AMERICAN GENERAL CORP /TX/
Form 425
July 26, 2001

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Filed by American International Group, Inc.
Pursuant to Rule 425 under the Securities Act of 1933

Subject Company: American General Corporation
Commission File No. 1-7981

American International Group, Inc. ("AIG") and American General Corporation ("American General") have filed a proxy statement/prospectus and other relevant documents concerning AIG's acquisition of American General with the Securities and Exchange Commission ("SEC"). INVESTORS ARE URGED TO READ THE PROXY STATEMENT/PROSPECTUS AND ANY OTHER RELEVANT DOCUMENTS FILED OR TO BE FILED IN THE FUTURE WITH THE SEC BECAUSE THOSE DOCUMENTS CONTAIN IMPORTANT INFORMATION. Investors will be able to obtain such documents free of charge at the SEC's website at www.sec.gov. In addition, such documents may also be obtained free of charge by contacting American International Group, Inc., 70 Pine Street, New York, New York, 10270, Attention: Director of Investor Relations, or American General Corporation, 2929 Allen Parkway, Houston, Texas, 77019, Attention: Investor Relations.

American General and certain other persons referred to below may be deemed to be participants in the solicitation of proxies from American General shareholders to adopt the agreement providing for AIG's acquisition of American General. The participants in this solicitation may include, under SEC rules, the directors and executive officers of American General, who may have interests in the transaction, including as a result of holding shares or stock options of American General. A detailed list of the names and interests of American General's directors and executive officers is contained in the definitive proxy statement on Schedule 14A filed by American General with the SEC on March 28, 2001. Copies of that filing may be obtained free of charge at the SEC's website at www.sec.gov.

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The following is a press release issued by AIG on July 26, 2001:

NEWS [AIG LETTERHEAD]

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AIG'S SECOND QUARTER 2001 INCOME EXCLUDING REALIZED CAPITAL GAINS (LOSSES) ROSE 15.8 PERCENT TO $1.66 BILLION

NEW YORK, NY, July 26, 2001 - American International Group, Inc. (AIG) today reported that its income excluding net realized capital gains (losses) increased 15.8 percent to $1.66 billion in the second quarter and, also excluding the first quarter cumulative effect of a FASB mandated accounting change, 15.5 percent to $3.23 billion for the first six months of 2001.

Net income for the second quarter of 2001 increased 15.6 percent to $1.63 billion, compared to $1.41 billion in the second quarter of 2000. For the first six months of 2001, net income totaled $3.16 billion, an increase of 14.7 percent compared to $2.75 billion in the same period of 2000.

Revenues in the second quarter of 2001 rose 10.1 percent to $12.58 billion from $11.43 billion in the year-earlier quarter. For the first six months, revenues totaled $24.73 billion, an increase of 10.8 percent over $22.32 billion in 2000.

At June 30, 2001, AIG's consolidated assets and shareholders' equity approximated $335 billion and $42.5 billion, respectively.

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Following is a summary table of second quarter and six months information (in millions, except per share amounts).

	SECOND QUARTER			SIX MONTH	
	2001	2000	Change	2001	2000
Net income, as reported	$ 1,627.0	$ 1,407.0	15.6%	$ 3,158.8	$ 2,753.1
Income, as adjusted*	$ 1,656.9	$ 1,430.7	15.8%	$ 3,228.6	$ 2,794.8
PER SHARE RESULTS:**					
Net income, as reported	$ 0.69	$ 0.60	15.0%	$ 1.34	$ 1.17
Income, as adjusted*	$ 0.70	$ 0.61	14.8%	$ 1.37	$ 1.19
Average shares outstanding	2,357.6	2,339.3		2,358.2	2,342.7

* Adjusted to exclude the cumulative effect of a first quarter 2001 accounting change and realized capital gains (losses), net of taxes.

** Share information reflects the three-for-two split in the form of a 50 percent common stock dividend, paid July 28, 2000.

Income before income taxes, minority interest and realized capital gains (losses) for the second quarter of 2001 amounted to $2.43 billion, an increase of 14.0 percent over the $2.13 billion reported in 2000. For the first six months of 2001, income before income taxes, minority interest, cumulative effect of a first quarter accounting change and realized capital gains (losses) increased 14.7 percent to $4.75 billion from $4.14 billion reported last year.

Foreign exchange rates negatively affected the translation into U.S. dollars of foreign currency general insurance net premiums written and life insurance premium income and other considerations, as shown in the following table, which compares second quarter 2001 to second quarter 2000.

	WORLDWIDE GENERAL INSURANCE	FOREIGN GENERAL INSURANCE	WORLDWIDE LIFE INSURANCE	FORE LIF INSUR
Premium Growth in Original Currency	15.8%	7.3%*	22.8%**	21.9
Foreign Exchange Impact	(3.5)	(10.2)	(9.2)	(10.
Premium Growth as Reported in U.S. $	12.3%	(2.9%)	13.6%	11.9

* Excluding Risk Finance business, core Foreign General net premiums written rose 16.2% in original currency.

** Premium growth in original currency is reflected on a GAAP basis. Life insurance premium income and other considerations reflect an increase in original currency of 21.1% and 5.4%, respectively for Worldwide and Foreign Life. Premium income and other considerations are impacted by a decline in sales of tax-driven Guaranteed Income Bonds in the U.K.

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Commenting on second quarter performance, AIG Chairman M.R. Greenberg said, "AIG had a good second quarter as a result of solid progress in most of our principal businesses and geographic markets. Excluding realized capital gains and losses, AIG's net income rose 15.8 percent to $1.66 billion. In the property-casualty market, pricing continued to improve. While the global economy remains soft, the flight to quality underway in many markets benefits AIG with our strong ratings and financial condition. We have undertaken a number of new marketing initiatives and alliances, and launched an array of new products that will benefit future growth in our business.

"Reflecting rate increases in the commercial property-casualty market, worldwide general insurance net premiums written grew 12.3 percent (15.8 percent in original currency) to $5.06 billion. The combined ratio improved to 95.52 in the second quarter of 2001, compared to 95.92 a year ago. Net catastrophe losses, the majority from tropical storm Allison, were $30.0 million in the quarter, compared to $19.0 million in the second quarter of 2000.

"In the United States, our Domestic Brokerage Group had record net premiums written of $2.82 billion and a combined ratio of 98.77. In last year's second quarter, net premiums written were $2.21 billion and the combined ratio was 99.27. While rates continue to firm, much more is needed for the industry to get back on an even keel and achieve overall profitability. In fact, over the past decade, rates declined for many classes of business by 50 to 75 percent. Over the same period, policy conditions broadened, which increased exposures in many areas, while loss cost trends have also increased significantly. AIG has declined to underwrite in excess of $4 billion of gross premiums over the past decade that would not have yielded a satisfactory underwriting profit, and we will continue to press strongly for rate adequacy.

"HSB Group, Inc., which is providing valuable specialized capabilities to our worldwide general insurance operations, continued to produce good results in the second quarter of 2001.

"Personal lines rates are rising, but are not yet adequate in a number of states. We maintain underwriting discipline, and in fact, recently announced that we intend to exit the New Jersey personal auto market, where necessary rate increases are virtually impossible to obtain. The rate application process takes years, and if a company decides to stop underwriting in the state, it can be held hostage for two or more years. The absence of meaningful reform ultimately increases costs for New Jersey drivers. This is hardly an example of a market economy.

"United Guaranty Corporation, our mortgage guaranty insurance subsidiary, continues to achieve outstanding performance. Net premiums written increased 10.0 percent.

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"Our Foreign General insurance operations had an excellent quarter and benefited from the global strengthening of property-casualty pricing. The combined ratio improved to 90.77 in the second quarter of 2001. Excluding Risk Finance business, which is highly transaction-oriented, the core business of our Foreign General operations increased by 16.2% in original currency. Both Japan and the United Kingdom, two of our major property-casualty markets, did particularly well. During the quarter, we announced plans to form an underwriting syndicate at Lloyd's, which will further enhance our global reach and product capabilities.

"Transatlantic Holdings, Inc., whose results are reported through both AIG's Domestic and Foreign General insurance segments, grew in net premiums written and had a combined ratio of 102.9. Excluding $15 million in catastrophe losses, the combined ratio was 99.6.

"Our Worldwide Life business had a very good quarter in both its domestic and foreign operations. This segment of our business met our targeted growth projections in most areas of the world. Overall, our Worldwide Life Division's operating income rose 19.7 percent, to $1.07 billion. Life insurance premiums and other considerations grew 14.8 percent or 21.1 percent on an original currency basis. Japan, one of our largest overseas markets, had an excellent quarter. Our life business in Japan now includes, in addition to ALICO, AIG Star Life Insurance Co., Ltd., the business we acquired as part of the Chiyoda reorganization. The addition of AIG Star Life increases the scope of our Japanese life operations and adds approximately 5,000 agents to our Japan life agency force.

"A major development in the second quarter was the definitive agreement we announced in May to acquire American General Corporation. This acquisition will significantly strengthen our position in the domestic life insurance business and enhance our leadership in the rapidly growing retirement savings market, complementing SunAmerica's operations. The American General acquisition remains on track and American General has scheduled a shareholder vote for August 15. We have received approvals from a number of states, and expect the remaining approvals in August. We plan to close the transaction as soon as possible thereafter. Our third quarter results will include the costs and restructuring charges associated with the American General acquisition. AIG and American General already have extensive studies underway to identify and plan for revenue enhancement programs. We have project teams working on all aspects of the integration process, and are enthusiastic about the benefits we expect to realize from bringing American General into the AIG family.

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"Our Financial Services Group had a very good quarter. Operating income increased 22.3 percent. International Lease Finance Corporation and AIG Financial Products Corp. both had excellent results. AIG's Consumer Finance Group continues to grow in the foreign markets in which it operates. American General's significant presence in domestic consumer finance will add materially to the overall scope of AIG's worldwide consumer finance business. AIG Trading Group Inc. strengthened its management team during the quarter, and operations are showing improved results.

"The asset management business was obviously impacted by soft economic and financial market conditions during the second quarter. Nevertheless, our Asset Management Group experienced better results than the industry in sales of both variable annuities and mutual funds."

GENERAL INSURANCE

General insurance pretax income before realized capital losses for the second quarter of 2001 was $946.2 million, 6.6 percent above the $887.6 million last year. For the first six months of 2001, general insurance pretax income before realized capital gains (losses) was $1.92 billion, an increase of 8.9 percent, compared to $1.76 billion in 2000.

Worldwide general insurance net premiums written in the second quarter of 2001 amounted to $5.06 billion, 12.3 percent ahead of the $4.50 billion in 2000. For the first six months of 2001, general insurance net premiums written were $9.92 billion, an increase of 13.6 percent, compared to $8.73 billion last year.

General insurance net investment income rose 7.2 percent to $706.9 million in the second quarter and 7.6 percent to $1.42 billion in the first six months of 2001.

LIFE INSURANCE

AIG's worldwide life insurance operations reported second quarter 2001 pretax income before realized capital losses of $1.07 billion, an increase of 19.7 percent, compared to $894.6 million in 2000. For the first six months of 2001, life insurance pretax income before realized capital losses increased 18.8 percent to $2.03 billion, compared to $1.71 billion last year.

Life insurance premium income and other considerations of $9.24 billion was 14.8 percent above second quarter 2000 premium income and other considerations of $8.04 billion. For the first six months, premium income and other considerations amounted to $18.01 billion, a gain of 22.5 percent, compared to $14.70 billion in 2000.

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Life insurance net investment income rose 12.1 percent to $1.95 billion in the second quarter of 2001, compared to $1.74 billion for the same period last year. For the first six months, net investment income amounted to $3.87 billion, an increase of 13.5 percent, compared to $3.41 billion in 2000.

FINANCIAL SERVICES

Financial services pretax operating income during the second quarter of 2001 increased 22.3 percent to $372.3 million, compared to $304.5 million in 2000. For the first six months of 2001, financial services operating income was $700.9 million, a 19.7 percent increase, compared to $585.4 million in 2000.

