

**TOWER PROPERTIES COMPANY AND SUBSIDIARIES**  
**DISCLOSURE FOR QUARTER ENDED SEPTEMBER 30, 2016**

## **LIQUIDITY AND CAPITAL RESOURCES**

The principal source of funds generated internally is income from operations. The principal sources of external funds are long-term debt and a \$13,500,000 loan (“Line of Credit”) with Commerce Bank. The Line of Credit was renewed on June 1, 2016. At December 31, 2015, the line of credit was collateralized by 245,485 shares of Commerce Bancshares, Inc. common stock. On February 19, 2016, the Company added the warehouse/office facility at 9200 Cody as additional collateral for the Line of Credit with Commerce Bank. The additional collateral added \$4,200,000 to the availability under the Line of Credit and the revised maximum amount that may be borrowed on the Line of Credit at September 30, 2016 is \$13,500,000. At September 30, 2016, the Company had \$2,000,000 of outstanding borrowings on the Line of Credit. The Company had \$11,500,000 available under the Line of Credit at September 30, 2016. This Line of Credit has been extended at market rates and terms and management believes the Company could obtain similar financing arrangements if the Company’s relationship with Commerce Bank did not exist. The Company does not utilize off-balance sheet financing.

Management believes that the Company’s current combination of liquidity, capital resources and borrowing capabilities will be adequate for its existing operations during fiscal 2016. The Company did not experience liquidity problems during the nine months ended September 30, 2016. The Company does not anticipate any deficiencies in meeting its near term liquidity needs. The availability under the Line of Credit along with cash provided from operations is expected to give the Company adequate resources to meet the Company’s cash requirements for 2016. If necessary, the Company believes it has adequate resources to collateralize additional financing. The Company had cash and cash equivalents of \$15,893,000 at September 30, 2016. The Company’s revenues are primarily based on lease contracts, none of which are deemed to be materially at risk.

## **CONTRACTUAL CASH OBLIGATIONS AND OTHER COMMERCIAL COMMITMENTS**

At September 30, 2016 there have been no material changes to the Company’s contractual cash obligations and other commercial commitments from amounts disclosed in the financial statements for the year ended December 31, 2015, except for: a) through September 30, 2016 \$17,000 of tenant improvements have been completed, and therefore, the tenant improvement commitments remaining from December 31, 2015 are \$76,000, b) during the nine months ended September 30, 2016 the Company signed four leases that created tenant improvement commitments that have a remaining balance of \$182,000 at September 30, 2016. These tenant improvement commitments are additional commercial commitments at September 30, 2016, c) the Company has a construction project in progress at the Hutton Farms apartments that has a related contract totaling \$9,993,000 with change orders. The construction contract includes an expansion of 87 units in 45 buildings on the 16.415-acre property that is contiguous to the Hutton Farms apartments. The project began in the third quarter of 2015 and will be substantially completed in the fourth quarter of 2016. Through September 30, 2016, additions associated with the Hutton Farms construction contract totaled \$9,743,000, therefore the remaining construction commitment at Hutton Farms is \$250,000, which represents a \$5,312,000 reduction in other commercial commitments compared to the construction commitment at December 31, 2015, d) the Company has a renovation project in progress at the 6601 College Boulevard building that has a related construction contract totaling \$11,604,000 with change orders. The construction contract includes demolition of the original exterior facade and interior components down to the concrete structure and a full renovation of the building and surrounding surface parking lot, including the installation of a new glass curtain wall system and new mechanical systems. The project began in December, 2015 and

