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MISSION WEST PROPERTIES INC

Form 10-Q

August 07, 2008

[PG NUMBER]

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008

COMMISSION FILE NUMBER 1-8383

Mission West Properties, Inc.
(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

95-2635431

(I.R.S. Employer Identification
Number)

10050 Bandley Drive
Cupertino, California 95014-2188
(Address of principal executive offices)

(408) 725-0700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

19,743,557 shares outstanding as of July 31, 2008

MISSION WEST PROPERTIES, INC.

FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2008

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Exhibit 31.2 - Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

Exhibit 31.3 - Certification Pursuant to Rule 13a-14(a) of the Securities

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Exchange Act of 1934
 Exhibit 32 - Certification of CEO and CFO Pursuant to 18 U.S.C. ss.
 1350, as Adopted Pursuant to ss. 906 of the Sarbanes-Oxley
 Act of 2002

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PART I - FINANCIAL INFORMATION
 ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MISSION WEST PROPERTIES, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (dollars in thousands, except share and per share amounts)

	June 30, 2008
	----- (unaudited)
ASSETS	
Real estate:	
Land	\$ 320,911
Buildings and improvements	792,886
Real estate related intangible assets	3,240

Total investments in real estate	1,117,037
Less accumulated depreciation and amortization	(168,124)

Total investments in real estate, net	948,913
Cash and cash equivalents	769
Restricted cash	45,535
Deferred rent receivable, net	16,420
Investment in unconsolidated joint venture	2,625
Other assets, net	25,588

Total assets	\$1,039,850
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Mortgage notes payable	\$ 332,001
Note payable (related parties)	1,923
Mortgage note payable (related parties)	8,997
Revolving line of credit	8,244
Interest payable	1,360
Security deposits	4,977
Deferred rental income	5,383
Dividends and distributions payable	21,054
Accounts payable and accrued expenses	16,174

Total liabilities	400,113

Commitments and contingencies (Note 9)	
Minority interests	504,668

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Stockholders' equity:

Preferred stock, \$.001 par value, 20,000,000 shares authorized, none issued and outstanding	-
Common stock, \$.001 par value, 200,000,000 shares authorized, 19,743,557 and 19,664,087 shares issued and outstanding at June 30, 2008 and December 31, 2007	20
Additional paid-in capital	154,056
Distributions in excess of accumulated earnings	(19,007)

Total stockholders' equity	135,069

Total liabilities and stockholders' equity	\$1,039,850
	=====

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MISSION WEST PROPERTIES, INC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except share and per share amounts)
(unaudited)

	Three months ended June 30,	
	2008	2007
	-----	-----
Revenues:		
Rental revenue from real estate	\$19,359	\$21,148
Above market lease intangible asset amortization	-	-
Tenant reimbursements	3,710	3,240
Lease termination fees	-	168
Other income, including interest	464	958
	-----	-----
Total revenues	23,533	25,514
	-----	-----
Expenses:		
Property operating, maintenance and real estate taxes	5,511	4,558
Interest	4,956	5,045
Interest (related parties)	280	182
General and administrative	674	673
Depreciation and amortization of real estate	5,682	5,398
	-----	-----
Total expenses	17,103	15,856
	-----	-----
Income before equity in earnings of unconsolidated joint venture and minority interests	6,430	9,658
Equity in earnings of unconsolidated joint venture	407	350
Minority interests	(5,478)	(8,007)
	-----	-----
Income from continuing operations	1,359	2,001
	-----	-----

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Discontinued operations, net of minority interests:			
Income attributable to discontinued operations	-	3	
	-----	-----	-----
Income from discontinued operations	-	3	
	-----	-----	-----
Net income to common stockholders	\$1,359	\$2,004	
	=====	=====	=====
Net income to minority interests	\$5,478	\$8,039	
	=====	=====	=====
Income per common share from continuing operations:			
Basic	\$0.07	\$0.10	
	=====	=====	=====
Diluted	\$0.07	\$0.10	
	=====	=====	=====
Income per common share from discontinued operations:			
Basic	-	-	
	=====	=====	=====
Diluted	-	-	
	=====	=====	=====
Net income per common share to common stockholders:			
Basic	\$0.07	\$0.10	
	=====	=====	=====
Diluted	\$0.07	\$0.10	
	=====	=====	=====
Weighted average shares of common stock outstanding (basic)	19,695,988	19,639,928	1
	=====	=====	=====
Weighted average shares of common stock outstanding (diluted)	19,902,304	20,020,596	1
	=====	=====	=====