ASSET MANAGEMENT

Asset management pretax operating income for the second quarter of 2001 amounted to $99.9 million, a decrease of 6.3 percent, compared to $106.6 million in 2000. For the first six months of 2001, pretax operating income increased 0.4 percent to $211.1 million, compared to $210.3 million last year.

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AIG is the leading U.S.-based international insurance and financial services organization and the largest underwriter of commercial and industrial insurance in the United States. Its member companies write a wide range of commercial, personal and life insurance products through a variety of distribution channels in approximately 130 countries and jurisdictions throughout the world. AIG's global businesses also include financial services and asset management, including aircraft leasing, financial products, trading and market making, consumer finance, institutional, retail and direct investment fund asset management, real estate investment management, and retirement savings products. American International Group, Inc.'s common stock is listed on the New York Stock Exchange, as well as the stock exchanges in London, Paris, Switzerland and Tokyo.

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. Please refer to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 for a description of the business environment in which AIG operates and the important factors that may affect its business. AIG is not under any obligation to (and expressly disclaims any such obligations to) update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

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AMERICAN INTERNATIONAL GROUP, INC.
FINANCIAL HIGHLIGHTS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Six Months Ended June 30, 2001	2000	Change
General Insurance Operations:			
Net Premiums Written	$ 9,919,900	$ 8,729,714	13.6 %
Net Premiums Earned	9,463,813	8,508,837	11.2
Adjusted Underwriting Profit	495,710	439,386	12.8
Net Investment Income	1,422,840	1,322,911	7.6
Income before Realized Capital Gains (Losses)	1,918,550	1,762,297	8.9
Realized Capital Gains (Losses)	(57,701)	9,038	-
Operating Income	$ 1,860,849	$ 1,771,335	5.1 %
Loss Ratio	74.92	75.14	
Expense Ratio	20.79	20.71	
Combined Ratio	95.71	95.85	
Life Insurance Operations:			
Premium Income and Other Considerations (a)	$18,006,391	$14,696,108	22.5 %
Net Investment Income	3,872,396	3,411,405	13.5
Income before Realized Capital Losses	2,026,931	1,706,697	18.8
Realized Capital Losses	(20,901)	(58,191)	-
Operating Income	2,006,030	1,648,506	21.7
Financial Services Operating Income	700,896	585,361	19.7
Asset Management Operating Income	211,096	210,342	0.4
Other Realized Capital Losses	(17,423)	(6,111)	-
Other Income (Deductions) - net	(105,077)	(121,593)	-
Income before Income Taxes, Minority Interest and Cumulative Effect of an Accounting Change	4,656,371	4,087,840	13.9
Income Taxes	1,368,766	1,213,315	-
Income before Minority Interest and Cumulative Effect of an Accounting Change	3,287,605	2,874,525	14.4
Minority Interest, after tax: (b)			
Operating Income	(121,052)	(114,240)	-
Capital Gains	(1,547)	(7,151)	-
Income before Cumulative Effect of an Accounting Change	3,165,006	2,753,134	15.0
Cumulative Effect of an Accounting Change, net of tax (c)	(6,246)	0	-
Net Income, as reported	3,158,760	2,753,134	14.7
Income, as adjusted (d)	$ 3,228,573	$ 2,794,767	15.5 %
Per Share: (e)			
Basic:			
Net Income, as reported	$ 1.35	$ 1.19	13.4 %
Diluted:			
Net Income, as reported	1.34	1.17	14.5
Income, as adjusted (d)	$ 1.37	$ 1.19	15.1 %

Average Common Shares Outstanding (e)			
	- Basic	2,332,992	2,316,957
	- Diluted	2,358,158	2,342,695

(a) GAAP premium income was $3,848,746 and $7,354,797 for the second quarter and six months 2001, respectively, compared to $3,387,236 and $6,664,868 for the second quarter and six months 2000, respectively.

(b) Represents minority shareholders' equity in operating income and capital gains of certain consolidated subsidiaries, including Transatlantic Holdings, Inc. and 21st Century Insurance Group.

(c) Represents the cumulative effect of an accounting change, net of tax, related to the adoption of FASB 133 "Accounting for Derivative Instruments and Hedging Activities".

(d) Adjusted to exclude the cumulative effect of a first quarter 2001 accounting change and realized capital gains (losses), net of taxes.

(e) Share information reflects the three-for-two split in the form of a 50 percent stock dividend, paid July 28, 2000.

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AMERICAN INTERNATIONAL GROUP, INC.
SUPPLEMENTARY DATA
(IN THOUSANDS)

	Six Months Ended June 30, 2001	2000	Change	2
General Insurance Operations:				
Net Premiums Written				
Brokerage Division	$ 5,467,739	$ 4,289,413	27.5 %	$ 2
Personal Lines	1,246,488	1,232,922	1.1	
Mortgage Guaranty	238,963	218,328	9.5	
Total Domestic General	6,953,190	5,740,663	21.1	3
Foreign General (a)	2,966,710	2,989,051	(0.7)	1
Total	9,919,900	8,729,714	13.6	5
Operating Income (b)				
Brokerage Division	1,083,958	974,385	11.2	
Personal Lines	19,172	64,709	(70.4)	
Mortgage Guaranty	212,759	179,922	18.3	
Intercompany Adjustments	11,658	41,216	--	
Total Domestic General	1,327,547	1,260,232	5.3	
Foreign General	591,003	502,065	17.7	
Total	$ 1,918,550	$ 1,762,297	8.9 %	$
Combined Ratio:				
Brokerage Division	98.50	100.07		
Personal Lines	103.88	98.06		
Mortgage Guaranty	33.16	38.84		

Total Domestic General	97.13	97.25		
Foreign General	91.98	92.91		
Losses and Loss Expenses Paid	$ 6,978,848	$ 6,324,452	10.3 %	$ 3
Change in Loss and LAE Reserve	111,789	69,186	61.6	
Losses and Loss Expenses Incurred	7,090,637	6,393,638	10.9	3
Net Loss and LAE Reserve	25,063,385	24,668,858	1.6	
GAAP Underwriting Profit	495,710	439,386	12.8	
Life Insurance Operations: (c)				
Premium Income and Other Considerations				
Domestic				
Life (d)	357,775	298,247	20.0	
Annuities, Pension and Investment Products (e)	7,874,266	4,526,454	74.0	4
Total	8,232,041	4,824,701	70.6	4
Foreign (f)				
Life (d)	7,220,146	6,329,286	14.1	3
Annuities, Pension and Investment Products (e)	2,554,204	3,542,121	(27.9)	1
Total	$ 9,774,350	$ 9,871,407	(1.0)%	$ 5

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SUPPLEMENTARY DATA CONTINUED

	Six Months Ended June 30, 2001	2000	Change	Three 2001
Life Insurance Operations continued				
Net Investment Income				
Domestic	$2,137,542	$1,879,331	13.7 %	$1,079,003
Foreign	1,734,854	1,532,074	13.2	872,567
Total	3,872,396	3,411,405	13.5	1,951,570
Operating Income (b)				
Domestic	731,187	625,138	17.0	367,252
Foreign	1,295,744	1,081,559	19.8	703,269
Total	2,026,931	1,706,697	18.8	1,070,521
Financial Services:				
Revenues				
International Lease Finance Corp.	1,278,193	1,156,790	10.5	656,588
AIG Financial Products Corp.	519,267	450,926	15.2	271,576
AIG Trading Group Inc.	58,751	134,830	(56.4)	19,859
Other	244,192	127,444	91.6	127,619
Total	2,100,403	1,869,990	12.3	1,075,642
Operating Income				

International Lease Finance Corp.	343,956	309,932	11.0	183,466
AIG Financial Products Corp.	354,082	278,575	27.1	188,838
AIG Trading Group Inc.	13,905	35,226	(60.5)	7,388
Other	33,469	(2,820)	--	14,813
Intercompany Reclassifications	(44,516)	(35,552)	--	(22,217)
Total	700,896	585,361	19.7	372,288
SunAmerica:				
Operating Income (b)(c)	718,714	670,320	7.2	350,598
Total Sales	$8,164,039	$6,673,620	22.3 %	$3,925,209
Effective Tax Rates:				
Excluding Capital Gains (Losses)	29.52%	29.79%		29.63%
Capital Gains (Losses) Alone	35.41%	37.60%		35.00%
As Reported	29.40%	29.68%		29.53%

(a) The growth in foreign net premiums written in original currency was 7.3 percent and 8.0 percent for the second quarter and six months of 2001, respectively.

(b) Operating income excludes realized capital gains (losses).

(c) Results for SunAmerica Inc. are included in Life Insurance and Asset Management Operations.

(d) Includes traditional life, interest sensitive and variable life products.

(e) Quarterly fluctuations in the sale of investment products do not represent a trend for the year.

(f) The growth in foreign life premiums in original currency was 31.1 percent in the quarter and 22.9 percent for the six months. Foreign annuities, pension and investment products in original currency declined 37.5 percent for the quarter and 20.9 percent for the six months, impacted by a decline in sales of tax-driven Guaranteed Income Bonds in the U. K.

t;">Unamortized lease commissions and loan costs

8,422

8,083

Prepaid expenses and other assets

3,228

2,762

Total assets

$
1,071,732

$
855,209

LIABILITIES AND EQUITY[(2)]
Liabilities:

Notes payable

$
659,068

$
544,020

Accounts payable and accrued expenses

35,995

28,692

Tenants' security deposits

6,885

6,125

Dividends and distributions payable

11,466

8,729

Total liabilities

713,414

587,566

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, 2017 and December 31, 2016, respectively

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Common shares, $0.001 par value per share; 400,000,000 shares authorized; 39,221,773 and 29,468,563 issued and outstanding as of December 31, 2017 and December 31, 2016, respectively

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Additional paid-in capital

521,314

396,494

Accumulated deficit

(176,684
)

(141,695
)
Accumulated other comprehensive gain

2,936

859

Total Whitestone REIT shareholders' equity

347,604

255,687

Noncontrolling interests:

Redeemable operating partnership units

10,800

11,941

Noncontrolling interest in Consolidated Partnership

(86
)

15

Total noncontrolling interests

10,714

11,956

Total equity

358,318

267,643

Total liabilities and equity

$
1,071,732

$
855,209

See the accompanying notes to consolidated financial statements.