will be substantially completed in fourth quarter of 2016. Through September 30, 2016, additions associated with the 6601 College Boulevard construction contract totaled \$11,364,000, therefore the remaining construction commitment at 6601 College Boulevard is \$240,000, which represents a \$11,090,000 reduction in other commercial commitments compared to the construction commitment at December 31, 2015, e) a loan on Phases I, II, III, and IV of New Mark originated on May 19, 2015 was originally a \$11,500,000 10-year non-recourse loan (20 year amortization) at 4.04% that was scheduled to mature on May 19, 2025. The loan was paid off when the New Mark apartments were sold on June 23, 2016 and the outstanding balance at the time of pay off was \$11,121,746. The paid off loan represents a reduction in contractual cash obligations at September 30, 2016, f) a loan on Phase V of New Mark originated on May 14, 2004 was originally a \$12,000,000 15-year non-recourse loan (25 year amortization) at 5.56% that was scheduled to mature on June 1, 2019. The loan was paid off when the New Mark apartments were sold on June 23, 2016 and the outstanding balance at the time of pay off was \$8,219,407. The paid off loan represents a reduction in contractual cash obligations at September 30, 2016, and g) on September 1, 2015, the Company entered into a loan associated with the 87 unit expansion of the Hutton Farms apartment complex. The loan is a \$7,500,000 10-year loan (20 year amortization) at 4.20% that matures with a balloon payment on September 1, 2025. The loan was not funded until September 1, 2016 when the full \$7,500,000 was funded. Although this loan closed on September 1, 2015 and is a permanent 10-year loan, the loan was allowed to be drawn down during the construction period. The \$7,500,000 drawn on the loan is an additional contractual cash obligation at September 30, 2016.

From time to time, the Company is subject to various items related to the normal course of business, including loss of tenants, legal proceedings, and environmental related actions. In the opinion of management, none of these items are expected to result in a material adverse effect on the financial statements of the Company.

### **QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

The Company is exposed to various market risks, including equity investment prices and interest rates.

The Company has a significant amount of fixed rate debt and believes that the fair value risk is best quantified by considering prepayment penalties associated with the debt. Most prepayment penalties are based upon the difference between the debt's fixed rate and the Treasury note rate that most closely corresponds with the remaining life of the mortgage. The estimated aggregate prepayment penalty on such debt was approximately \$8,374,000 at September 30, 2016.

The Company owned 245,485 shares of common stock of Commerce Bancshares, Inc. with a fair value of \$12,093,000 as of September 30, 2016. This investment is not hedged and is exposed to the risk of changing market prices. The Company classifies these securities as "available-for-sale" for accounting purposes and marks them to market on the balance sheet at the end of each period. Management estimates that its investments will generally be consistent with trends and movements of the overall stock market excluding any unusual situations. An immediate 10% change in the market price of the securities would have a \$738,000 effect on comprehensive income.

**PRINCIPAL REAL ESTATE OWNED BY  
TOWER PROPERTIES COMPANY AND SUBSIDIARIES**

Barkley Place Building	6-story office building, 10561 Barkley Overland Park, Kansas
7911 Forsyth Office Building	6-story office building and parking garage Clayton, Missouri
Woodlands Plaza I Office Building	3-story office building, 11720 Borman Drive St. Louis, Missouri
6601 College Boulevard Office Building	6-story office building Overland Park, Kansas
9200 Cody Warehouse/Office Facility	120,900 square foot warehouse/office facility Overland Park, Kansas
One and Two Liberty Plaza Office Buildings	Two 2-story office buildings Liberty, Missouri
10955 Lowell (Building 20) Office Building	10-story office building Overland Park, Kansas
7400 Place Office Building	2-story office building, 7400 State Line Prairie Village, Kansas
Corinth Office Building	2-story office building, 8340 Mission Road Prairie Village, Kansas
Corinth Executive Office Building	2-story office building, 4121 W. 83rd Street Prairie Village, Kansas
4200 Somerset Office Building	2-story office building Prairie Village, Kansas
New Mark Subdivision	30 acres of residential and commercial land in the area of 100th and North Oak Streets Kansas City, Missouri
Hillsborough Apartment Complex	329 apartments located at 5401 Fox Ridge Drive Mission, Kansas
Peppertree Apartment Complex	262 apartments located at 6800 Antioch Merriam, Kansas
Harper Square Apartment Complex	51 apartments located at 2201 Harper St. Lawrence, Kansas
Hutton Farms Apartment Complex	212 apartments located at 3401 Hutton Drive Lawrence, Kansas

