 426,986 Class A common shares and 121,156 OP units were accepted for change.

Operating Partnership Units

Substantially all of our business is conducted through the Operating Partnership. We are the sole general partner of the Operating Partnership. As of December 31, 2014, we owned a 98.3% interest in the Operating Partnership.

Limited partners in the Operating Partnership holding OP units have the right to redeem their OP units for cash or, at our option, common shares at a ratio of one OP unit for one common share. Distributions to OP unit holders are paid at the same rate per unit as distributions per share to Whitestone common shares. As of December 31, 2014 and December 31, 2013, there were 22,926,599 and 22,384,970 OP units outstanding, respectively. We owned 22,528,207 and 21,822,878 OP units as of December 31, 2014 and December 31, 2013, respectively. The balance of the OP units is owned by third parties, including certain trustees. Our weighted-average share ownership in the Operating Partnership was approximately 97.9%, 96.8% and 94.1% for the years ended December 31, 2014, 2013 and 2012, respectively.

On October 9, 2012, we filed with the SEC a prospectus supplement covering the issuance of up to 786,191 of our common shares of beneficial interest, par value $0.001 per share, to certain holders of OP units. The OP units may be issued to the extent that OP unit holders tender their OP units for redemption in accordance with the terms of the limited partnership agreement of the Operating Partnership and we elect, in our sole discretion, to issue common shares to the tendering OP unit holders. The prospectus supplement supplements a base prospectus, dated July 25, 2012, relating to our effective shelf registration statement of Form S-3 (File No. 333-182667). During the years ended December 31, 2014 and 2013, 163,700 and 123,394 OP units, respectively, were redeemed for an equal number of common shares.

Distributions

The following table reflects the total distributions we have paid (including the total amount paid and the amount paid per share) in each indicated quarter (in thousands, except per share data):

	Common Shares		Noncontrolling OP Unit Holders		Total
Quarter Paid	Distribution Per Common Share	Total Amount Paid	Distribution Per OP Unit	Total Amount Paid	Total Amount Paid
2014					
Fourth Quarter	$0.2850	$6,484	$0.2850	$114	$6,598
Third Quarter	0.2850	6,457	0.2850	126	6,583
Second Quarter	0.2850	6,367	0.2850	152	6,519
First Quarter	0.2850	6,231	0.2850	158	6,389
Total	$1.1400	$25,539	$1.1400	$550	$26,089
2013					
Fourth Quarter	$0.2850	$5,790	$0.2850	$163	$5,953
Third Quarter	0.2850	4,865	0.2850	165	5,030
Second Quarter	0.2850	4,832	0.2850	169	5,001
First Quarter	0.2850	4,807	0.2850	194	5,001
Total	$1.1400	$20,294	$1.1400	$691	$20,985

14. INCENTIVE SHARE PLAN

On July 29, 2008, our shareholders approved the 2008 Long-Term Equity Incentive Ownership Plan (the "Plan"). On December 22, 2010, our board of trustees amended the Plan to allow for the issuance of common shares pursuant to the Plan. The Plan, as amended, provides that awards may be made with respect to common shares of Whitestone or OP units. The maximum aggregate number of common shares that may be issued under the Plan is increased upon each issuance of common shares by Whitestone so that at any time the maximum number of shares that may be issued under the Plan shall equal 12.5% of the aggregate number of common shares of Whitestone and OP units issued and outstanding (other than shares and/or units issued to or held by Whitestone).

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

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

A summary of the share-based incentive plan activity as of and for the year ended December 31, 2014 is as follows:

	Shares	Weighted-Average Grant Date Fair Value [1]
Non-vested at January 1, 2014	759,711	$13.69
Granted	2,058,930	14.40
Modified to new agreements	(633,704)	13.88
Modified from existing agreements	633,704	14.59
Vested	(133,774)	12.86
Forfeited	(273,799)	14.41
Non-vested at December 31, 2014	2,411,068	$14.45
Available for grant at December 31, 2014	629,178	

(1) The fair value of the shares granted were determined based on observable market transactions occurring near the date of the grants.