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MISSION WEST PROPERTIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

Cash flows from operating activities:

Net income	
Adjustments to reconcile net income to net cash provided by operating activities:	
Minority interests income	
Minority interest distributions	
Depreciation and amortization of real estate and in-place leases	
Amortization of acquired above market lease	
Equity in earnings of unconsolidated joint venture	

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Distributions from unconsolidated joint venture
Interest earned on restricted cash
Lease termination fee related to restricted cash
Stock-based compensation expense
Other

Changes in operating assets and liabilities:
Deferred rent receivable
Other assets
Interest payable
Security deposits
Deferred rental income
Accounts payable and accrued expenses

Net cash provided by operating activities

Cash flows from investing activities:
Improvements to real estate assets
Purchase of real estate
Restricted cash released for purchase of real estate
Excess restricted cash

Net cash used in investing activities

Cash flows from financing activities:
Principal payments on mortgage notes payable
Principal payments on mortgage note payable (related parties)
Proceeds from real estate purchase financing (related parties)
Payments on real estate purchase financing (related parties)
Proceeds from note payable (related parties)
Payment on note payable (related parties)
Proceeds from line of credit
Payment of loan fees and costs
Proceeds from exercise of stock options
Minority interest distributions in excess of earnings
Dividends paid to common stockholders

Net cash used in financing activities

Net (decrease) increase in cash and cash equivalents
Cash and cash equivalents, beginning of period
Cash and cash equivalents, end of period

Supplemental information:
Cash paid for interest

Supplemental schedule of non-cash investing and financing activities:
Debt from seller in connection with real estate purchase (related parties)

Issuance of common stock upon conversion of O.P. units

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MISSION WEST PROPERTIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(dollars in thousands, except per share and per square footage)
(unaudited)

1. ORGANIZATION AND FORMATION OF THE COMPANY

Mission West Properties, Inc. (the "Company") is a fully integrated, self-administered and self-managed real estate company that acquires and manages research and development ("R&D")/office properties in the portion of the San Francisco Bay Area commonly referred to as Silicon Valley. In July 1998, the Company purchased an approximate 12.11% of four existing limited partnerships (referred to collectively as the "operating partnerships") and obtained control of these partnerships by becoming the sole general partner in each one effective July 1, 1998 for financial accounting and reporting purposes. All limited partnership interests in the operating partnerships were converted into 59,479,633 operating partnership ("O.P.") units, which represented a limited partnership ownership interest of approximately 87.89% of the operating partnerships. The operating partnerships are the vehicles through which the Company holds its real estate investments, makes real estate acquisitions, and generally conducts its business.

On December 30, 1998, the Company was reincorporated under the laws of the State of Maryland through a merger with and into Mission West Properties, Inc. Accordingly, shares of the former company, Mission West Properties, a California corporation (no par), which were outstanding at December 30, 1998, were converted into shares of common stock, \$.001 par value per share, on a one-for-one basis.

As of June 30, 2008, the Company owns a controlling general partnership interest of 19.96%, 21.79%, 16.27% and 12.49% in Mission West Properties, L.P., Mission West Properties, L.P. I, Mission West Properties, L.P. II and Mission West Properties, L.P. III, respectively, which represents an 18.71% general partnership interest in the operating partnerships, taken as a whole, on a consolidated weighted average basis.

Through the operating partnerships, the Company owns interests in 111 R&D/office properties, all of which are located in the Silicon Valley.

The Company has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended. Accordingly, no provision has been made for income taxes for the three and six months ended June 30, 2008 and 2007.

BUSINESS SEGMENT INFORMATION

The Company's primary business is the ownership and management of R&D/office real estate with a geographic concentration in the Silicon Valley of the San Francisco Bay Area. Accordingly, the Company has concluded it currently has a single reportable segment for Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," purposes.

2. BASIS OF PRESENTATION

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission ("SEC") and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of the Company, however, the accompanying unaudited interim condensed consolidated

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financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's consolidated financial position as of June 30, 2008, their consolidated results of operations for the three and six months ended June 30, 2008 and 2007, and their cash flows for the six months ended June 30, 2008 and 2007. All significant inter-company balances have been eliminated in consolidation. The condensed consolidated financial statements as of June 30, 2008 and for the three and six months ended June 30, 2008 and 2007 and related footnote disclosures are unaudited. The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the entire year.