Land adjacent to Hutton Farms Apartment Complex	16.415 acres of land adjacent to Hutton Farms Apartment Complex where 87 apartments units are under construction to be completed in mid-2016 Lawrence, Kansas
Tuckaway Apartment Complex	148 apartments located at 2600 W. 6th St Lawrence, Kansas
Briarwood Apartment Complex	49 apartments located at 4241 Briarwood Drive Lawrence, Kansas
Tuckaway at Shawnee Complex	263 apartments located at 7110 & 7150 Lackman Road Shawnee, Kansas
Dunes at Falcon Valley Complex	208 apartments located at 19501 W. 102nd Street Lenexa, Kansas

All of the real estate is located in Douglas and Johnson Counties, Kansas, and Clay and St. Louis Counties, Missouri.

**TOWER PROPERTIES COMPANY & SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**September 30, 2016 and December 31, 2015**

<b>ASSETS</b>	<b>(UNAUDITED)</b>	
	<b>2016</b>	<b>2015</b>
Investment in Commercial Properties:		
Rental Property, Net	\$ 130,873,344	\$ 147,301,254
Tenant Leasehold Improvements, Net	5,285,329	5,109,223
Equipment and Furniture, Net	6,482,852	8,664,849
Construction in Progress	22,280,053	5,494,221
Commercial Properties, Net	164,921,578	166,569,547
 Real Estate Held for Sale	 135,157	 135,157
 Cash and Cash Equivalents (Related Party)	 15,892,534	 13,205,980
Investment Securities At Fair Value (Related Party)	12,092,591	10,442,932
Receivables (Including Related Party)	2,134,606	2,279,808
Income Taxes Recoverable	941,255	552,167
Prepaid Expenses and Other Assets	2,366,615	1,236,259
	\$ 198,484,336	\$ 194,421,850
 <b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>		
Liabilities:		
Mortgage Notes	\$ 128,875,628	\$ 144,400,550
Unamortized Debt Issuance Costs	(771,301)	(978,430)
Line of Credit (Related Party)	2,000,000	--
Accounts Payable and Other Liabilities	8,482,645	6,663,913
Deferred Income Taxes	21,402,017	12,358,649
Total Liabilities	159,988,989	162,444,682
 Commitments and Contingencies		
 Stockholders' Investment:		
Preferred Stock, No Par Value		
Authorized 2,000 Shares, None Issued	--	--
Common Stock, Par Value \$1.00		
Authorized 33,334 Shares, Issued		
6,181 Shares	6,181	6,181
Paid-In Capital	19,108,978	19,108,978
Retained Earnings	31,285,283	18,755,395
Accumulated Other Comprehensive Income	6,849,722	5,843,431
	57,250,164	43,713,985
 Less Treasury Stock, At Cost (1,980 and 1,395 shares in 2016 and 2015, respectively)	 (18,754,817)	 (11,736,817)
Total Stockholders' Investment	38,495,347	31,977,168
	\$ 198,484,336	\$ 194,421,850

See accompanying notes to the consolidated financial statements.

**TOWER PROPERTIES COMPANY & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND SEPTEMBER 30, 2015**  
**(UNAUDITED)**