A summary of our nonvested and vested shares activity for the years ended December 31, 2014, 2013 and 2012 is presented below:

	Shares Granted		Shares Vested	
Year Ended	Non-Vested Shares Issued	Weighted-Average Grant-Date Fair Value	Vested Shares	Total Vest-Date Fair Value
				(in thousands)
Year Ended December 31, 2014	2,058,930	$ 14.40	(133,774)	$1,721
Year Ended December 31, 2013	328,005	$ 15.43	(15,270)	$224
Year Ended December 31, 2012	99,700	$ 13.03	(16,208)	$223

Total compensation recognized in earnings for share-based payments for the years ended December 31, 2014, 2013 and 2012 was $4.7 million, $2.3 million and $0.7 million, respectively.

Based on our current financial projections, we expect approximately 81% of the unvested awards to vest over the next 54 months. As of December 31, 2014, there was approximately $15.7 million, in unrecognized compensation cost related to outstanding non-vested performance-based shares, which are expected to vest over a period of 54 months and approximately $0.8 million in unrecognized compensation cost related to outstanding non-vested time-based shares, which are expected to be recognized over a period of approximately 27 months beginning on January 1, 2015.

We expect to record approximately $16.5 million in share-based compensation subsequent to the year ended December 31, 2014. The unrecognized share-based compensation cost is expected to vest over a weighted average period of 38 months. The dilutive impact of the performance-based shares will be included in the denominator of the earnings per share calculation beginning in the period that the performance conditions are expected to be met.

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15. GRANTS TO TRUSTEES

On October 24, 2014, each of our four independent trustees and one trustee emeritus was granted 1,500 common shares, which vested immediately. The 7,500 common shares granted to our trustees had a grant date fair value of $14.53 per share. On December 9, 2014, two of our independent trustees elected to receive a total of 2,314 common shares with a grant date fair value of $14.69 in lieu of cash for board fees. The fair value of the shares granted during the year ended December 31, 2014 was determined using quoted prices available on the date of grant.

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16. COMMITMENTS AND CONTINGENCIES

We are a participant in various legal proceedings and claims that arise in the ordinary course of our business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, we believe that the final outcome of these matters will not have a material effect on our financial position, results of operations, or cash flows.

17. SEGMENT INFORMATION

Our management historically has not differentiated by property types and therefore does not present segment information.

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18. SELECT QUARTERLY FINANCIAL DATA (unaudited)

The following is a summary of our unaudited quarterly financial information for the years ended December 31, 2014 and 2013 (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2014				
Revenues from continuing operations	$17,376	$17,261	$18,540	$19,205
Income from continuing operations	2,312	1,135	1,012	890
Income from discontinued operations	120	145	109	2,023
Net income attributable to Whitestone REIT	2,372	1,252	1,100	2,862
Basic Earnings per share:				
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.10	$0.05	$0.04	$0.04
Income from discontinued operations attributable to Whitestone REIT	0.01	0.00	0.01	0.08
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares (1)	$0.11	$0.05	$0.05	$0.12
Diluted Earnings per share:				
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.10	$0.05	$0.04	$0.03
Income from discontinued operations attributable to Whitestone REIT	0.01	0.00	0.01	0.09
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares (1)	$0.11	$0.05	$0.05	$0.12
2013				
Revenues	$13,466	$14,375	$15,870	$16,781
Income from continuing operations	$873	$902	$592	$1,254
Income from discontinued operations	$113	$101	$43	$41
Net income attributable to Whitestone REIT	$949	$970	$614	$1,261
Basic Earnings per share:				
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.05	$0.05	$0.03	$0.06
Income from discontinued operations attributable to Whitestone REIT	0.01	0.01	0.01	0.00
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares (1)	$0.06	$0.06	$0.04	$0.06
Diluted Earnings per share:				
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.05	$0.05	$0.03	$0.06
Income from discontinued operations attributable to Whitestone REIT	0.01	0.01	0.00	0.00
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares (1)	$0.06	$0.06	$0.03	$0.06

(1) The sum of individual quarterly basic and diluted earnings per share amounts may not agree with the year-to-date basic and diluted earning per share amounts as the result of each period's computation being based on the weighted average number of common shares outstanding during that period.