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

	December 31,	
	2017	2016
[(1)] Assets of consolidated Variable Interest Entities included in the total assets above:		
Real estate assets, at cost		
Property	$95,146	$92,338
Accumulated depreciation	(35,980)	(32,533)
Total real estate assets	59,166	59,805
Cash and cash equivalents	2,812	1,236
Escrows and acquisition deposits	2,188	2,274
Accrued rents and accounts receivable, net of allowance for doubtful accounts	2,364	2,313
Unamortized lease commissions and loan costs	1,265	1,150
Prepaid expenses and other assets	65	82
Total assets	$67,860	$66,860
[(2)] Liabilities of consolidated Variable Interest Entities included in the total liabilities above:		
Notes payable	$48,840	$50,001
Accounts payable and accrued expenses	3,494	3,481
Tenants' security deposits	1,191	996
Total liabilities	$53,525	$54,478

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,		
	2017	2016	2015
Property revenues			
Rental revenues	$94,568	$80,068	$71,843
Other revenues	31,391	24,369	21,573
Total property revenues	125,959	104,437	93,416
Property expenses			
Property operation and maintenance	24,213	19,709	18,698
Real estate taxes	17,897	14,383	12,637
Total property expenses	42,110	34,092	31,335
Other expenses (income)			
General and administrative	23,949	23,922	20,312
Depreciation and amortization	27,240	22,457	19,761
Interest expense	23,651	19,239	14,910
Interest, dividend and other investment income	(410)	(429)	(313)
Total other expense	74,430	65,189	54,670
Income before gain (loss) on sale or disposal of properties or assets and income taxes	9,419	5,156	7,411
Provision for income taxes	(386)	(289)	(372)
Gain on sale of properties	16	3,357	—
Loss on sale or disposal of assets	(183)	(96)	(185)
Income from continuing operations	8,866	8,128	6,854
Income from discontinued operations	—	—	11
Income from discontinued operations	—	—	11
Net income	8,866	8,128	6,865
Redeemable operating partnership units	254	182	116
Non-controlling interests in Consolidated Partnership	278	15	—
Less: Net income attributable to noncontrolling interests	532	197	116
Net income attributable to Whitestone REIT	$8,334	$7,931	$6,749

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,		
	2017	2016	2015
Basic Earnings Per Share:			
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.22	$0.26	$0.25
Income from discontinued operations attributable to Whitestone REIT	0.00	0.00	0.00
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$0.22	$0.26	$0.25
Diluted Earnings Per Share:			
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.22	$0.26	$0.24
Income from discontinued operations attributable to Whitestone REIT	0.00	0.00	0.00
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$0.22	$0.26	$0.24
Weighted average number of common shares outstanding:			
Basic	35,428	27,618	24,631
Diluted	36,255	28,383	25,683
Distributions declared per common share / OP unit	$1.1400	$1.1400	$1.1400
Consolidated Statements of Comprehensive Income			
Net income	$8,866	$8,128	$6,865
Other comprehensive gain (loss)			
Unrealized gain on cash flow hedging activities	2,022	929	46
Unrealized gain (loss) on available-for-sale marketable securities	118	82	(85)
Comprehensive income	11,006	9,139	6,826
Less: Net income attributable to noncontrolling interests	532	197	116
Less: Comprehensive gain (loss) attributable to noncontrolling interests	63	23	(1)
Comprehensive income attributable to Whitestone REIT	$10,411	$8,919	$6,711

See the accompanying notes to consolidated financial statements.

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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 Redeemable Operating Partnership		General Partner's Interest in	
	Shares	Amount	Paid-in Capital	Accumulated Deficit	Comprehensive Gain/(Loss)	Shareholders' Equity	Units	Dollars	Consolidated Partnership	Total Equity
Balance, December 31, 2014	22,836	$ 23	$ 304,078	$ (93,938)	$ (91)	$ 210,072	398	$ 3,251	$ —	$ 213,323
Exchange of noncontrolling interest OP units for common shares	21	—	173	—	1	174	(21)	(174)	—	—
Issuance of common shares under dividend reinvestment plan	7	—	95	—	—	95	—	—	—	95
Issuance of common shares, net of offering costs	3,750	4	49,645	—	—	49,649	—	—	—	49,649
Issuance of OP units	—	—	—	—	—	—	120	1,333	—	1,333
Repurchase of common shares (1)	(101)	—	(1,357)	—	—	(1,357)	—	—	—	(1,357)
Shared-based compensation	478	—	7,337	—	—	7,337	—	—	—	7,337
Distributions	—	—	—	(29,706)	—	(29,706)	—	(509)	—	(30,215)
Unrealized gain on change in fair value of cash flow hedge	—	—	—	—	45	45	—	1	—	46
Unrealized loss on change in fair value of available-for sale marketable securities	—	—	—	—	(84)	(84)	—	(1)	—	(85)
Net income	—	—	—	6,749	—	6,749	—	116	—	6,865

Balance, December 31, 2015	26,991	27	359,971	(116,895)	(129)	242,974	497	4,017	—	246,991
Exchange of noncontrolling interest OP units for common shares	15	—	125	—	—	125	(15)	(125)	—	—
Issuance of common shares under dividend reinvestment plan	9	—	114	—	—	114	—	—	—	114
Issuance of common shares, net of offering costs	2,064	2	30,012	—	—	30,014	—	—	—	30,014
Issuance of OP units	—	—	—	—	—	—	621	8,738	—	8,738
Repurchase of common shares (1)	(282)	—	(3,948)	—	—	(3,948)	—	—	—	(3,948)
Share-based compensation	671	—	10,231	—	—	10,231	—	—	—	10,231
Distributions	—	—	—	(32,731)	—	(32,731)	—	(905)	—	(33,636)
Unrealized gain on change in fair value of cash flow hedge	—	—	—	—	908	908	—	21	—	929
Unrealized gain on change in fair value of available-for sale marketable securities	—	—	—	—	80	80	—	2	—	82
Reallocation of ownership percentage between parent and subsidiary	—	—	(11)	—	—	(11)	—	11	—	—
Net income	—	—	—	7,931	—	7,931	—	182	15	8,128
Balance, December 31, 2016	29,468	29	396,494	(141,695)	859	255,687	1,103	11,941	15	267,643
Exchange of noncontrolling interest OP units for common shares	19	—	206	—	—	206	(19)	(206)	—	—
Issuance of common shares	9	—	127	—	—	127	—	—	—	127

under dividend reinvestment plan										
Issuance of common shares - ATM Program, net of offering costs	1,324	1	18,516	—	—	18,517	—	—	—	18,517
Issuance of common shares - overnight offering, net of offering costs	8,019	8	99,887	—	—	99,895	—	—	—	99,895
Repurchase of common shares [(1)]	(324)	—	(4,339)	—	—	(4,339)	—	—	—	(4,339)
Share-based compensation	707	—	10,410	—	—	10,410	—	—	—	10,410
Distributions	—	—	—	(43,323)	—	(43,323)	—	(1,239)	(379)	(44,941)
Unrealized gain on change in fair value of cash flow hedge	—	—	—	—	1,962	1,962	—	60	—	2,022
Unrealized gain on change in fair value of available-for sale marketable securities	—	—	—	—	115	115	—	3	—	118
Reallocation of ownership percentage between parent and subsidiary	—	—	13	—	—	13	—	(13)	—	—
Net income	—	—	—	8,334	—	8,334	—	254	278	8,866
Balance, December 31, 2017	39,222	$ 38	$ 521,314	$ (176,684)	$ 2,936	$ 347,604	1,084	$ 10,800	$ (86)	$ 358,318

(1) During the years ended December 31, 2017, 2016 and 2015, 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,		
	2017	2016	2015
Cash flows from operating activities:			
Net income from continuing operations	$8,866	$8,128	$6,854
Net income from discontinued operations	—	—	11
Net income	8,866	8,128	6,865
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	27,240	22,457	19,761
Amortization of deferred loan costs	1,283	1,554	1,212
Amortization of notes payable discount	508	391	295
Loss (gain) on sale of marketable securities	91	—	(44)
Loss (gain) on sale or disposal of assets and properties	167	(3,261)	185
Bad debt expense	2,340	1,585	1,974
Share-based compensation	10,410	10,231	7,337
Changes in operating assets and liabilities:			
Escrows and acquisition deposits	(3,484)	48	(2,576)
Accrued rent and accounts receivable	(5,893)	(6,070)	(5,606)
Unamortized lease commissions	(2,864)	(2,638)	(1,918)
Prepaid expenses and other assets	536	1,047	394
Accounts payable and accrued expenses	999	4,837	7,419
Tenants' security deposits	760	871	882
Net cash provided by operating activities	40,959	39,180	36,169
Net cash provided by operating activities of discontinued operations	—	—	11
Cash flows from investing activities:			
Acquisitions of real estate	(125,468)	(60,616)	(147,950)
Additions to real estate	(17,575)	(22,036)	(12,719)
Proceeds from sales of properties	26	6,897	—
Proceeds from sales of marketable securities	513	—	496
Net cash used in investing activities	(142,504)	(75,755)	(160,173)
Net cash used in investing activities of discontinued operations	—	—	—
Cash flows from financing activities:			
Distributions paid to common shareholders	(40,472)	(31,911)	(28,457)
Distributions paid to OP unit holders	(1,241)	(729)	(489)
Distributions paid to noncontrolling interest in Consolidated Partnership	(379)	—	—
Proceeds from issuance of common shares, net of offering costs	118,412	30,014	49,649
Net proceeds from credit facility	45,600	59,000	107,500
Repayments of notes payable	(11,543)	(14,335)	(2,847)
Payments of loan origination costs	(695)	—	(1,534)
Change in restricted cash	(149)	65	(121)
Repurchase of common shares	(4,339)	(3,948)	(1,357)
Net cash provided by financing activities	105,194	38,156	122,344
Net cash provided by financing activities of discontinued operations	—	—	—
Net increase (decrease) in cash and cash equivalents	3,649	1,581	(1,649)
Cash and cash equivalents at beginning of period	4,168	2,587	4,236
Cash and cash equivalents at end of period	$7,817	$4,168	$2,587

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,		
	2017	2016	2015
Supplemental disclosure of cash flow information:			
Cash paid for interest	$22,541	$18,287	$13,470
Cash paid for taxes	$337	$284	$315
Non cash investing and financing activities:			
Disposal of fully depreciated real estate	$1,036	$690	$57
Financed insurance premiums	$1,115	$1,060	$1,057
Value of shares issued under dividend reinvestment plan	$127	$114	$95
Value of common shares exchanged for OP units	$206	$125	$174
Change in fair value of available-for-sale securities	$118	$82	$85
Change in fair value of cash flow hedge	$2,022	$929	$(46)
Acquisition of real estate in exchange for OP units	$—	$8,738	$1,333
Reallocation of ownership percentage between parent and subsidiary	$13	$11	$—
Debt issued with acquisitions of real estate	$80,000	$—	$—

See the accompanying notes to consolidated financial statements.

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WHITESTONE REIT AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2017

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, 2017, 2016 and 2015, we owned or held a majority interest in 73, 69, and 70 commercial properties, respectively, in and around Austin, Chicago, Dallas-Fort Worth, Houston, Phoenix and San Antonio.

These properties consist of:

Consolidated Operating Portfolio

- 51 wholly-owned properties that meet our Community Centered Properties® strategy; and

- through our 81.4% majority interest in our consolidated subsidiary, Pillarstone Capital REIT Operating Partnership LP ("Pillarstone") an interest in 14 consolidated properties that do not meet our Community Centered Properties® strategy.

Redevelopment, New Acquisitions Portfolio

- two retail properties that meet our Community Centered Properties® strategy; and

- six parcels of land held for future development.

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, 2017, 2016 and 2015, 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. We also consolidate a variable interest entity ("VIE") when we are determined to be the primary beneficiary. Determination of the primary beneficiary is based on whether an entity has (1) the power to direct activities that most significantly impact the economic performance of the VIE and (2) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Our determination of the primary beneficiary considers all relationships between us and the VIE, including management and other contractual agreements. See Note 5 for additional disclosure on our VIE.

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.

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WHITESTONE REIT AND SUBSIDIARIES
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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. During 2016, we reclassified certain deferred financing costs, previously classified as an asset as a direct reduction from the carrying amount of certain debt liabilities for all periods presented. Deferred financing costs related to our unsecured line of credit have not been reclassified. See Note 9 for additional information. These reclassifications had no effect on net income or equity.

Restricted Cash. We classify all cash pledged as collateral to secure certain obligations and all cash whose use is limited as restricted cash. During 2015, pursuant to the terms of our $15.1 million 4.99% Note, due January 6, 2024, which is collateralized by our Anthem Marketplace property, we were required by the lenders thereunder to establish a cash management account controlled by the lenders to collect all amounts generated by our Anthem Marketplace property in order to collateralize such promissory note. As a result, these amounts are reported in the consolidated statements of cash flows under cash flows from financing activities.

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 $10.4 million, $10.2 million and $7.3 million in share-based compensation expense for the years ended December 31, 2017, 2016 and 2015, 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, 2017 and 2016 consisted of demand deposits at commercial banks and brokerage accounts. We may have net book credit balances in our primary disbursement accounts at the end of a reporting period. We classify such credit balances as accounts payable in our consolidated balance sheets as checks presented for payment to these accounts are not payable by our banks under overdraft arrangements, and, therefore, do not represent short-term borrowings. As of December 31, 2017 and 2016, there were net book credit balances of $0.8 million and $1.5 million, respectively, in our primary disbursement accounts that were classified as accounts payable on our consolidated balance sheets.