	<b>2016</b>	<b>2015</b>
<b>REVENUES</b>		
Non-Related Party Revenues:		
Rent	\$ 23,268,566	\$ 24,726,427
Management and Service Fee	59,319	50,590
Gain (Loss) on Sale of Assets	21,621,527	(101,275)
Interest and Other Income	448,677	443,348
Total Non-Related Party Revenues	45,398,089	25,119,090
Related Party Revenues:		
Management and Service Fee	604,407	731,658
Interest and Other Income	165,702	157,812
Total Related Party Revenues	770,109	889,470
 Total Revenues	 46,168,198	 26,008,560
<b>OPERATING EXPENSES</b>		
Operating Expenses	4,373,129	4,505,352
Maintenance and Repairs	2,929,192	3,143,999
Depreciation and Amortization	7,998,288	8,659,714
Taxes Other than Income	2,797,835	2,612,768
General, Administrative and Other (Including Related Party)	3,030,354	2,014,482
Total Operating Expenses	21,128,798	20,936,315
 <b>INTEREST EXPENSE (Including Related Party)</b>	 4,498,600	 4,977,084
 Income Before Provision for Income Taxes	 20,540,800	 95,161
 <b>PROVISION FOR INCOME TAXES</b>	 8,010,912	 37,113
 <b>NET INCOME</b>	 \$ 12,529,888	 \$ 58,048

See accompanying notes to the consolidated financial statements.

**TOWER PROPERTIES COMPANY & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND SEPTEMBER 30, 2015**  
**(UNAUDITED)**

	<b>2016</b>	<b>2015</b>
<b>NET INCOME</b>	\$ 12,529,888	\$ 58,048
Unrealized holding gains on marketable equity securities, net of deferred tax expense of \$643,368 and \$188,744, respectively	1,006,291	295,214
<b>COMPREHENSIVE INCOME</b>	<b>\$ 13,536,179</b>	<b>\$ 353,262</b>

See accompanying notes to the consolidated financial statements.

**TOWER PROPERTIES COMPANY & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND YEARS ENDED DECEMBER 31, 2015 AND 2014**  
**(UNAUDITED)**

	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock		Total
	Shares	Amount			Income	Shares	Amount	
Balance, December 31, 2013	6,181	6,181	19,108,978	19,346,321	5,573,117	1,339	(11,123,017)	32,911,580
Net Loss	--	--	--	(376,971)	--	--	--	(376,971)
Treasury Stock Purchases	--	--	--	--	--	56	(613,800)	(613,800)
Unrealized Holding Gain for Securities net of deferred tax expense of \$65,517	--	--	--	--	102,476	--	--	102,476
Balance, December 31, 2014	6,181	\$ 6,181	\$ 19,108,978	\$ 18,969,350	\$ 5,675,593	1,395	\$ (11,736,817)	\$ 32,023,285
Net Loss	--	--	--	(213,955)	--	--	--	(213,955)
Unrealized Holding Gain for Securities net of deferred tax expense of \$107,306	--	--	--	--	167,838	--	--	167,838
Balance, December 31, 2015	6,181	\$ 6,181	\$ 19,108,978	\$ 18,755,395	\$ 5,843,431	1,395	\$ (11,736,817)	\$ 31,977,168
Net Income	--	--	--	12,529,888	--	--	--	12,529,888
Treasury Stock Purchases	--	--	--	--	--	585	(7,018,000)	(7,018,000)
Unrealized Holding Gain for Securities net of deferred tax expense of \$643,368	--	--	--	--	1,006,291	--	--	1,006,291
Balance, September 30, 2016	6,181	\$ 6,181	\$ 19,108,978	\$ 31,285,283	\$ 6,849,722	1,980	\$ (18,754,817)	\$ 38,495,347

See accompanying notes to the consolidated financial statements.