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Schedule II - Valuation and Qualifying Accounts
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Description	(in thousands) Balance at Beginning of Year	Charged to Costs and Expense	Deductions from Reserves	Balance at End of Year
Allowance for doubtful accounts:				
Year ended December 31, 2014	$3,613	$1,602	$(251)	$4,964
Year ended December 31, 2013	2,226	1,638	(251)	3,613
Year ended December 31, 2012	1,343	986	(103)	2,226

Whitestone REIT and Subsidiaries
Schedule III - Real Estate and Accumulated Depreciation
December 31, 2014

	Initial Cost (in thousands)		Costs Capitalized Subsequent to Acquisition (in thousands)		Gross Amount at which Carried at End of Period (in thousands)(1) (2)		
Property Name	Land	Building and Improvements	Improvements (net)	Carrying Costs	Land	Building and Improvements	Total
Retail Communities:							
Ahwatukee Plaza	$5,126	$ 4,086	$196	$—	$5,126	$ 4,282	$9,408
Anthem Marketplace	4,790	17,973	135	—	4,790	18,108	22,898
Bellnott Square	1,154	4,638	322	—	1,154	4,960	6,114
Bissonnet Beltway	415	1,947	399	—	415	2,346	2,761
Centre South	481	1,596	580	—	481	2,176	2,657
The Citadel	472	1,777	2,492	—	472	4,269	4,741
Desert Canyon	1,976	1,704	500	—	1,976	2,204	4,180
Fountain Square	5,573	9,828	1,162	—	5,573	10,990	16,563
Gilbert Tuscany Village	1,767	3,233	1,261	—	1,767	4,494	6,261
Heritage Trace Plaza	6,209	13,821	(38)	—	6,209	13,783	19,992
Holly Knight	320	1,293	165	—	320	1,458	1,778
Headquarters Village	7,171	18,439	93	—	7,171	18,532	25,703
Kempwood Plaza	733	1,798	557	—	733	2,355	3,088
Lion Square	1,546	4,289	2,918	—	1,546	7,207	8,753
The Marketplace at Central	1,305	5,324	975	—	1,305	6,299	7,604
Market Street at DC Ranch	9,710	26,779	857	—	9,710	27,636	37,346
Mercado at Scottsdale Ranch	8,728	12,560	137	—	8,728	12,697	21,425
Paradise Plaza	6,155	10,221	406	—	6,155	10,627	16,782
Pinnacle of Scottsdale	6,648	22,466	901	—	6,648	23,367	30,015
Providence	918	3,675	630	—	918	4,305	5,223
Shaver	184	633	(33)	—	184	600	784
Shops at Pecos Ranch	3,781	15,123	481	—	3,781	15,604	19,385
Shops at Starwood	4,093	11,487	121	—	4,093	11,608	15,701
South Richey	778	2,584	1,895	—	778	4,479	5,257
Spoerlein Commons	2,340	7,296	322	—	2,340	7,618	9,958
The Strand at Huebner Oaks	5,805	12,335	—	—	5,805	12,335	18,140

SugarPark Plaza	1,781	7,125	793	—	1,781	7,918	9,699
Sunridge	276	1,186	280	—	276	1,466	1,742
Sunset at Pinnacle Peak	3,610	2,734	319	—	3,610	3,053	6,663
Terravita Marketplace	7,171	9,392	544	—	7,171	9,936	17,107
Torrey Square	1,981	2,971	1,155	—	1,981	4,126	6,107
Town Park	850	2,911	173	—	850	3,084	3,934
Village Square at Dana Park	10,877	40,252	1,295	—	10,877	41,547	52,424
Webster Pointe	720	1,150	171	—	720	1,321	2,041
Westchase	423	1,751	2,742	—	423	4,493	4,916
Williams Trace Plaza	6,800	14,003	—	—	6,800	14,003	20,803
Windsor Park	2,621	10,482	7,454	—	2,621	17,936	20,557
	$125,288	$ 310,862	$32,360	$—	$125,288	$ 343,222	$468,510
Office/Flex Communities:							
Brookhill	$186	$ 788	$357	$—	$186	$ 1,145	$1,331
Corporate Park Northwest	1,534	6,306	1,583	—	1,534	7,889	9,423
Corporate Park West	2,555	10,267	903	—	2,555	11,170	13,725
Corporate Park Woodland	652	5,330	514	—	652	5,844	6,496
Dairy Ashford	226	1,211	80	—	226	1,291	1,517

