

Whitestone REIT  
Form DFAN14A  
April 30, 2018

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**SCHEDULE 14A**  
**(RULE 14a-101)**  
**INFORMATION REQUIRED IN PROXY STATEMENT**  
**SCHEDULE 14A INFORMATION**  
**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

**Whitestone REIT ( Whitestone )**

**(Name of Registrant as Specified in its Charter)**

**KBS SOR Properties LLC**

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**KBS SOR (BVI) Holdings, Ltd.**

**KBS Strategic Opportunity Limited Partnership**

**KBS Strategic Opportunity REIT, Inc.**

**KBS Capital Advisors LLC**

**Keith D. Hall**

**Peter McMillan III**

**Kenneth H. Fearn, Jr.**

**David E. Snyder**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(2) Aggregate number of securities to which transaction applies:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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Dear Fellow Whitestone Shareholders:

Whitestone management is desperately trying to protect their golden goose. Whitestone has hired an expensive public relations firm and is bombarding shareholders with letters and massive, glossy presentations - all at the expense of shareholders - to distract from, deflect and deny the real issues that are harming shareholder value. Here are the simple truths:

KBS's interest in Whitestone is, like yours, solely related to our investment in the company. Our interests are completely aligned with yours.

Our number one concern is that the Board has approved outrageous management compensation packages for many years and continues to do so. Whitestone received a "high concern" grade from Institutional Shareholder Services<sup>1</sup> on its pay for performance evaluation over 2014-2016. Glass Lewis & Co.<sup>2</sup> gave Whitestone's pay for performance grades of "F" for 2016, "F" for 2015, and "D" for 2014. Shareholders gave a resounding vote of over 55% of the shares voted against Whitestone's say on pay proposal at last year's Annual Meeting. Although 2017 compensation was in line with its peers, this is a convenient outlier; Whitestone's public disclosures show that **2018 compensation is once again going to be excessive approximately 2-3x peer norms** when adjusted for company size and once again primarily comprised of easy-to-earn performance equity awards. Whitestone likes to focus on the cash salary portion of its executive compensation, when that is just a small part of their massive compensation packages.

These outsized executive compensation packages are significantly harmful to shareholder returns over the long term. They are a massive drag on the company's general and administrative (G&A) expenses, and severely impact its ability to cover its dividend. Largely due to its excessive G&A expenses, Whitestone has paid dividends for years that are not adequately supported by its cash from operations. The difference has been made up through a combination of dilutive equity issuances and costly debt, which have been a drag on shareholder returns. Normalizing executive compensation expenses would go a long way to improving dividend coverage.

Whitestone likes to use a metric called "FFO Core" to support its claim that its dividend is covered by operations, but FFO Core conveniently excludes share-based compensation expenses - by far, the largest component of Whitestone's executive compensation.

Whitestone's management likes to present its total return through December 31, 2017, however, these returns are misleading. They ignore that the stock price has dropped approximately 23% in 2018, including over 12% the day after Whitestone's disastrous earnings release on March 1, 2018, and that over the longer term, the stock has been an average performer among shopping center REITs.

Not only does Whitestone currently have the worst dividend coverage among listed shopping REITs, it also is the most levered. Their claim that they are "positioned for growth" is laughable.

- <sup>1</sup> Permission to use quotations from Institutional Shareholder Services and Glass Lewis & Co. reports were neither sought nor obtained.

Whitestone boasts that it has a strategic plan to reduce its G&A expense-to-revenue ratio by half in the next five years not by reducing expenses, but by growing the company. In other words, they want to grow large enough to justify their enormous pay packages. **The simple solution is to normalize executive compensation.**

Corporate governance is another serious concern of ours, and is more evidence of a management-friendly Board. Whitestone claims it has improved corporate governance, but they have done absolutely nothing to improve shareholder rights and still have one of the worst corporate governance scores among their peers. The current Board has also sidestepped any recommendation on our proposal that it de-stagger itself.

If our nominees are elected, they will advocate increasing the size of the Board for the reappointment of Nandita Berry. Jack Mahaffey, however, must be replaced after his long history of oversight and approval of executive compensation, particularly for his work on the Compensation Committee where he served as Chairman from 2006 until recently and even now continues as a member. Mr. Mahaffey has been on this Board since 2000, and after nearly 18 years we believe he should be recognized de facto as an inside director.

The shareholders clearly need better voices on the Board to address these issues. We have nominated two trustees who have decades of experience in public REITs and real estate, and in the management, operations and governance thereof. We hope you will vote with us in electing truly independent trustees to help provide strategic oversight and guidance to management to address the issues we have raised that the current Board has ignored or contributed to for far too long.

For more information, please see the charts in the Appendix to this letter.

**VOTE FOR OUR HIGHLY QUALIFIED NOMINEES AND SHAREHOLDER PROPOSAL TO BETTER  
ALIGN WHITESTONE WITH SHAREHOLDER INTERESTS**

**PLEASE SIGN, DATE AND MAIL THE ENCLOSED BLUE PROXY CARD TODAY**

Thank you for your support,

Peter McMillan

Chairman of the Board and President

KBS Strategic Opportunity REIT, Inc.

If you have any questions or require any assistance with your vote, please contact Morrow Sodali, our proxy solicitor, by phone at 800-662-5200 or e-mail at [KBS@morrowsodali.com](mailto:KBS@morrowsodali.com).

**REMEMBER:** We urge you NOT to sign any White proxy card sent to you by Whitestone. If you have already done so, you have every right to change your vote by signing, dating and returning the enclosed **BLUE** proxy card **TODAY** in the postage-paid envelope provided. If you hold your shares in Street-name, your custodian may also enable voting by telephone or by Internet please follow the simple instructions provided on your **BLUE** proxy card.