**TOWER PROPERTIES COMPANY & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND SEPTEMBER 30, 2015**  
**(UNAUDITED)**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 12,529,888	\$ 58,048
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation	6,808,686	7,259,375
Amortization	1,189,602	1,400,339
(Gain) loss on Sale	(21,621,527)	101,275
Change in Balance Sheet Accounts, Net:		
Receivables	145,202	815,215
Prepaid Expenses and Other Assets	(1,130,356)	(382,734)
Accounts Payable and Other Liabilities	1,818,732	1,740,428
Deferred Income Taxes	8,400,000	--
Current Income Taxes	(389,088)	(262,899)
Net Cash Provided by Operating Activities	7,751,139	10,729,047
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from Disposition of Assets	34,974,312	--
Purchases of Equipment & Furniture	(690,254)	(743,350)
Purchases of Rental Property	(18,064,752)	(4,627,776)
Purchases of Tenant Leasehold Improvements	(737,469)	(499,307)
Net Cash Provided by (Used In) Investing Activities	15,481,837	(5,870,433)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal Payments on Mortgage Notes	(23,024,922)	(13,323,428)
Proceeds from Long Term Borrowings	7,500,000	18,500,000
Proceeds from Line of Credit Borrowings	9,500,000	--
Payments on Line of Credit	(7,500,000)	(1,250,000)
Purchase of Treasury Stock	(7,018,000)	--
Debt Issuance Costs	(3,500)	(138,301)
Net Cash Provided by (Used In) Financing Activities	(20,546,422)	3,788,271
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,686,554	8,646,885
 <b>CASH and CASH EQUIVALENTS, Beginning of Period</b>	13,205,980	2,042,990
<b>CASH and CASH EQUIVALENTS, End of Period</b>	\$ 15,892,534	\$ 10,689,875

See accompanying notes to the consolidated financial statements.

**TOWER PROPERTIES COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**  
**(UNAUDITED)**

**1. BUSINESS**

Tower Properties Company and Subsidiaries (the “Company”) is primarily engaged in the business of owning, developing, leasing and managing real property located in Douglas and Johnson Counties in Kansas, and Clay and St. Louis Counties in Missouri. Substantially all of the improved real estate owned by the Company consists of office buildings, apartment complexes, a warehouse/office facility and land held for future sale or development.

**2. SUMMARY OF PRESENTATION**

The consolidated financial statements included herein have been prepared by Tower Properties Company and Subsidiaries and in the opinion of management, present a fair statement of the results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s latest disclosure report for the year ended December 31, 2015 to provide a description of the accounting policies which have been continued without change, and for additional information about the Company’s financial condition. Certain reclassifications have been made to the prior year amounts to conform to the current year presentation.

**3. CONSOLIDATED STATEMENTS OF CASH FLOWS**

Interest paid during the nine months ended September 30, 2016 and 2015, amounted to \$4,832,099 and \$5,000,984, respectively. Of those amounts, \$20,944 and \$1,041 was paid to a related party for the nine months ended September 30, 2016 and 2015, respectively. There were no income taxes paid during the nine months ended September 30, 2016. Income taxes paid during the nine months ended September 30, 2015 amounted to \$302,000.

Interest of \$209,451 and \$6,049 was capitalized during the nine months ended September 30, 2016 and 2015, respectively.

**4. INVESTMENT SECURITIES**

The Company classifies its investment in Commerce Bancshares, Inc. common stock as available-for-sale. Available-for-sale securities are recorded at fair value. The unrealized gain at September 30, 2016 of \$11,229,053, net of tax effects of \$4,379,331, or \$6,849,722 is excluded from operations and is reflected as a separate component of stockholders’ investment and other comprehensive income until realized. There was an increase in the net unrealized holding gain of \$1,006,291, net of deferred taxes, for the nine months ended September 30, 2016.

## **5. SALE OF PROPERTY AND ACQUISITIONS**

On June 23, 2016, the Company sold the New Mark apartments (622 units) located in Kansas City, Missouri. The sales price was \$35,000,000 which resulted in a net gain on sale of \$21,621,527 and after the Company paid off the two associated loans, related interest expense and other reconciliations and costs at closing, \$14,013,469 was paid in cash to an intermediary and is included in Cash and Cash Equivalents in the financial statements. This cash may be utilized in connection with a future Sec. 1031 like-kind exchange purchase.