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WHITESTONE REIT AND SUBSIDIARIES
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December 31, 2017

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, 2017, approximately $439,000 and $277,000 in interest expense and real estate taxes, respectively, were capitalized. For the year ended December 31, 2016, approximately $324,000 and $71,000 in interest expense and real estate taxes, respectively, were capitalized. For the year ended December 31, 2015, approximately $106,000 and $69,000 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.

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, 2017.

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, 2017 and 2016, we had an allowance for uncollectible accounts of $9.1 million and $7.3 million, respectively. As of December 31, 2017, 2016 and 2015, we recorded bad debt expense in the amount of $2.3 million, $1.6 million and $2.0 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.

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. As of December 31, 2017, 2016 and 2015, we recorded a margin tax provision of $0.4 million, $0.2 million and $0.4 million, respectively.

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 $659.6 million and $540.0 million as compared to the book value of approximately $660.9 million and $545.5 million as of December 31, 2017 and 2016, 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.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 2017 and 2016. 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, 2017 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 and subsequently reclassified into earnings in the period that the hedged transaction affects earnings. Any ineffective portion of a cash flow hedge's 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, 2017, 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 Austin, Chicago, Dallas-Fort Worth, Houston, Phoenix and San Antonio 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 May 2014, the FASB issued guidance, as amended in subsequent updates, establishing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. The standard also requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. This guidance became effective for the reporting periods beginning on or after December 15, 2017, and interim periods within those fiscal years. We have adopted this guidance on a modified retrospective basis beginning January 1, 2018 and do not expect this standard to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued guidance requiring lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting will remain largely unchanged with the exception of changes related to costs which qualify as initial direct costs. The guidance will also require new qualitative and quantitative disclosures to help financial statement users better understand the timing, amount and uncertainty of cash flows arising from leases. This guidance will be effective for reporting periods on or after December 15, 2018, with early adoption permitted. We will adopt this guidance on a modified retrospective basis beginning January 1, 2019, and such adoption will result in certain costs (primarily legal costs related to lease negotiations) being expensed rather than capitalized. We capitalized $436,000 in legal related costs for the year ended December 31, 2017.

In March 2016, the FASB issued guidance simplifying the accounting for share-based payment transactions, including the income tax consequences, balance sheet classification of awards and the classification on the statement of cash flows. We have adopted this guidance as of January 1, 2017. The main provision regarding excess tax benefits did not have an impact on our consolidated financial statements due to our status as a REIT for federal income tax purposes. We have elected to continue estimating the number of shares expected to vest in order to determine compensation cost, and we will continue to classify cash paid by us for employee taxes when common shares were repurchased to cover minimum statutory requirements under cash flows from financing activities.

In November 2016, the FASB issued guidance requiring that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance became effective for the reporting periods beginning on or after December 15, 2017, and interim periods within those fiscal years. We have adopted this guidance effective January 1, 2018, and we will reconcile cash and cash equivalents and restricted cash and restricted cash equivalents on a retrospective basis, whereas under the previous guidance, we reported restricted cash and restricted cash equivalents under cash flows from financing activities.

In January 2017, the FASB issued guidance clarifying the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or dispositions) of assets or businesses. This guidance became effective for the reporting periods beginning on or after December 15, 2017, and interim periods within those fiscal years. We have adopted this guidance on a prospective basis beginning January 1, 2018 and believe the majority of our future acquisitions will qualify as asset acquisitions and the associated transaction costs will be capitalized as opposed to expensed under previous guidance.

In February 2017, the FASB issued guidance clarifying the scope of asset derecognition guidance, adds guidance for partial sales of nonfinancial assets and clarifies recognizing gains and losses from the transfer of nonfinancial assets in

contracts with noncustomers. This guidance became effective for the reporting periods beginning on or after December 15, 2017, and interim periods within those fiscal years. We have adopted this guidance on a modified retrospective basis beginning January 1, 2018 and do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

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3. MARKETABLE SECURITIES

All of our marketable securities were classified as available-for-sale securities as of December 31, 2017, 2016 and 2015. Available-for-sale securities consist of the following (in thousands):

	December 31, 2017			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
Real estate sector common stock	$50	$ —	$ (18)	$ 32
Total available-for-sale securities	$50	$ —	$ (18)	$ 32

	December 31, 2016			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
Real estate sector common stock	$654	$ —	$ (137)	$ 517
Total available-for-sale securities	$654	$ —	$ (137)	$ 517

During the years ended December 31, 2017 and 2015, available-for-sale securities were sold for total proceeds of $513,000 and $496,000, respectively. The gross realized gains and losses on these sales totaled $5,000 and $96,000, respectively, in 2017, and $44,000 and $0, respectively, in 2015. During the year ended December 31, 2016, no available-for-sale securities were sold. For the purpose of determining gross realized gains and losses, the cost of securities sold is based on specific identification. A net unrealized holding loss on available-for-sale securities in the amount of $18,000 and $137,000 for the years ended December 31, 2017 and 2016, respectively, has been included in accumulated other comprehensive income.

4. REAL ESTATE

As of December 31, 2017, we owned or held a majority interest in 73 commercial properties in the Austin, Chicago, Dallas-Fort Worth, Houston, Phoenix and San Antonio areas comprised of approximately 6.6 million square feet of gross leasable area (“GLA”).

Property Acquisitions. On December 29, 2017, we acquired a 1.83 acre parcel of undeveloped land for $0.9 million in cash and net prorations. The undeveloped land parcel is the hard corner at our Eldorado Plaza property.

On May 26, 2017, we acquired BLVD Place, a property that meets our Community Centered Property® strategy, for $158.0 million, including $80.0 million of asset level mortgage financing and $78.0 million in cash and net prorations. BLVD Place, a 216,944 square foot property, was 99% leased at the time of purchase and is located in Houston, Texas. Included in the purchase of BLVD Place is approximately 1.43 acres of developable land. Revenue and net income attributable to BLVD Place of $9.3 million and $5.1 million, respectively, have been included in our results of operations for the year ended December 31, 2017.

On May 3, 2017, we acquired Eldorado Plaza, a property that meets our Community Centered Property® strategy, for $46.6 million in cash and net prorations. Eldorado Plaza, a 221,577 square foot property, was 96% leased at the time of purchase and is located in McKinney, Texas, a suburb of Dallas, Texas. Revenue and net income attributable to Eldorado Plaza of $3.0 million and $1.6 million, respectively, have been included in our results of operations for the year ended December 31, 2017.

On September 30, 2016, we acquired La Mirada and Seville, properties that meet our Community Centered Property® strategy, for 621,053 OP units and $60.7 million in cash and net prorations. The OP units are redeemable for cash or, at our option, Whitestone REIT common shares on a one-for-one basis, subject to certain restrictions. La Mirada, a 147,209 square foot property, was 90% leased at the time of purchase. Seville, a 90,042 square foot property, was 88% leased at the time of purchase. Both properties are located in Scottsdale, Arizona.

On August 28, 2015, we acquired the hard corner at our Gilbert Tuscany Village property for approximately $1.7 million in cash and net prorations. The 14,603 square foot single-tenant property was vacant at the time of purchase and is located in Gilbert, Arizona.

On August 26, 2015, we acquired two parcels of undeveloped land totaling 3.12 acres for 120,000 OP units. The OP units, are convertible on a one-for-one basis for Whitestone REIT common shares, subject to certain restrictions. The undeveloped land parcels are adjacent to our Keller Place property.

On August 26, 2015, we acquired Keller Place, a property that meets our Community Centered Property® strategy, for approximately $12.0 million in cash and net prorations. The 93,541 square foot property was 92% leased at the time of purchase and is located in the Keller suburb of Fort Worth, Texas.

On August 26, 2015, we acquired Quinlan Crossing, a property that meets our Community Centered Property® strategy, for approximately $37.5 million in cash and net prorations. The 109,892 square foot property was 95% leased at the time of purchase and is located in Austin, Texas.

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

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

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

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

Unaudited pro forma results of operations. The following unaudited pro forma results summarized below reflect our consolidated results of operations as if our acquisitions for the years ended December 31, 2017, 2016 and 2015 were acquired on January 1, 2015. The unaudited consolidated pro forma results of operations is not necessarily indicative of what the actual results of operations would have been, assuming the transactions had been completed as set forth above, nor do they purport to represent our results of operations for future periods.

	Year Ended December 31,		
(in thousands, except per share data)	2017	2016	2015
Total property revenues	$133,663	$129,385	$127,485
Net income	$11,600	$16,978	$18,219
Net income attributable to Whitestone REIT [(1)]	$10,990	$16,583	$17,912
Basic Earnings Per Share:	$0.28	$0.45	$0.53
Diluted Earnings Per Share:	$0.27	$0.44	$0.52
Weighted-average common shares outstanding:			
Basic [(2)]	37,933	35,637	32,650
Diluted [(2)]	38,760	36,402	33,702

(1) Net income attributable to Whitestone REIT reflects historical ownership percentages and does not reflect the effects of the April Offering (as defined in Note 14), assuming the sale of the common shares took place on January 1, 2015, as the related impact on ownership percentage is minimal.

(2) Pro forma weighted averages reflect the April Offering, assuming the sale of the common shares took place on January 1, 2015.

Acquisition costs. Acquisition-related costs of $1.6 million, $2.1 million and $1.7 million are included in general and administrative expenses in our income statements for the years ended December 31, 2017, 2016 and 2015, respectively.

Development properties. As of March 31, 2017, we had substantially completed construction at our Pinnacle of Scottsdale Phase II property. As of December 31, 2017, we had incurred approximately $5,200,000 in construction costs, including approximately $565,000 in previously capitalized interest and real estate taxes. The 27,063 square foot Community Centered Property® was 91% leased at year end and is located in Scottsdale, Arizona, and adjacent to Pinnacle of Scottsdale.

As of December 31, 2016, we had substantially completed construction at our Shops at Starwood Phase III property. As of December 31, 2017, we had incurred approximately $8.0 million in construction costs, including approximately $1.0 million in previously capitalized interest and real estate taxes. The 35,351 square foot Community Centered Property® was 71% leased at year end and is located in Frisco, Texas, a northern suburb of Dallas, Texas, and adjacent to Shops at Starwood.

Property dispositions. On November 29, 2016, we completed the sale of Centre South and Webster Pointe, located in Houston, Texas, for $4.9 million. This disposition was pursuant to our strategy of recycling capital by disposing of Non-Core Properties, primarily properties that we owned at the time our current management team assumed the management of the Company, that do not fit our Community Centered Property® strategy. As part of the transaction,

we provided short-term seller financing of $1.7 million. We recorded a gain on sale of $2.2 million, including recognizing a $0.5 million gain on sale for the year ended December 31, 2016 and deferring the remaining $1.7 million gain on sale to be recognized upon receipt of principal payments on the financing provided by us. We have not included Centre South and Webster Pointe in discontinued operations as the sale did not meet the definition of discontinued operations.

On March 3, 2016, we completed the sale of Brookhill, located in Houston, Texas, for $3.1 million. This disposition was pursuant to our strategy of recycling capital by disposing of Non-Core Properties, primarily properties that we owned at the time our current management team assumed the management of the Company, that do not fit our Community Centered Property® strategy. We recorded a gain on sale of $1.9 million. The sale was structured as a like-kind exchange within the meaning of Section 1031 of the Code and sales proceeds were deposited into a Section 1031 exchange escrow account with a qualified intermediary and subsequently distributed for general corporate purposes. We have not included Brookhill in discontinued operations as it did not meet the definition of discontinued operations.

On February 17, 2016, we completed the sale of approximately 0.5 acres of our 4.5 acre Pinnacle Phase II development parcel, located in Scottsdale, Arizona, for $1.1 million. We recorded a gain on sale of $1.0 million.