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Whitestone REIT and Subsidiaries
Schedule III - Real Estate and Accumulated Depreciation
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	Initial Cost (in thousands)		Costs Capitalized Subsequent to Acquisition (in thousands)		Gross Amount at which Carried at End of Period (in thousands)(1) (2)		
Property Name	Land	Building and Improvements	Improvements (net)	Carrying Costs	Land	Building and Improvements	Total
Holly Hall Industrial Park	608	2,516	383	—	608	2,899	3,507
Interstate 10 Warehouse	208	3,700	386	—	208	4,086	4,294
Main Park	1,328	2,721	523	—	1,328	3,244	4,572
Plaza Park	902	3,294	1,029	—	902	4,323	5,225
Westbelt Plaza	568	2,165	641	—	568	2,806	3,374
Westgate Service Center	672	2,776	529	—	672	3,305	3,977
	$9,439	$ 41,074	$6,928	$—	$9,439	$ 48,002	$57,441
Office Communities:							
9101 LBJ Freeway	$1,597	$ 6,078	$1,120	$—	$1,597	$ 7,198	$8,795
Pima Norte	1,086	7,162	1,690	517	1,086	9,369	10,455
Uptown Tower	1,621	15,551	3,149	—	1,621	18,700	20,321
Woodlake Plaza	1,107	4,426	1,251	—	1,107	5,677	6,784
	$5,411	$ 33,217	$7,210	$517	$5,411	$ 40,944	$46,355
Total Operating Portfolio	$140,138	$ 385,153	$46,498	$517	$140,138	$ 432,168	$572,306
Corporate Park Woodland II	$2,758	$ —	$5	$—	$2,758	$ 5	$2,763
Fountain Hills Plaza	5,113	15,340	11	—	5,113	15,351	20,464
Fulton Ranch Towne Center	7,604	22,612	3	—	7,604	22,615	30,219
The Promenade at Fulton Ranch	5,198	13,367	6	—	5,198	13,373	18,571
The Shops at Williams Trace	5,920	14,297	—	—	5,920	14,297	20,217
Total - Development Portfolio (3)	$26,593	$ 65,616	$25	$—	$26,593	$ 65,641	$92,234
Anthem Marketplace	$204	$ —	$—	$—	$204	$ —	$204
Dana Park Development	4,000	—	—	—	4,000	—	4,000
Fountain Hills	277	—	—	—	277	—	277

Market Street at DC Ranch	704	—	—	—	704	—	704
Pinnacle Phase II	1,000	—	219	337	1,000	556	1,556
Shops at Starwood Phase III	1,818	—	176	380	1,818	556	2,374
Total - Property Held for Development	$8,003	$ —	$395	$717	$8,003	$ 1,112	$9,115
Grand Totals	$174,734	$ 450,769	$46,918	$1,234	$174,734	$ 498,921	$673,655