A loan on Phases I, II, III, and IV of New Mark originated on May 19, 2015 was originally a \$11,500,000 10-year non-recourse loan (20 year amortization) at 4.04% that was scheduled to mature on May 19, 2025. The outstanding balance at the time of pay off was \$11,121,746. Associated with this June 23, 2016 loan payoff, the Company paid a prepayment penalty of \$166,826 which is included in General, Administrative and Other expense in the financial statements.

A loan on Phase V of New Mark originated on May 14, 2004 was originally a \$12,000,000 15-year non-recourse loan (25 year amortization) at 5.56% that was scheduled to mature on June 1, 2019. The outstanding balance at the time of pay off was \$8,219,407. Associated with this June 23, 2016 loan payoff, the Company paid a prepayment penalty of \$1,027,248 which is included in General, Administrative and Other expense in the financial statements.

There were no acquisitions of property during the nine months ended September 30, 2016.

On July 1, 2015, the Company purchased 16.415 acres of land in Lawrence, Kansas adjacent to the Company's Hutton Farms apartment complex for \$800,000. There were no sales or acquisitions of property during the nine months ended September 30, 2015.

## **6. RELATED PARTY TRANSACTIONS**

The Company has a variety of related party transactions with Commerce Bancshares, Inc. and its subsidiaries ("Commerce"). The Company had the following transactions with Commerce:

- **Management and Service Fees** – The Company manages certain properties owned by Commerce under property and construction management agreements. Total fees earned under these property and construction management agreements were \$598,066 and \$700,616 for the nine months ended September 30, 2016 and 2015, respectively. The Company earns lease commissions on properties owned by Commerce under a listing agreement. Total fees earned for lease commissions were \$4,891 and \$29,792 for the nine months ending September 30, 2016 and 2015, respectively. The Company also earned income from consulting fee services. Total fees earned for consulting services were \$1,450 and \$1,250 for the nine months ended September 30, 2016 and 2015, respectively. The Company provides similar services to unrelated parties and revenues earned under the arrangements with Commerce are similar to the revenues earned from other unrelated parties.
- **Interest and Other Income** – The Company owned 245,485 shares of Commerce Bancshares, Inc. common stock at September 30, 2016. The Company received dividend income from ownership of Commerce Bancshares common stock of \$165,702 for the nine months ended September 30, 2016. The Company owned 233,796 shares at September 30, 2015 and received dividend income of

\$157,812 for the nine months ended September 30, 2015. The Company believes dividends paid by Commerce Bancshares are similar to those paid to other depositors and stockholders.

- Interest Expense- The Company has a \$13,500,000 line of credit (“Line of Credit”) with Commerce Bank that carries a variable interest rate equal to one and three quarter percent (1 3/4 %) in excess of the one month maturity London Interbank Offered Rate (“LIBOR”). At September 30, 2016, the Company had \$2,000,000 of outstanding borrowings on the Line of Credit and the interest rate was 2.27%. At December 31, 2015 the Line of Credit was collateralized by the 245,485 shares of Commerce Bancshares, Inc. common stock. On February 19, 2016 the Company added the warehouse/office facility at 9200 Cody as additional collateral for the Line of Credit which added \$4,200,000 to the availability under the Line of Credit. Therefore, the revised maximum amount that may be borrowed on the Line of Credit is \$13,500,000 at September 30, 2016. The Company had \$11,500,000 available under the Line of Credit at September 30, 2016. This line requires monthly interest payments and matures June 1, 2017. The Company intends to renew the Line of Credit with Commerce upon maturity. Interest expense for the Line of Credit was \$20,944 and \$1,041 for the nine months ended September 30, 2016 and 2015, respectively. The weighted average short term borrowing rate on the Line of Credit was 2.23% for the nine months ended September 30, 2016. The Company believes the Line of Credit has been extended at market rates and that the interest expense paid is similar to that paid by other customers of Commerce Bank.