Involuntary conversion. On August 29, 2015, we experienced a fire at our Corporate Park Northwest property, located in Houston, Texas. As a result, we recorded involuntary conversion losses of $447,000 related to the disposal of 11,268 square feet of property and related improvements and $55,000 in demolition costs which were offset with $569,000 in insurance proceeds. The $67,000 gain on conversion is included as a reduction in our loss on sale or disposal of assets in the consolidated statements of operations and comprehensive income.

Hurricane Harvey. In August 2017, Hurricane Harvey impacted the South Texas region, including Houston, Texas. The majority of our Houston properties incurred minor damage and as a result, we recorded approximately $0.5 million in Harvey related repairs recorded in property operation and maintenance expense for the year ended December 31, 2017, with no insurance recoveries expected.

5. VARIABLE INTEREST ENTITIES

On December 8, 2016, we, through our Operating Partnership, entered into a Contribution Agreement (the "Contribution Agreement") with Pillarstone and Pillarstone Capital REIT ("Pillarstone REIT") pursuant to which we contributed all of the equity interests in four of our wholly-owned subsidiaries: Whitestone CP Woodland Ph. 2, LLC, a Delaware limited liability company ("CP Woodland"); Whitestone Industrial-Office, LLC, a Texas limited liability company ("Industrial-Office"); Whitestone Offices, LLC, a Texas limited liability company ("Whitestone Offices"); and Whitestone Uptown Tower, LLC, a Delaware limited liability company ("Uptown Tower", and together with CP Woodland, Industrial-Office and Whitestone Offices, the "Entities") that own 14 Non-Core Properties that do not fit our Community Centered Property® strategy, to Pillarstone for aggregate consideration of approximately $84.0 million, consisting of (1) approximately 18.1 million Class A units representing limited partnership interests in Pillarstone ("Pillarstone OP Units"), issued at a price of $1.331 per Pillarstone OP Unit; and (2) the assumption of approximately $65.9 million of liabilities, consisting of (a) approximately $15.5 million of our liability under the 2014 Facility (as defined in Note 9); (b) an approximately $16.3 million promissory note of Uptown Tower under the Loan Agreement, dated as of September 26, 2013, between Uptown Tower, as borrower, and U.S. Bank, National Association, as successor to Morgan Stanley Mortgage Capital Holdings LLC, as lender; and (c) an approximately $34.1 million promissory note (the "Industrial-Office Promissory Note") of Industrial-Office issued under the Loan Agreement, dated as of November 26, 2013 (the "Industrial-Office Loan Agreement"), between Industrial-Office, as borrower, and Jackson National Life Insurance Company, as lender (collectively, the "Contribution").

In connection with the Contribution, on December 8, 2016, the Operating Partnership entered into an OP Unit Purchase Agreement (the "OP Unit Purchase Agreement") with Pillarstone REIT and Pillarstone pursuant to which the Operating Partnership agreed to purchase up to an aggregate of $3.0 million of Pillarstone OP Units at a price of

$1.331 per Pillarstone OP Unit over the two-year term of the OP Unit Purchase Agreement on the terms set forth therein. The OP Unit Purchase Agreement contains customary closing conditions and the parties have made certain customary representations, warranties and indemnifications to each other in the OP Unit Purchase Agreement. In addition, pursuant to the OP Unit Purchase Agreement, in the event of a Change of Control (as defined therein) of the Company, Pillarstone shall have the right, but not the obligation, to repurchase the Pillarstone OP Units issued thereunder from the Operating Partnership at their initial issue price of $1.331 per Pillarstone OP Unit.

In connection with the Contribution, (1) with respect to each Non-Core Property (other than Uptown Tower), Whitestone TRS, Inc., a subsidiary of the Company ("Whitestone TRS"), entered into a Management Agreement with the Entity that owns such Non-Core Property and (2) with respect to Uptown Tower, Whitestone TRS entered into a Management Agreement with Pillarstone (collectively, the "Management Agreements"). Pursuant to the Management Agreements with respect to each Non-Core Property (other than Uptown Tower), Whitestone TRS agreed to provide certain property management, leasing and day-to-day advisory and administrative services to such Non-Core Property in exchange for (x) a monthly property management fee equal to 5.0% of the monthly revenues of such Non-Core Property and (y) a monthly asset management fee equal to 0.125% of GAV (as defined in each Management Agreement as, generally, the purchase price of the respective Non-Core Property based upon the purchase price allocations determined pursuant to the Contribution Agreement, excluding all indebtedness, liabilities or claims of any nature) of such Non-Core Property. Pursuant to the Management Agreement with respect to Uptown Tower, Whitestone TRS agreed to provide certain property management, leasing and day-to-day advisory and administrative services to Pillarstone in exchange for (x) a monthly property management fee equal to 3.0% of the monthly revenues of Uptown Tower and (y) a monthly asset management fee equal to 0.125% of GAV of Uptown Tower.

As of December 31, 2017, we owned approximately 81.4% of the total outstanding units of Pillarstone. Additionally, certain of our Named Executive Officers and Trustees serve as Officers and Trustees of Pillarstone REIT. We have determined that we are the primary beneficiary of Pillarstone, through our power to direct the activities of Pillarstone, additional working capital required by Pillarstone under the OP Unit Purchase Agreement and our obligation to absorb losses and receive benefits based on our ownership percentage. Accordingly, we account for Pillarstone as a VIE and fully consolidate in our consolidated financial statements.

The carrying amounts and classification of certain assets and liabilities for Pillarstone in our consolidated balance sheets as of December 31, 2017 and 2016, consists of the following (in thousands):

	December 31,	
	2017	2016
Real estate assets, at cost		
Property	$95,146	$92,338
Accumulated depreciation	(35,980)	(32,533)
Total real estate assets	59,166	59,805
Cash and cash equivalents	2,812	1,236
Escrows and acquisition deposits	2,188	2,274
Accrued rents and accounts receivable, net of allowance for doubtful accounts[1]	2,364	2,313
Unamortized lease commissions and loan costs	1,265	1,150
Prepaid expenses and other assets[2]	65	82
Total assets	$67,860	$66,860
Liabilities		
Notes payable[3]	$48,840	$50,001
Accounts payable and accrued expenses[4]	3,494	3,481
Tenants' security deposits	1,191	996
Total liabilities	$53,525	$54,478

(1) Excludes approximately $1.3 million and $0.5 million in accounts receivable due from Whitestone that were eliminated in consolidation as of December 31, 2017 and 2016, respectively.

(2) Excludes approximately $0.9 million in prepaid expenses due from Whitestone that were eliminated in consolidation as of December 31, 2016.

(3) Excludes approximately $15.5 million and $15.5 million in notes payable due to Whitestone that were eliminated in consolidation as of December 31, 2017 and 2016, respectively.

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(4) Excludes approximately $1.0 million and $0.3 million in accounts payable due to Whitestone that were eliminated in consolidation as of December 31, 2017 and 2016, respectively.

6. 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,	
	2017	2016
Tenant receivables	$15,124	$12,972
Accrued rents and other recoveries	17,527	14,237
Allowance for doubtful accounts	(9,147)	(7,258)
Totals	$23,504	$19,951

7. UNAMORTIZED LEASE COMMISSIONS AND LOAN COSTS

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

	December 31,	
	2017	2016
Leasing commissions	$10,797	$8,720
Deferred legal cost	436	—
Deferred financing cost	4,071	4,071
Total cost	15,304	12,791
Less: leasing commissions accumulated amortization	(4,753)	(3,597)
Less: deferred legal cost accumulated amortization	(66)	—
Less: deferred financing cost accumulated amortization	(2,063)	(1,111)
Total cost, net of accumulated amortization	$8,422	$8,083

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

Years Ended December 31,	Leasing Commissions	Deferred Legal Costs	Deferred Financing Costs	Total
2018	$ 1,516	$ 79	$ 855	$2,450
2019	1,276	69	369	1,714
2020	1,065	56	359	1,480
2021	835	44	235	1,114
2022	602	35	190	827
Thereafter	750	87	—	837
Total	$ 6,044	$ 370	$ 2,008	$8,422

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8. 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, 2017 is as follows (in thousands):

Years Ended December 31,	Minimum Future Rents
2018	$91,716
2019	79,580
2020	65,752
2021	52,117
2022	39,386
Thereafter	147,748
Total	$476,299

9. DEBT

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

Description	December 31, 2017	2016
Fixed rate notes		
$10.5 million, LIBOR plus 2.00% Note, due September 24, 2018 [1]	$9,740	$9,980
$50.0 million, 1.75% plus 1.35% to 1.90% Note, due October 30, 2020 [2]	50,000	50,000
$50.0 million, 1.50% plus 1.35% to 1.90% Note, due January 29, 2021 [3]	50,000	50,000
$100.0 million, 1.73% plus 1.65% to 2.25% Note, due October 30, 2022 [4]	100,000	100,000
$80.0 million, 3.72% Note, due June 1, 2027	80,000	—
$37.0 million 3.76% Note, due December 1, 2020 [5]	33,148	34,166
$6.5 million 3.80% Note, due January 1, 2019	5,842	6,019
$19.0 million 4.15% Note, due December 1, 2024	19,000	19,000
$20.2 million 4.28% Note, due June 6, 2023	19,360	19,708
$14.0 million 4.34% Note, due September 11, 2024	13,944	14,000
$14.3 million 4.34% Note, due September 11, 2024	14,300	14,300
$16.5 million 4.97% Note, due September 26, 2023 [5]	16,058	16,298
$15.1 million 4.99% Note, due January 6, 2024	14,865	15,060
$9.2 million, Prime Rate less 2.00% Note, due December 29, 2017 [6]	—	7,869
$2.6 million 5.46% Note, due October 1, 2023	2,472	2,512
Floating rate notes		
Unsecured line of credit, LIBOR plus 1.40% to 1.95%, due October 30, 2019 [7]	232,200	186,600
Total notes payable principal	660,929	545,512
Less deferred financing costs, net of accumulated amortization	(1,861)	(1,492)
	$659,068	$544,020

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

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(2) Promissory note includes an interest rate swap that fixed the LIBOR portion of Term Loan 1 (as defined below) at 0.84% through February 3, 2017 and 1.75% beginning February 3, 2017 through October 30, 2020.

(3) Promissory note includes an interest rate swap that fixed the LIBOR portion of Term Loan 2 (as defined below) at 1.50%.

(4) Promissory note includes an interest rate swap that fixed the LIBOR portion of Term Loan 3 (as defined below) at 1.73%.

(5) Promissory notes were assumed by Pillarstone in December 2016 (see Note 5).

(6) 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%.

(7) Unsecured line of credit includes certain Pillarstone Properties.

Our mortgage debt was collateralized by 20 operating properties as of December 31, 2017 with a combined net book value of $340.6 million and 19 operating properties as of December 31, 2016 with a combined net book value of $189.4 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 May 26, 2017, we, through our subsidiary, Whitestone BLVD Place LLC, a Delaware limited liability company, issued a $80.0 million promissory note to American General Life Insurance Company (the “BLVD Note”). The BLVD Note has a fixed interest rate of 3.72% and a maturity date of June 1, 2027. Proceeds from the BLVD Note were used to fund a portion of the purchase price of the acquisition of BLVD Place (See Note 4).

On November 7, 2014, we, through our Operating Partnership, entered into an unsecured revolving credit facility (the “2014 Facility”) with the lenders party thereto, with BMO Capital Markets Corp., Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and U.S. Bank, National Association, as co-lead arrangers and joint book runners, and Bank of Montreal, as administrative agent (the “Agent”). The 2014 Facility amended and restated our previous unsecured revolving credit facility. On October 30, 2015, we, through our Operating Partnership, entered into the First Amendment to the 2014 Facility (the “First Amendment”) with the guarantors party thereto, the lenders party thereto and the Agent . We refer to the 2014 Facility, as amended by the First Amendment, as the “Facility.”