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Whitestone REIT and Subsidiaries
Schedule III - Real Estate and Accumulated Depreciation
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Property Name	Encumbrances	Accumulated Depreciation (in thousands)	Date of Construction	Date Acquired	Depreciation Life
Retail Communities:					
Ahwatukee Plaza		$416		8/16/2011	5-39 years
Anthem Marketplace	(4)	702		6/28/2013	5-39 years
Bellnott Square		1,660		1/1/2002	5-39 years
Bissonnet Beltway		1,455		1/1/1999	5-39 years
Centre South		929		1/1/2000	5-39 years
The Citadel		675		9/28/2010	5-39 years
Desert Canyon		271		4/13/2011	5-39 years
Fountain Square		676		9/21/2012	5-39 years
Gilbert Tuscany Village		609		6/28/2011	5-39 years
Heritage Trace Plaza		177		7/1/2014	5-39 years
Holly Knight		902		8/1/2000	5-39 years
Headquarters Village	(5)	846		3/28/2013	5-39 years
Kempwood Plaza		1,092		2/2/1999	5-39 years
Lion Square		2,783		1/1/2000	5-39 years
The Marketplace at Central		693		11/1/2010	5-39 years
Market Street at DC Ranch		808		12/5/2013	5-39 years
Mercado at Scottsdale Ranch	(6)	515		6/19/2013	5-39 years
Paradise Plaza	(7)	663		8/8/2012	5-39 years
Pinnacle of Scottsdale	(8)	1,908		12/22/2011	5-39 years
Providence		1,704		3/30/2001	5-39 years
Shaver		280		12/17/1999	5-39 years
Shops at Pecos Ranch	(9)	817		12/28/2012	5-39 years
Shops at Starwood	(10)	908		12/28/2011	5-39 years
South Richey		1,554		8/25/1999	5-39 years
Spoerlein Commons		1,273		1/16/2009	5-39 years
The Strand at Huebner Oaks		79		9/19/2014	5-39 years
SugarPark Plaza		2,202		9/8/2004	5-39 years
Sunridge		564		1/1/2002	5-39 years
Sunset at Pinnacle Peak		210		5/29/2012	5-39 years
Terravita Marketplace	(11)	914		8/8/2011	5-39 years
Torrey Square		1,875		1/1/2000	5-39 years
Town Park		1,598		1/1/1999	5-39 years
Village Square at Dana Park	(12)	2,344		9/21/2012	5-39 years
Webster Pointe		631		1/1/2000	5-39 years
Westchase		1,314		1/1/2002	5-39 years
Williams Trace Plaza		—		12/24/2014	5-39 years
Windsor Park		4,828		12/16/2003	5-39 years
		$40,875			
Office/Flex Communities:					
Brookhill		$397		1/1/2002	5-39 years

Corporate Park Northwest		2,725		1/1/2002	5-39 years
Corporate Park West	(13)	4,007		1/1/2002	5-39 years
Corporate Park Woodland	(13)	2,761	11/1/2000		5-39 years
Dairy Ashford	(13)	603		1/1/1999	5-39 years
Holly Hall Industrial Park	(13)	1,040		1/1/2002	5-39 years
Interstate 10 Warehouse	(13)	2,434		1/1/1999	5-39 years
Main Park	(13)	1,445		1/1/1999	5-39 years

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Property Name	Encumbrances	Accumulated Depreciation (in thousands)	Date of Construction	Date Acquired	Depreciation Life
Plaza Park	(13)	1,987		1/1/2000	5-39 years
Westbelt Plaza	(13)	1,501		1/1/1999	5-39 years
Westgate Service Center	(13)	1,239		1/1/2002	5-39 years
		$20,139			
Office Communities:					
9101 LBJ Freeway		$1,816		8/10/2005	5-39 years
Pima Norte		1,548		10/4/2007	5-39 years
Uptown Tower	(14)	5,076		11/22/2005	5-39 years
Woodlake Plaza	(15)	1,561		3/14/2005	5-39 years
		$10,001			
Total Operating Portfolio		$71,015			
Corporate Park Woodland II		$3		10/17/2013	5-39 years
Fountain Hills Plaza		492		10/7/2013	5-39 years
Fulton Ranch Towne Center		48		11/5/2014	5-39 years
The Promenade at Fulton Ranch		29		11/5/2014	5-39 years
The Shops at Williams Trace		—		12/24/2014	5-39 years
Total - Development Portfolio (3)		$572			
Anthem Marketplace		$—		6/28/2013	Land - Not Depreciated
Dana Park Development		—		9/21/2012	Land - Not Depreciated
Fountain Hills		—		10/7/2013	Land - Not Depreciated
Market Street at DC Ranch		—		12/5/2013	Land - Not Depreciated
Pinnacle Phase II		—		12/28/2011	Land - Not Depreciated
Shops at Starwood Phase III		—		12/28/2011	Land - Not Depreciated
Total - Property Held For Development		$—			
Grand Total		$71,587			