Other Expense – The Company has an office lease at 1000 Walnut, Suite 900, Kansas City, MO, a building owned by Commerce. The lease matures on April 30, 2017 and includes a five year extension option. The rent included in other expense was \$53,206 and \$51,651 for the nine months ended September 30, 2016 and 2015, respectively. The Company believes this lease contains lease rates and other provisions similar to those leases with other tenants of Commerce at 1000 Walnut.

- Included in receivables at September 30, 2016 and December 31, 2015 are amounts due from Commerce of \$911,339 and \$747,704, respectively.

## **7. STOCK BASED COMPENSATION**

The Company did not grant any stock options during the nine months ended September 30, 2016 or 2015. There were no stock options outstanding at September 30, 2016 or 2015.

## **8. REVENUE RECOGNITION**

The Company derives its revenue primarily from two sources: 1) rent from leases of real property, and 2) management and service fees from real property leased and managed. Rental revenue is recognized on a straight-line basis over the term of individual non-cancelable operating leases. The recognition of scheduled rent increases on a straight-line basis results in the recognition of a receivable from tenants. Such receivables were \$857,000 and \$1,040,000 at September 30, 2016 and 2015, respectively. Lease agreements generally do not provide for contingent rents. Amounts received from tenants upon early termination of leases are recorded when received as a reduction of lease receivables to the extent there is an associated straight line rent receivable, with the remainder recorded in other income. Management and service fees are recognized as a percentage of revenues on managed properties as earned over the terms of the related management agreements.

## **9. PURCHASES OF TREASURY STOCK**

In 2016, the Company purchased a total of 585 shares of the Company's common stock at a total cost of \$7,018,000, which are reflected as additions to Treasury Stock in the financial statements. The cash paid came out of the Cash and Cash Equivalents on hand.

On May 4, 2016, the Company purchased two shares of the Company's common stock owned by a non-related party shareholder for \$11,000 per share for \$22,000.

On May 16, 2016, the Company purchased all of the shares of the Company's common stock owned by Commerce as Trustee of Julianne Kemper, a related party of the Company. The Company purchased 583 shares at \$12,000 per share for \$6,996,000 which represented approximately 12% of the Company's then outstanding shares.

## **10. SUBSEQUENT EVENTS**

On November 1, 2016, the Company purchased two office buildings in Overland Park, Kansas at 10740 Nall and 12900 Foster, as the final step of a Sec. 1031 like-kind exchange. The purchase price was \$33,250,000 and the cash came from the funds held by an intermediary and two new loans. The first step of the Sec. 1031 like-kind exchange was the June 23, 2016 sale of the New Mark apartments for \$35,000,000, where after payments of the associated loans and expenses, \$14,013,469 was paid in cash to an intermediary. Of that cash held by the intermediary, \$1,225,000 was paid to Tower on November 1, 2016, with the remainder utilized in the purchase of the two office buildings.

Associated with the purchase, on November 1, 2016, Tower obtained \$10,000,000 of financing for the 10740 Nall office building in Overland Park, Kansas. The new loan of \$10,000,000 is a 10-year non-recourse loan (20 year amortization) at \$3.5% that matures on November 1, 2026.

Associated with the purchase, on November 1, 2016, Tower obtained \$10,500,000 of financing for the 12900 Foster building in Overland Park, Kansas. The new loan of \$10,500,000 is a 10-year non-recourse loan (20 year amortization) at 3.5% that matures on November 1, 2026.

## CERTIFICATION

The financial statements, and the notes thereto, included herein have been prepared by Tower Properties Company (the “Company”), and in my opinion and the opinion of management, present fairly, in all material respects, the consolidated financial position of Tower Properties Company and Subsidiaries as of September 30, 2016 and December 31, 2015, and the consolidated results of its operations and its cash flows for each of the nine month periods ended September 30, 2016 and 2015. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s latest disclosure report for the year ended December 31, 2015 to provide a description of the accounting policies which have been continued without change, and for additional information about the Company’s financial condition.

/s/ Stanley J. Weber  
Stanley J. Weber  
Chief Financial Officer  
November 15, 2016