Pursuant to the First Amendment, the Company made the following amendments to the 2014 Facility:

- extended the maturity date of the $300 million unsecured revolving credit facility under the 2014 Facility (the “Revolver”) to October 30, 2019 from November 7, 2018;
- converted $100 million of outstanding borrowings under the Revolver to a new $100 million unsecured term loan under the 2014 Facility (“Term Loan 3”) with a maturity date of October 30, 2022;
- extended the maturity date of the first $50 million unsecured term loan under the 2014 Facility (“Term Loan 1”) to October 30, 2020 from February 17, 2017; and

- extended the maturity date of the second $50 million unsecured term loan under the 2014 Facility (“Term Loan 2” and together with Term Loan 1 and Term Loan 3, the “Term Loans”) to January 29, 2021 from November 7, 2019.

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Borrowings under the Facility accrue interest (at the Operating Partnership's option) at a Base Rate or an Adjusted LIBOR plus an applicable margin based upon our then existing leverage. As of December 31, 2017, the interest rate was 3.30%. The applicable margin for Adjusted LIBOR borrowings ranges from 1.40% to 1.95% for the Revolver and 1.35% to 2.25% for the Term Loans. Base Rate means the higher of: (a) the Agent's prime commercial rate, (b) the sum of (i) the average rate quoted by the Agent by two or more federal funds brokers selected by the Agent for sale to the Agent at face value of federal funds in the secondary market in an amount equal or comparable to the principal amount for which such rate is being determined, plus (ii) 1/2 of 1.00%, and (c) the LIBOR rate for such day plus 1.00%. Adjusted LIBOR means LIBOR divided by one minus the Eurodollar Reserve Percentage. The Eurodollar Reserve Percentage means the maximum reserve percentage at which reserves are imposed by the Board of Governors of the Federal Reserve System on eurocurrency liabilities.

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

The Facility includes an accordion feature that will allow the Operating Partnership to increase the borrowing capacity to $700 million, upon the satisfaction of certain conditions. As of December 31, 2017, $432.2 million was drawn on the Facility and our unused borrowing capacity was $67.8 million, assuming that we use the proceeds of the Facility to acquire properties, or to repay debt on properties, that are eligible to be included in the unsecured borrowing base. Proceeds from the Facility were used for general corporate purposes, including property acquisitions, debt repayment, capital expenditures, the expansion, redevelopment and re-tenanting of properties in our portfolio and working capital. We intend to use the additional proceeds from the Facility for general corporate purposes, including property acquisitions, debt repayment, capital expenditure, the expansion, redevelopment and re-tenanting of properties in our portfolio and working capital.

On December 8, 2016, in connection with the Contribution, the Operating Partnership entered into the Second Amendment to the Facility and Reaffirmation of Guaranties (the “Second Amendment”) with Pillarstone, the Company and the other Guarantors party thereto, the lenders party thereto and the Agent. Pursuant to the Second Amendment, following the Contribution, Whitestone Offices, LLC and Whitestone CP Woodland Ph. 2, LLC were permitted to remain Material Subsidiaries (as defined in the Facility) and Guarantors under the Facility and their respective Pillarstone Properties were each permitted to remain an Eligible Property (as defined in the Facility) and be included in the Borrowing Base (as defined in the Facility) under the Facility. In addition, on December 8, 2016, Pillarstone entered into the Limited Guarantee (the “Limited Guarantee”) with the Agent, pursuant to which Pillarstone agreed to be joined as a party to the Facility to provide a limited guarantee up to the amount of availability generated by the Pillarstone Properties owned by Whitestone Offices, LLC and Whitestone CP Woodland Ph. 2, LLC. As of December 31, 2017, Pillarstone accounted for approximately $15.5 million of the total amount drawn on the Facility.

Certain other of our loans are subject to customary covenants. As of December 31, 2017, we were in compliance with all loan covenants.

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Annual maturities of notes payable as of December 31, 2017 are due during the following years:

Year	Amount Due (in thousands)
2018	$ 12,208
2019	240,249
2020	82,827
2021	51,918
2022	102,007
Thereafter	171,720
Total	$ 660,929

Contractual Obligations

As of December 31, 2017, we had the following contractual obligations:

		Payment due by period (in thousands)			
Consolidated Contractual Obligations	Total	Less than 1 year (2018)	1 - 3 years (2019 - 2020)	3 - 5 years (2021 - 2022)	More than 5 years (after 2022)
Long-Term Debt - Principal	$660,929	$12,208	$323,076	$153,925	$171,720
Long-Term Debt - Fixed Interest	80,790	15,223	28,954	18,200	18,413
Long-Term Debt - Variable Interest [(1)]	14,049	7,663	6,386	—	—
Unsecured credit facility - Unused commitment fee [(2)]	249	136	113	—	—
Operating Lease Obligations	57	33	20	4	—
Total	$756,074	$35,263	$358,549	$172,129	$190,133

As of December 31, 2017, Pillarstone had the following contractual obligations included in the consolidated contractual obligations:

		Payment due by period (in thousands)			
Pillarstone Contractual Obligations	Total	Less than 1 year (2018)	1 - 3 years (2019 - 2020)	3 - 5 years (2021 - 2022)	More than 5 years (after 2022)
Long-Term Debt - Principal	$49,206	$1,343	$32,662	$631	$14,570
Long-Term Debt - Fixed Interest	7,921	2,019	3,882	1,481	539
Long-Term Debt - Variable Interest [(3)]	937	511	426	—	—
Total	$58,064	$3,873	$36,970	$2,112	$15,109

(1) As of December 31, 2017, we had one loan totaling $232.2 million which bore interest at a floating rate. The variable interest rate payments are based on LIBOR plus 1.40% to LIBOR plus 1.95%, which reflects our new interest rates under the 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, 2017, of 1.37%.

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(2) The unused commitment fees on the Facility, payable quarterly, are based on the average daily unused amount of the 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 the Facility based on our December 31, 2017 balance of $432.2 million.

(3) The variable interest relates to Pillarstone properties remaining in the Facility. As of December 31, 2017, Pillarstone accounted for approximately $15.5 million of the total amount drawn on the Facility.

10. 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, 2017	Accounts payable and accrued expenses	$ (3,036)
December 31, 2016	Accounts payable and accrued expenses	$ (662)

On November 19, 2015, we, through our Operating Partnership, entered into an interest rate swap with Bank of Montreal that fixed the LIBOR portion of Term Loan 3 under the Facility at 1.73%. In the fourth quarter of 2015, pursuant to the terms of the agreement governing the interest rate swap, Bank of Montreal assigned $35.0 million of the swap to U.S. Bank, National Association, and $15.0 million of the swap to SunTrust Bank. See Note 9 for additional information regarding the Facility. The swap began on November 30, 2015 and will mature on October 28, 2022. 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 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 November 19, 2015, we, through our Operating Partnership, entered into an interest rate swap with Bank of Montreal that fixed the LIBOR portion of Term Loan 1 under the Facility at 1.75%. In the fourth quarter of 2015, pursuant to the terms of the agreement governing the interest rate swap, Bank of Montreal assigned $3.8 million of the swap to Regions Bank, $6.5 million of the swap to U.S. Bank, National Association, $14.0 million of the swap to Wells Fargo Bank, National Association, $14.0 million of the swap to Bank of America, N.A., and $5.0 million of the swap to SunTrust Bank. See Note 9 for additional information regarding the Facility. The swap will begin on February 3, 2017 and will mature on October 30, 2020. 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 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 November 19, 2015, we, through our Operating Partnership, entered into an interest rate swap with Bank of Montreal that fixed the LIBOR portion of Term Loan 2 under the Facility at 1.50%. In the fourth quarter of 2015, pursuant to the terms of the agreement governing the interest rate swap, Bank of Montreal assigned $3.8 million of the swap to Regions Bank, $6.5 million of the swap to U.S. Bank, National Association, $14.0 million of the swap to Wells Fargo Bank, National Association, $14.0 million of the swap to Bank of America, N.A., and $5.0 million of the swap to SunTrust Bank. See Note 9 for additional information regarding the Facility. The swap began on December 7, 2015 and will mature on January 29, 2021. 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 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.

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

	Amount Recognized as Comprehensive Income	Location of Loss Recognized in Earnings	Amount of Loss Recognized in Earnings [1]
Year ended December 31, 2017	$ 2,022	Interest expense	$ (1,575)
Year ended December 31, 2016	$ 929	Interest expense	$ (2,385)
Year ended December 31, 2015	$ 46	Interest expense	$ (991)

(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, 2017, 2016 and 2015.

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11. 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.

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, 2017, 2016 and 2015, 1,088,292, 642,132 and 429,809 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, 2017, 2016 and 2015, distributions of $472,000, $636,000 and $564,000, respectively, were made to the holders of certain restricted common shares, $16,000, $16,000 and $36,000 of which were charged against earnings, respectively. See Note 15 for information related to restricted common shares under the 2008 Plan.

	Year Ended December 31,		
(in thousands, except per share data)	2017	2016	2015
Numerator:			
Net income	$8,866	$8,128	$6,854
Less: Net income attributable to noncontrolling interests	(532)	(197)	(116)
Distributions paid on unvested restricted shares	(456)	(620)	(528)
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	7,878	7,311	6,210
Income from discontinued operations	—	—	11
Less: Net income attributable to noncontrolling interests	—	—	—
Income from discontinued operations attributable to Whitestone REIT	—	—	11
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$7,878	$7,311	$6,221
Denominator:			
Weighted average number of common shares - basic	35,428	27,618	24,631
Effect of dilutive securities:			
Unvested restricted shares	827	765	1,052
Weighted average number of common shares - dilutive	36,255	28,383	25,683
Earnings Per Share:			
Basic:			
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.22	$0.26	$0.25
Income from discontinued operations attributable to Whitestone REIT	0.00	0.00	0.00
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$0.22	$0.26	$0.25

Diluted:			
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	$0.22	$0.26	$0.24
Income from discontinued operations attributable to Whitestone REIT	0.00	0.00	0.00
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$0.22	$0.26	$0.24

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WHITESTONE REIT AND SUBSIDIARIES
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12. 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 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 on our taxable income at regular corporate tax rates.

Income earned by our taxable REIT subsidiary, Whitestone Davenport TRS LLC ("Davenport TRS"), is subject to federal income tax. For the year ended December 31, 2016, we recognized $45,000 in income tax expense related to Davenport TRS taxable year. Davenport TRS was dissolved in the fourth quarter of 2016.

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:

	2017		2016		2015	
Ordinary income (unaudited)	15.3	%	49.0	%	60.9	%
Return of capital (unaudited)	84.7	%	33.7	%	37.7	%
Capital gain distributions (unaudited)	—	%	17.3	%	1.4	%
Total	100.0	%	100.0	%	100.0	%

13. RELATED PARTY TRANSACTIONS

The Contribution. Mr. James C. Mastandrea, the Chairman and Chief Executive Officer of the Company, also serves as the Chairman and Chief Executive Officer of Pillarstone REIT and beneficially owns approximately 77.9% of the outstanding equity in Pillarstone REIT (when calculated in accordance with Rule 13d-3(d)(1) under the Exchange Act of 1934, as amended (the "Exchange Act")). Mr. John J. Dee, the Chief Operating Officer and Corporate Secretary of the Company, also serves as the Senior Vice President and Chief Financial Officer of Pillarstone REIT and beneficially owns approximately 26.3% of the outstanding equity in Pillarstone REIT (when calculated in accordance with Rule 13d-3(d)(1) under the Exchange Act). In addition, Mr. Paul T. Lambert, a Trustee of the Company, also serves as a Trustee of Pillarstone REIT. The Contribution is pursuant to the Company's strategy of recycling capital by disposing of Non-Core Properties that do not fit the Company's Community Centered Property® strategy and the terms of the Contribution Agreement, the OP Unit Purchase Agreement, the Tax Protection Agreement and the Contribution were determined through arm's-length negotiations. The Contribution was unanimously approved and recommended by a special committee of independent Trustees of the Company. See Note 5 for additional disclosure on the Contribution.

14. 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.