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Whitestone REIT and Subsidiaries
Schedule III - Real Estate and Accumulated Depreciation
December 31, 2014

(1) Reconciliations of total real estate carrying value for the three years ended December 31, follows:

	(in thousands)		
	2014	2013	2012
Balance at beginning of period	$537,872	$401,325	$284,152
Additions during the period:			
Acquisitions	132,734	130,731	107,392
Improvements	9,330	6,164	12,631
	142,064	136,895	120,023
Deductions - cost of real estate sold or retired	(6,281)	(348)	(2,850)
Balance at close of period	$673,655	$537,872	$401,325

(2) The aggregate cost of real estate (in thousands) for federal income tax purposes is $649,771.
(3) Includes (i) new acquisitions, through the earlier of attainment of 90% occupancy or 18 months of ownership, and (ii) properties that are undergoing significant redevelopment or re-tenanting.
(4) This property secures a $15.1 million mortgage note.
(5) This property secures a $19.0 million mortgage note.
(6) This property secures a $11.1 million mortgage note.
(7) This property secures a $9.2 million mortgage note.
(8) This property secures a $14.1 million mortgage note.
(9) This property secures a $14.0 million mortgage note.
(10) This property secures a $14.3 million mortgage note.
(11) This property secures a $10.5 million mortgage note.
(12) This property secures a $2.6 million mortgage note.
(13) These properties secure a $37.0 million mortgage note.
(14) This property secures a $16.5 million mortgage note.
(15) This property secures a $6.5 million mortgage note.

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Whitestone REIT and Subsidiaries

Index to Exhibits

Exhibit No.	Description
3.1.1	Articles of Amendment and Restatement 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)
3.1.2	Articles Supplementary (previously filed as and incorporated by reference to Exhibit 3(i).1 to the Registrant’s Current Report on Form 8-K, filed December 6, 2006)
3.1.3	Articles of Amendment (previously filed and incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on August 24, 2010)
3.1.4	Articles of Amendment (previously filed and incorporated by reference to Exhibit 3.2 to the Registrant’s Current Report on Form 8-K, filed on August 24, 2010)
3.1.5	Articles Supplementary (previously filed and incorporated by reference to Exhibit 3.3 to the Registrant’s Current Report on Form 8-K, filed on August 24, 2010)
3.1.6	Articles of Amendment (previously filed as and incorporated by reference to Exhibit 3.1.1 to the Registrant's Current Report on Form 8-K, filed June 27, 2012)
3.1.7	Articles of Amendment (previously filed as and incorporated by reference to Exhibit 3.1.2 to the Registrant's Current Report on Form 8-K, filed June 27, 2012)
3.2	Amended and Restated Bylaws 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 October 9, 2008)
10.1	Agreement of Limited Partnership of Whitestone REIT Operating Partnership, L.P. (previously filed as and incorporated by reference to Exhibit 10.1 to the Registrant’s General Form for Registration of Securities on Form 10, filed on April 30, 2003)
10.2	Certificate of Formation of Whitestone REIT Operating Partnership II GP, LLC (previously filed as and incorporated by reference to Exhibit 10.3 to the Registrant’s General Form for Registration of Securities on Form 10, filed on April 30, 2003)
10.3	Limited Liability Company Agreement of Whitestone REIT Operating Partnership II GP, LLC (previously filed as and incorporated by reference to Exhibit 10.4 to the Registrant’s General Form for Registration of Securities on Form 10, filed on April 30, 2003)
10.4	Agreement of Limited Partnership of Whitestone REIT Operating Partnership II, L.P. (previously filed as and incorporated by reference to Exhibit 10.6 to the Registrant’s General Form for Registration of Securities on Form 10, filed on April 30, 2003)
10.5	Amendment to the Agreement of Limited Partnership of Whitestone REIT Operating Partnership, L.P. (previously filed in and incorporated by reference to Exhibit 10.1 to the Registrant’s Registration Statement on Form S-11, Commission File No. 333-111674, filed on December 31, 2003)
10.6	Promissory Note between HCP REIT Operating Company IV LLC and MidFirst Bank, dated March 1, 2007 (previously filed and incorporated by reference to Exhibit 10.25 to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 30, 2007)
10.7	Term Loan Agreement among Whitestone REIT Operating Partnership, L.P., Whitestone Pima Norte LLC, Whitestone REIT Operating Partnership III LP, Hartman REIT Operating Partnership III LP LTD, Whitestone REIT Operating Partnership III GP LLC and KeyBank National Association, dated January 25, 2008 (previously filed as and incorporated by reference to Exhibit 10.29 to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2007, filed on March 31, 2008)