The December 31, 2007 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The Company consolidates all variable interest entities ("VIE") in which it is deemed to be the primary beneficiary in accordance with FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R"). As of June 30, 2008, the Company consolidated one VIE in the accompanying condensed consolidated balance sheets in connection with an assignment of a lease agreement with an unrelated party, M&M Real Estate Control & Restructuring, LLC. See Note 3 for further discussion of this transaction.

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MISSION WEST PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
(dollars in thousands, except per share and per square footage)
(unaudited)

STOCK-BASED OPTION COMPENSATION ACCOUNTING

The FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), which addresses the accounting for stock options. SFAS 123R requires that the cost of all employee, director and consultant stock options, as well as other equity-based compensation arrangements, be reflected in the financial statements based on the estimated fair value of the awards. SFAS 123R is an amendment to SFAS 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). SFAS 123R is applicable to any award that is settled or measured in stock, including stock options, restricted stock, stock appreciation rights, stock units, and employee stock purchase plans. At June 30, 2008, the Company had one stock-based compensation plan. The Company adopted the requirements of SFAS 123R effective January 1, 2006 using the modified prospective method of transition. The adoption of this standard did not have a material effect on the Company's condensed consolidated statements of operations, cash flows or financial position.

In the second quarter of 2008, options to purchase 86,250 shares held by a former member of the Board of Directors lapsed without exercise.

The following table shows the activity and detail for the 2004 Equity Incentive Plan.

Weighted Average

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	2004 Equity Incentive Plan -----	Option Price Per Share -----
Balance, December 31, 2007	1,747,100	\$11.13
Options granted	1,025,000	\$ 9.51
Options exercised	(73,750)	\$ 9.98
Options forfeited	(86,250)	\$10.86

Balance, June 30, 2008	2,612,100 =====	\$10.54

The Company measures compensation cost for its stock options at fair value on the date of grant and recognizes compensation expense relating to the remaining unvested portion of outstanding stock options at the time of adoption ratably over the vesting period, generally four years. The fair value of the Company's stock options is determined using the Black-Scholes option pricing model. Compensation expense related to the Company's share-based awards is included in general and administrative expenses in the Company's accompanying condensed consolidated statements of operations. Under SFAS 123R, the Company recorded approximately \$96 and \$157 of expense for the three months ended June 30, 2008 and 2007, respectively, and approximately \$242 and \$316 for share-based compensation relating to grants of stock options for the six months ended June 30, 2008 and 2007, respectively.

As of June 30, 2008, the total amount of unrecognized compensation cost related to unvested share-based compensation arrangements granted under the compensation plan was approximately \$744. This cost is expected to be recognized over a weighted-average period of 3.05 years.

MINORITY INTERESTS

Minority interests represent the separate private ownership of the operating partnerships by the Berg Group (defined as Carl E. Berg, his brother Clyde J. Berg, members of their respective immediate families, and certain entities they control) and other non-affiliate interests. As of June 30, 2008, these interests accounted for approximately 81.3% of the ownership interests in the real estate operations of the Company on a consolidated weighted average basis. The amount of minority interests in net income is calculated by taking the net income of the operating partnerships (on a stand-alone basis) multiplied by the respective weighted average minority interests ownership percentage.

Allocation of corporate general and administrative expenses to the operating partnerships is performed based upon shares and operating partnership units outstanding for each operating partnership in relation to the total for all four operating partnerships.

RECLASSIFICATIONS

Certain reclassifications have been made to the previously reported 2007 condensed consolidated financial statements in order to conform to the 2008 presentation.

The following notes, which present interim disclosures as required by the SEC, highlight significant changes to the notes to the Company's December 31, 2007 audited consolidated financial statements and should be read together with the consolidated financial statements and notes thereto included in the Company's 2007 Annual Report on Form 10-K filed on March 14, 2008.

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MISSION WEST PROPERTIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
(dollars in thousands, except per share and per square footage)
(unaudited)

ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurements. This guidance was issued to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS 157 establishes and requires disclosure of fair value hierarchy that distinguishes between data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participant assumptions. The three levels of hierarchy are 1) using quoted prices in active markets for identical assets and liabilities, 2) "significant other observable inputs" and 3) "significant unobservable inputs". "Significant other observable inputs" can include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the asset or liability, such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals. "Significant unobservable inputs" are typically based on an entity's own assumptions, as there is little, if any, related market activity. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Adoption on January 1, 2008 did not have a material effect on the Company's consolidated financial statements. The FASB has approved a one-year deferral for the implementation of the statement for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company believes that the impact of these items will not be material to its consolidated financial statements.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company adopted SFAS 159 on a prospective basis on January 1, 2008. The implementation of SFAS 159 did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS 141 (Revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R will change the accounting for business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R will change the accounting treatment and disclosure for certain specific items in a business combination. SFAS 141R requires that acquisition-related costs and restructuring costs be recognized separately from the business combination and expensed as incurred. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. The Company is currently evaluating the impact SFAS 141R will have on its consolidated

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financial statements.