Equity Offerings

On April 25, 2017, we completed the sale of 8,018,500 common shares, including 1,018,500 common shares purchased by the underwriters upon exercise of their option to purchase additional common shares, at a public offering price per share of $13.00 (the “April Offering”). Total net proceeds from the April Offering, after deducting offering expenses, were approximately $99.9 million, which we contributed to the Operating Partnership in exchange for OP units. The Operating Partnership used the net proceeds from the April Offering to repay a portion of the Facility and for general corporate purposes, including funding a portion of the purchase price of BLVD Place and Eldorado Plaza.

On June 4, 2015, we entered into nine amended and restated equity distribution agreements (the "2015 equity distribution agreements") for an at-the-market distribution program. Pursuant to the terms and conditions of the 2015 equity distribution agreements, we can issue and sell up to an aggregate of $50 million of our common shares. Actual sales will depend on a variety of factors to be determined by us from time to time, including (among others) market conditions, the trading price of our common shares, capital needs and our determinations of the appropriate sources of funding for us, and will be made in transactions that will be deemed to be "at-the-market" offerings as defined in Rule 415 under the Securities Act. We have no obligation to sell any of our common shares, and can at any time suspend offers under the 2015 equity distribution agreements or terminate the 2015 equity distribution agreements. For the year ended December 31, 2017, we sold 1,324,038 common shares under the 2015 equity distribution agreements, with net proceeds to us of approximately $18.6 million. In connection with such sales, we paid compensation of approximately $0.3 million to the sales agents. For the year ended December 31, 2016, we sold 2,063,697 common shares under the 2015 equity distribution agreements, with net proceeds to us of approximately $30.0 million. In connection with such sales, we paid compensation of approximately $0.5 million to the sales agents.

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, 2017, we owned a 97.3% 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, 2017 and 2016, there were 40,184,532 and 30,450,377 OP units outstanding, respectively. We owned 39,100,951 and 29,347,741 OP units as of December 31, 2017 and 2016, 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 97.0%, 97.8% and 98.3% for the years ended December 31, 2017, 2016 and 2015, respectively. For the year ended December 31, 2017 and 2016, 19,055 and 15,450 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
2017					
Fourth Quarter	$0.2850	$11,002	$0.2850	$ 309	$11,311
Third Quarter	0.2850	10,948	0.2850	309	11,257
Second Quarter	0.2850	10,093	0.2850	310	10,403
First Quarter	0.2850	8,429	0.2850	313	8,742
Total	$1.1400	$40,472	$1.1400	$ 1,241	$41,713

2016					
Fourth Quarter	$0.2850	$8,305	$0.2850	$314	$8,619
Third Quarter	0.2850	8,109	0.2850	138	8,247
Second Quarter	0.2850	7,786	0.2850	138	7,924
First Quarter	0.2850	7,711	0.2850	139	7,850
Total	$1.1400	$31,911	$1.1400	$729	$32,640

15. INCENTIVE SHARE PLAN

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

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

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

The Compensation Committee approved the grant of an aggregate of 320,000 and 143,000 time-based restricted common share units on June 30, 2016 and 2015, respectively, to James C. Mastandrea and David K. Holeman.

On September 6, 2017, the Compensation Committee approved the grant of an aggregate of 267,783 performance-based restricted common share units under the 2008 Plan with market-based vesting conditions (the "TSR Units") to certain of our employees. Vesting is contingent upon achieving Total Shareholder Return relative to the peer group defined in the TSR Unit award agreements over a three-year performance period. At the end of the performance period, the number of common shares awarded for each vested TSR Unit will vary from 0% to 200% depending on the Company's ranking in the peer group (the "TSR Peer Group Ranking"). Continued employment is required through the vesting date. The grant date fair value for each TSR Unit of $12.37 was determined using the Monte Carlo simulation method and is being recognized as share-based compensation expense ratably from the September 30, 2017 grant date to the end of the performance period, December 31, 2019. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model were estimated using a historical period consistent with the performance period of approximately three years. The risk-free interest rate was based on the United States Treasury rate for a term commensurate with the expected life of the grant.

On September 6, 2017, the Compensation Committee approved the grant of an aggregate of 965,000 performance-based restricted common share units under the 2008 Plan which only vest immediately prior to the consummation of a Change in Control (as defined in the 2008 Plan) that occurs on or before September 30, 2024 (the “CIC Units”) to certain of our employees. Continued employment is required through the vesting date. If a Change in Control does not occur on or before September 30, 2024, the CIC Units shall be immediately forfeited. The Company considers a Change in Control on or before September 30, 2024 to be improbable, and no expense has been recognized for the CIC Units. If a Change in Control occurs, any outstanding CIC Units would be expensed immediately on the date of the Change in Control using the grant date fair value. The grant date fair value for each CIC Unit of $13.05 was determined based on the Company's closing share price on the grant date.

A summary of the share-based incentive plan activity as of and for the year ended December 31, 2017 is as follows:

	Shares	Weighted-Average Grant Date Fair Value [(1)]
Non-vested at January 1, 2017	2,044,334	$ 14.48
Granted	1,354,534	12.92
Modified to new agreements	—	—
Modified from existing agreements	—	—
Vested	(881,710)	14.55
Forfeited	(35,827)	14.38
Non-vested at December 31, 2017	2,481,331	$ 13.60
Available for grant at December 31, 2017	868,815	

(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, 2017, 2016 and 2015 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, 2017	1,354,534	$ 12.92	(881,710)	$ 12,829
Year Ended December 31, 2016	545,778	$ 14.85	(734,261)	$ 10,577
Year Ended December 31, 2015	327,122	$ 13.49	(348,786)	$ 4,969

Total compensation recognized in earnings for share-based payments for the years ended December 31, 2017, 2016 and 2015 was $10.4 million, $10.2 million and $7.3 million, respectively.

Based on our current financial projections, we expect approximately 83% of the unvested awards, exclusive of 965,000 CIC Units, to vest over the next 24 months. As of December 31, 2017, there was approximately $2.3 million in unrecognized compensation cost related to outstanding non-vested performance-based shares, which are expected to vest over a period of 15 months, $2.8 million in unrecognized compensation cost related to outstanding non-vested TSR Units, which are expected to vest over a period of 24 months and approximately $0.5 million in unrecognized compensation cost related to outstanding non-vested time-based shares, which are expected to be recognized over a period of approximately 3 months beginning on January 1, 2018.

We expect to record approximately $5.6 million in share-based compensation subsequent to the year ended December 31, 2017. The unrecognized share-based compensation cost is expected to vest over a weighted average period of 18 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. The dilutive impact of the TSR Units is based on the Company's TSR Peer Group Ranking as of the reporting date and weighted according to the number of days outstanding in the period. As of December 31, 2017, the TSR Peer Group Ranking called for 200% attainment. The dilutive impact of the CIC Units is based on the probability of a Change in

Control. Because the Company considers a Change in Control on or before September 30, 2024 to be improbable, no CIC Units are included in the Company's dilutive shares.

At our annual meeting of shareholders on May 11, 2017, our shareholders voted to approve the 2018 Long-Term Equity Incentive Ownership Plan (the “2018 Plan”). The 2018 Plan provides for the issuance of up to 3,433,831 common shares and OP units pursuant to awards under the 2018 Plan. The 2018 Plan will become effective on July 30, 2018, which is the day after the 2008 Plan expires.

16. GRANTS TO TRUSTEES

On December 12, 2017, each of our six independent trustees and one trustee emeritus was granted 3,000 common shares, which vest immediately and are prorated based on date appointed. The 16,281 common shares granted to our trustees had a grant fair value of $14.46 per share. On December 12, 2017, three of our independent trustees each elected to receive a total of 2,320 common shares with a grant date fair value of $14.46 in lieu of cash for board fees. The fair value of the shares granted during the year ended December 31, 2017 was determined using quoted prices available on the date of grant.

On December 21, 2016, each of our four independent trustees and one trustee emeritus was granted 1,500 common shares, which vest immediately. The 7,500 common shares granted to our trustees had a grant date fair value of $14.07 per share. On December 21, 2016, two of our independent trustees each elected to receive a total of 3,128 common shares with a grant date fair value of $14.07 in lieu of cash for board fees. The fair value of the shares granted during the year ended December 31, 2016 was determined using quoted prices available on the date of grant.

17. 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.

18. SEGMENT INFORMATION

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

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19. SELECT QUARTERLY FINANCIAL DATA (unaudited)

The following is a summary of our unaudited quarterly financial information for the years ended December 31, 2017 and 2016 (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2017				
Revenues	$28,267	$30,208	$33,653	$33,831
Net income	$1,557	$2,144	$3,140	$2,025
Net income attributable to Whitestone REIT	$1,440	$1,983	$2,993	$1,921
Basic Earnings per share:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares [(1)]	$0.05	$0.05	$0.07	$0.05
Diluted Earnings per share:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares [(1)]	$0.04	$0.05	$0.07	$0.05
2016				
Revenues	$25,435	$25,129	$25,508	$28,365
Net income	$5,088	$1,509	$964	$567
Net income attributable to Whitestone REIT	$4,997	$1,484	$949	$532
Basic Earnings per share:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares [(1)]	$0.18	$0.05	$0.03	$0.01
Diluted Earnings per share:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares [(1)]	$0.18	$0.05	$0.03	$0.01

(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.

20. SUBSEQUENT EVENTS

On February 27, 2018, we completed the sale of Bellnott Square, located in Houston, Texas, for $4.7 million. This disposition was pursuant to our strategy of recycling capital by disposing of Non-Core Properties, primarily properties that we owned at the time our current management team assumed the management of the Company, that do not fit our Community Centered Property strategy. We expect to record a gain on sale of approximately $0.3 million in 2018. We have not included Bellnott Square as held for sale at December 31, 2017 as it did not meet the definition of discontinued operations.

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Whitestone REIT and Subsidiaries
Schedule II - Valuation and Qualifying Accounts
December 31, 2017

	(in thousands)			
Description	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, 2017	$7,258	$ 2,340	$ (451)	$ 9,147
Year ended December 31, 2016	6,647	1,585	(974)	7,258
Year ended December 31, 2015	4,964	1,974	(291)	6,647

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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
Whitestone Properties:							
Ahwatukee Plaza	$5,126	$ 4,086	$ 365	$ —	$5,126	$ 4,451	$9,577
Anthem Marketplace	4,790	17,973	319	—	4,790	18,292	23,082
Bellnott Square	1,154	4,638	554	—	1,154	5,192	6,346
Bissonnet Beltway	415	1,947	448	—	415	2,395	2,810
BLVD Place	63,893	90,942	93	—	63,893	91,035	154,928
The Citadel	472	1,777	2,593	—	472	4,370	4,842
City View Village	2,044	4,149	11	—	2,044	4,160	6,204
Davenport Village	11,367	34,101	972	—	11,367	35,073	46,440
Desert Canyon	1,976	1,704	1,485	—	1,976	3,189	5,165
Eldorado Plaza	16,551	30,746	67	—	16,551	30,813	47,364
Fountain Hills Plaza	5,113	15,340	199	—	5,113	15,539	20,652
Fountain Square	5,573	9,828	2,224	—	5,573	12,052	17,625
Fulton Ranch Towne Center	7,604	22,612	1,957	—	7,604	24,569	32,173
Gilbert Tuscany Village	1,767	3,233	1,721	—	1,767	4,954	6,721
Gilbert Tuscany Village Hard Corner	856	794	9	—	856	803	1,659
Heritage Trace Plaza	6,209	13,821	300	—	6,209	14,121	20,330
Headquarters Village	7,171	18,439	873	—	7,171	19,312	26,483
Keller Place	5,977	7,577	465	—	5,977	8,042	14,019
Kempwood Plaza	733	1,798	1,750	—	733	3,548	4,281
La Mirada	12,853	24,464	441	—	12,853	24,905	37,758
Lion Square	1,546	4,289	4,260	—	1,546	8,549	10,095
The Marketplace at Central	1,305	5,324	1,328	—	1,305	6,652	7,957
Market Street at DC Ranch	9,710	26,779	3,925	—	9,710	30,704	40,414
Mercado at Scottsdale Ranch	8,728	12,560	865	—	8,728	13,425	22,153
Paradise Plaza	6,155	10,221	1,155	—	6,155	11,376	17,531
Parkside Village North	3,877	8,629	249	—	3,877	8,878	12,755
Parkside Village South	5,562	27,154	345	—	5,562	27,499	33,061
Pima Norte	1,086	7,162	2,151	517	1,086	9,830	10,916
Pinnacle of Scottsdale	6,648	22,466	1,649	—	6,648	24,115	30,763
Pinnacle of Scottsdale Phase II	883	4,659	1,157	565	883	6,381	7,264
The Promenade at Fulton Ranch	5,198	13,367	212	—	5,198	13,579	18,777
Providence	918	3,675	1,287	—	918	4,962	5,880
Quinlan Crossing	9,561	28,683	146	—	9,561	28,829	38,390
Shaver	184	633	82	—	184	715	899
Shops at Pecos Ranch	3,781	15,123	747	—	3,781	15,870	19,651
Shops at Starwood	4,093	11,487	281	—	4,093	11,768	15,861
The Shops at Williams Trace	5,920	14,297	256	—	5,920	14,553	20,473
South Richey	778	2,584	1,856	—	778	4,440	5,218
Spoerlein Commons	2,340	7,296	868	—	2,340	8,164	10,504