Exhibit No.	Description
10.8+	Whitestone REIT 2008 Long-Term Equity Incentive Ownership Plan (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K, filed July 31, 2008)
10.9	

	Promissory Note among Whitestone Corporate Park West, LLC and MidFirst Bank dated August 5, 2008 (previously filed and incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed August 8, 2008)
10.10	Promissory Note among Whitestone Centers LLC and Sun Life Assurance Company of Canada dated October 1, 2008 (previously filed and incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed October 7, 2008)
10.11	Promissory Note among Whitestone Centers LLC and Sun Life Assurance Company of Canada dated October 1, 2008 (previously filed and incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K, filed October 7, 2008)
10.12	Promissory Note among Whitestone Centers LLC and Sun Life Assurance Company of Canada dated October 1, 2008 (previously filed and incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K, filed October 7, 2008)
10.13	Promissory Note among Whitestone Centers LLC and Sun Life Assurance Company of Canada dated October 1, 2008 (previously filed and incorporated by reference to Exhibit 99.4 to the Registrant's Current Report on Form 8-K, filed October 7, 2008)
10.14	Promissory Note among Whitestone Centers LLC and Sun Life Assurance Company of Canada dated October 1, 2008 (previously filed and incorporated by reference to Exhibit 99.5 to the Registrant's Current Report on Form 8-K, filed October 7, 2008)
10.15	Note among Whitestone Offices LLC and Nationwide Life Insurance Company dated October 1, 2008 (previously filed and incorporated by reference to Exhibit 99.6 to the Registrant's Current Report on Form 8-K, filed October 7, 2008)
10.16	Floating Rate Promissory Note among Whitestone Industrial-Office LLC and Jackson National Life Insurance Company dated October 3, 2008 (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed October 9, 2008)
10.17+	Form of Restricted Common Share Award Agreement (Performance Vested) (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed January 7, 2009)
10.18+	Form of Restricted Common Share Award Agreement (Time Vested) (previously filed and incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed January 7, 2009)
10.19+	Form of Restricted Unit Award Agreement (previously filed and incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed January 7, 2009)
10.20	Promissory Note among Whitestone Centers LLC and Sun Life Assurance Company of Canada dated February 3, 2009 (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed February 10, 2009)
10.21	Promissory Note among Whitestone Centers LLC and Sun Life Assurance Company of Canada dated February 3, 2009 (previously filed and incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed February 10, 2009)
10.22	Promissory Note among Whitestone Centers LLC and Sun Life Assurance Company of Canada dated February 3, 2009 (previously filed and incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed February 10, 2009)
Exhibit No.	Description
10.23	Promissory Note among Whitestone Centers LLC and Sun Life Assurance Company of Canada dated February 3, 2009 (previously filed and incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K, filed February 10, 2009)
10.24	Agreement of Purchase and Sale between Whitestone REIT Operating Partnership, L.P. and Bank One, Chicago, NA, as trustee for Midwest Development Venture IV dated December 18, 2008 (previously filed and incorporated by reference to Exhibit 10.8 to Registrant's Quarterly Report on Form 10-Q, filed on May 15, 2009)
10.25+	Trustee Restricted Common Share Grant Agreement (Time Vested) between Whitestone REIT and Daryl J. Carter (previously filed and incorporated by reference to Exhibit 10.9 to Registrant's Quarterly Report on Form 10-Q, filed on May 15, 2009)

10.26+	Trustee Restricted Common Share Grant Agreement (Time Vested) between Whitestone REIT and Daniel G. DeVos (previously filed and incorporated by reference to Exhibit 10.10 to Registrant’s Quarterly Report on Form 10-Q, filed on May 15, 2009)
10.27+	Trustee Restricted Common Share Grant Agreement (Time Vested) between Whitestone REIT and Donald F. Keating (previously filed and incorporated by reference to Exhibit 10.11 to Registrant’s Quarterly Report on Form 10-Q, filed on May 15, 2009)
10.28+	Trustee Restricted Common Share Grant Agreement (Time Vested) between Whitestone REIT and Jack L. Mahaffey (previously filed and incorporated by reference to Exhibit 10.12 toRegistrant’s Quarterly Report on Form 10-Q, filed on May 15, 2009)
10.29	Promissory Note dated September 10, 2010 between Whitestone REIT Operating Company IV LLC and MidFirst Bank (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed September 16, 2010)
10.30	Modification of Promissory Note dated September 10, 2010 between Whitestone REIT Operating Company IV LLC and MidFirst Bank (previously filed and incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed September 16, 2010)
10.31	Limited Guarantee dated September 10, 2010 between Whitestone REIT Operating Company IV LLC and MidFirst Bank (previously filed and incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed September 16, 2010)
10.32	Promissory Note between Whitestone Featherwood LLC and Viewpoint Bank dated March 31, 2011 (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed April 5, 2011)
10.33	Assumption Agreement among U.S. National Bank Association, Scottsdale Pinnacle LP, Howard Bankchik, Steven J. Fogel, Whitestone Pinnacle of Scottsdale, LLC and Whitestone REIT Operating Partnership, LP and Whitestone REIT, dated December 22, 2011 (previously filed and incorporated by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011, filed on February 29, 2012)
10.34+	First Amendment to the Whitestone REIT 2008 Long-Term Equity Incentive Ownership Plan (previously filed and incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K, filed on March 1, 2011)

Exhibit No.	Description
10.35+	Separation Agreement between Whitestone REIT and Valarie King (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed August 9, 2012)
10.36+	Summary of Relocation Agreement between Whitestone REIT and James C. Mastandrea (previously filed and incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed August 9, 2012)
10.37+	Separation Agreement between Whitestone REIT and Richard Rollnick (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed November 6, 2013)
10.38	Loan Agreement, dated November 26, 2013, by and between Whitestone Industrial-Office LLC and Jackson National Life Insurance Company (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed December 3, 2013)
10.39	Fixed Rate Promissory Note by Whitestone Industrial-Office LLC to Jackson Life National Insurance Company, dated November 26, 2013 (previously filed and incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed December 3, 2013)
10.40+	Employment Agreement between Whitestone REIT and James C. Mastandrea (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed August 29, 2014)
10.41+	Employment Agreement between Whitestone REIT and David K. Holeman (previously filed and incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed August 29, 2014)

10.42+	Change in Control Agreement between Whitestone REIT and John J. Dee (previously filed and incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed August 29, 2014)
10.43+	Change in Control Agreement between Whitestone REIT and Bradford D. Johnson (previously filed and incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K, filed August 29, 2014)
10.44	Amended and Restated Credit Agreement between Whitestone REIT Operating Partnership, L.P. and Bank of Montreal dated November 7, 2014 (previously filed and incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed November 12, 2014)
10.45*+	Change in Control Agreement between Whitestone REIT and Christine J. Mastandrea
12.1*	Statement of Calculation of Consolidated Ratio of Earnings to Fixed Charges
21.1*	List of subsidiaries of Whitestone REIT
23.1*	Consent of Pannell Kerr Forster of Texas, P.C.
24.1	Power of Attorney (included on the signature page hereto)
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

101.INS***	XBRL Instance Document
101. SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document

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* Filed herewith.
** Furnished herewith.

*** Attached as Exhibit 101 to this Annual Report on Form 10-K are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of December 31, 2014 and 2013, (ii) the Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2014, 2013 and 2012, (iii) the Consolidated Statements of Changes in Equity for the years ended December 31, 2014, 2013 and 2012, (iv) the Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012 and (v) the Notes to Consolidated Financial Statements.

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

+ Denotes management contract or compensatory plan or arrangement.