The Strand at Huebner Oaks	5,805	12,335	275	—	5,805	12,610	18,415
SugarPark Plaza	1,781	7,125	1,046	—	1,781	8,171	9,952
Sunridge	276	1,186	524	—	276	1,710	1,986
Sunset at Pinnacle Peak	3,610	2,734	725	—	3,610	3,459	7,069
Terravita Marketplace	7,171	9,392	798	—	7,171	10,190	17,361
Torrey Square	1,981	2,971	1,287	—	1,981	4,258	6,239
Town Park	850	2,911	397	—	850	3,308	4,158
Village Square at Dana Park	10,877	40,250	3,133	—	10,877	43,383	54,260
Westchase	423	1,751	3,142	—	423	4,893	5,316

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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
Williams Trace Plaza	6,800	14,003	255	—	6,800	14,258	21,058
Windsor Park	2,621	10,482	8,884	—	2,621	19,366	21,987
Woodlake Plaza	1,107	4,426	2,254	—	1,107	6,680	7,787
	$283,219	$ 645,923	$62,385	$ 1,082	$283,219	$ 709,390	$992,609
Development Properties:							
Seville	$6,913	$ 25,518	$497	$ —	$6,913	$ 26,015	32,928
Shops at Starwood Phase III	1,818	7,069	1,323	954	1,818	9,346	11,164
Total - Development Properties[(3)]	$8,731	$ 32,587	$1,820	$ 954	$8,731	$ 35,361	$44,092
Total Whitestone Properties	$291,950	$ 678,510	$64,205	$ 2,036	$291,950	$ 744,751	$1,036,701
Pillarstone Properties:							
9101 LBJ Freeway[(4)]	$1,597	$ 6,078	$1,513	$ —	$1,597	$ 7,591	$9,188
Corporate Park Northwest	1,534	6,306	2,268	—	1,534	8,574	10,108
Corporate Park West	2,555	10,267	1,615	—	2,555	11,882	14,437
Corporate Park Woodland	652	5,330	830	—	652	6,160	6,812
Corporate Park Woodland II	2,758	—	26	—	2,758	26	2,784
Dairy Ashford	226	1,211	49	—	226	1,260	1,486
Holly Hall Industrial Park	608	2,516	395	—	608	2,911	3,519
Holly Knight	320	1,293	402	—	320	1,695	2,015
Interstate 10 Warehouse	208	3,700	495	—	208	4,195	4,403
Main Park	1,328	2,721	1,113	—	1,328	3,834	5,162
Plaza Park	902	3,294	1,141	—	902	4,435	5,337
Uptown Tower[(5)]	1,621	15,551	4,975	—	1,621	20,526	22,147
Westbelt Plaza	568	2,165	958	—	568	3,123	3,691
Westgate Service Center	672	2,776	1,175	—	672	3,951	4,623
Total - Pillarstone Properties	$15,549	$ 63,208	$16,955	$ —	$15,549	$ 80,163	$95,712
Land Held for Development:							
Anthem Marketplace	$204	$ —	$—	$ —	$204	$ —	$204
BLVD Place Phase II-B	10,500	—	420	—	10,500	420	10,920
Dana Park Development	4,000	—	25	—	4,000	25	4,025
Eldorado Plaza Development	911	—	—	—	911	—	911
Fountain Hills	277	—	—	—	277	—	277
Market Street at DC Ranch	704	—	—	—	704	—	704
Total - Land Held for Development	$16,596	$ —	$445	$ —	$16,596	$ 445	$17,041
Grand Totals	$324,095	$ 741,718	$81,605	$ 2,036	$324,095	$ 825,359	$1,149,454

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Property Name	Encumbrances	Accumulated Depreciation (in thousands)	Date of Construction	Date Acquired	Depreciation Life
Whitestone Properties:					
Ahwatukee Plaza		$ 783		8/16/2011	5-39 years
Anthem Marketplace	(6)	2,178		6/28/2013	5-39 years
Bellnott Square		2,144		1/1/2002	5-39 years
Bissonnet Beltway		1,771		1/1/1999	5-39 years
BLVD Place	(7)	1,360		5/26/2017	5-39 years
The Citadel		1,496		9/28/2010	5-39 years
City View Village		293		3/31/2015	5-39 years
Davenport Village		2,431		5/27/2015	5-39 years
Desert Canyon		593		4/13/2011	5-39 years
Eldorado Plaza		460		5/3/2017	5-39 years
Fountain Hills Plaza		1,735		10/7/2013	5-39 years
Fountain Square		1,859		9/21/2012	5-39 years
Fulton Ranch Towne Center		1,877		11/5/2014	5-39 years
Gilbert Tuscany Village		1,320		6/28/2011	5-39 years
Gilbert Tuscany Village Hard Corner		73		8/28/2015	5-39 years
Heritage Trace Plaza		1,310		7/1/2014	5-39 years
Headquarters Village	(8)	2,474		3/28/2013	5-39 years
Keller Place		481		8/26/2015	5-39 years
Kempwood Plaza		1,400		2/2/1999	5-39 years
La Mirada		789		9/30/2016	5-39 years
Lion Square		4,088		1/1/2000	5-39 years
The Marketplace at Central		1,439		11/1/2010	5-39 years
Market Street at DC Ranch		3,670		12/5/2013	5-39 years
Mercado at Scottsdale Ranch		1,668		6/19/2013	5-39 years
Paradise Plaza	(9)	1,692		8/8/2012	5-39 years
Parkside Village North		580		7/2/2015	5-39 years
Parkside Village South		1,817		7/2/2015	5-39 years
Pima Norte		2,514		10/4/2007	5-39 years
Pinnacle of Scottsdale	(10)	4,045		12/22/2011	5-39 years
Pinnacle of Scottsdale Phase II		219	3/31/2017		5-39 years
The Promenade at Fulton Ranch		1,111		11/5/2014	5-39 years
Providence		2,095		3/30/2001	5-39 years
Quinlan Crossing		1,732		8/26/2015	5-39 years
Shaver		327		12/17/1999	5-39 years
Shops at Pecos Ranch	(11)	2,155		12/28/2012	5-39 years
Shops at Starwood	(12)	1,882		12/28/2011	5-39 years
The Shops at Williams Trace		1,164		12/24/2014	5-39 years
South Richey		2,101		8/25/1999	5-39 years
Spoerlein Commons		1,998		1/16/2009	5-39 years
The Strand at Huebner Oaks		1,115		9/19/2014	5-39 years

SugarPark Plaza		2,769	9/8/2004	5-39 years
Sunridge		788	1/1/2002	5-39 years
Sunset at Pinnacle Peak		589	5/29/2012	5-39 years
Terravita Marketplace	(13)	1,763	8/8/2011	5-39 years
Torrey Square		2,416	1/1/2000	5-39 years
Town Park		1,950	1/1/1999	5-39 years
Village Square at Dana Park	(14)	6,160	9/21/2012	5-39 years
Westchase		1,897	1/1/2002	5-39 years

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Property Name	Encumbrances	Accumulated Depreciation (in thousands)	Date of Construction	Date Acquired	Depreciation Life
Williams Trace Plaza		1,114		12/24/2014	5-39 years
Windsor Park		7,796		12/16/2003	5-39 years
Woodlake Plaza	(17)	2,282		3/14/2005	5-39 years
		$ 93,763			
Development Properties:					
Seville		$ 838		9/30/2016	5-39 years
Shops at Starwood Phase III		257	12/31/2016		5-39 years
Total - Development Properties(3)		$ 1,095			
Total - Whitestone Properties		$ 94,858			
Pillarstone Properties:					
9101 LBJ Freeway(4)		$ 2,710		8/10/2005	5-39 years
Corporate Park Northwest		3,679		1/1/2002	5-39 years
Corporate Park West	(15)	4,959		1/1/2002	5-39 years
Corporate Park Woodland	(15)	3,331	11/1/2000		5-39 years
Corporate Park Woodland II		5		10/17/2013	5-39 years
Dairy Ashford	(15)	686		1/1/1999	5-39 years
Holly Hall Industrial Park	(15)	1,356		1/1/2002	5-39 years
Holly Knight		1,090		8/1/2000	5-39 years
Interstate 10 Warehouse	(15)	2,852		1/1/1999	5-39 years
Main Park	(15)	1,957		1/1/1999	5-39 years
Plaza Park	(15)	2,352		1/1/2000	5-39 years
Uptown Tower(5)	(16)	7,504		11/22/2005	5-39 years
Westbelt Plaza	(15)	1,981		1/1/1999	5-39 years
Westgate Service Center	(15)	1,714		1/1/2002	5-39 years
Total - Pillarstone Properties		$ 36,176			
Land Held for Development:					
Anthem Marketplace		$ —		6/28/2013	Land - Not Depreciated
BLVD Place Phase II-B		—		5/26/2017	Land - Not Depreciated
Dana Park Development		—		9/21/2012	Land - Not Depreciated
Eldorado Plaza Development		—		12/29/2017	Land - Not Depreciated
Fountain Hills		—		10/7/2013	Land - Not Depreciated
Market Street at DC Ranch		—		12/5/2013	Land - Not Depreciated
Total - Land Held For Development		$ —			
Grand Total		$ 131,034			

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

	(in thousands)		
	2017	2016	2015
Balance at beginning of period	$920,310	$835,538	$673,655
Additions during the period:			
Acquisitions	213,545	69,749	150,331
Improvements	17,575	22,036	12,653
	231,120	91,785	162,984
Deductions - cost of real estate sold or retired	(1,976)	(7,013)	(1,101)
Balance at close of period	$1,149,454	$920,310	$835,538

(2) The aggregate cost of real estate (in thousands) for federal income tax purposes for Whitestone is $1,027,360 and $84,646 for Pillarstone.

(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 includes improvements and accumulated depreciation of approximately $385,000 and $77,000, respectively, related to Whitestone leased spaces.

(5) This property includes improvements and accumulated depreciation of approximately $181,000 and $119,000, respectively, related to Whitestone leased spaces.

(6) This property secures a $15.1 million mortgage note.

(7) This property secures a $80.0 million mortgage note.

(8) This property secures a $19.0 million mortgage note.

(9) This property secures a $9.2 million mortgage note.

(10) This property secures a $14.1 million mortgage note.

(11) This property secures a $14.0 million mortgage note.

(12) This property secures a $14.3 million mortgage note.

(13) This property secures a $10.5 million mortgage note.

(14) This property secures a $2.6 million mortgage note.

(15) These properties secure a $37.0 million mortgage note.

(16) This property secures a $16.5 million mortgage note.

(17) This property secures a $6.5 million mortgage note.