In December 2007, the FASB issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). SFAS 160 requires that noncontrolling interests be presented as a component of consolidated stockholders' equity, eliminates "minority interest accounting" such that the amount of net income attributable to the noncontrolling interests will be presented as part of consolidated net income on the consolidated statement of operations and not as a separate component of income and expenses. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. Early adoption is prohibited. The Company is currently evaluating the impact SFAS 160 will have on its consolidated financial statements.

3. VARIABLE INTEREST ENTITY

Under FIN 46R, a variable interest entity must be consolidated by a company if it is subject to a majority of the entity's expected losses or is entitled to receive a majority of the entity's expected residual returns or both. In addition, FIN 46R requires disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest.

Under FIN 46R, for an entity to qualify as a VIE one or more of the following three characteristics must exist:

1. The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support by any parties, including the equity holders.
2. The equity investors lack one or more of the following essential characteristics of a controlling financial interest:
 - a. The direct or indirect ability to make decisions about the entity's activities through voting or similar rights.
 - b. The obligation to absorb the expected loss of the entity.
 - c. The right to receive the expected residual returns of the entity.
3. The equity investors have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

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MISSION WEST PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
(dollars in thousands, except per share and per square footage)
(unaudited)

In August 2007, one of the Company's tenants, Ciena, entered into an assignment of lease agreement with an unrelated party, M&M Real Estate Control & Restructuring, LLC ("M&M"), in connection with leases for approximately 445,000 rentable square feet located in San Jose, California. As a result of the Assignment, M&M assumed all of Ciena's remaining obligations under these leases and received a payment from Ciena of \$53,000, of which \$7,000 was reserved for tenant improvements. At the same time, the Company entered into a consent for assignment of lease with both parties and a mutual release agreement with Ciena, pursuant to which all of Ciena's obligations under these leases were effectively transferred to M&M. M&M is obligated to continue to perform all of the obligations under the assumed Ciena leases and has the right to sublease any or all of the 445,000 rentable square feet vacated by Ciena for the remainder of the

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current lease term, which expire in 2011. Under the terms of the assignment of lease agreement, the Company received monthly rent payments of approximately \$789 from July 2007 through June 2008, is receiving \$818 from July 2008 through June 2009, will receive \$849 from July 2009 through June 2010, \$881 from July 2010 through June 2011 and \$915 from July 2011 through December 2011. Based upon the provisions of FIN 46R, the Company determined that M&M is a variable interest entity. The Company further determined that it is the primary beneficiary of this variable interest entity, and therefore has consolidated this entity for financial reporting purposes. Upon consolidation, the Company recognized a gross lease termination fee of \$46,000 in August 2007.

Factors considered by the Company in determining whether M&M should be considered a VIE for financial reporting purposes included the following:

- No equity was contributed by the partners in the formation of M&M.
- At present, the assigned leases are the only properties under management by M&M.
- M&M does not have an operating history that demonstrates its ability to finance its activities without additional subordinated financial support.
- All revenues, other than interest income, are generated by M&M from the Company in the form of fees or commissions.

The Company remains at risk with respect to the assigned leases because if M&M's operating expenses exceed its interest income, fees and commissions there would be insufficient funds to meet the assigned lease obligation without additional financial support from equity holders or other parties. The Company, which had released the original tenants from its obligations under the leases, would have to absorb the majority of any loss, making it the primary beneficiary of M&M's activities.

4. RESTRICTED CASH

Restricted cash totaled approximately \$45,535 as of June 30, 2008. Of this amount, approximately \$44,035 represents cash held by M&M Real Estate Control & Restructuring, LLC, a consolidated variable interest entity, or VIE. The Company does not have possession or control over these funds or any right to receive them except in accordance with the payment terms of the lease agreement that has been assigned to the VIE. The balance of the restricted cash is a \$1,500 certificate of deposit held by Prudential Insurance Company of America as collateral securing the Company's mortgage loan. The certificate of deposit was provided by the Company in the third quarter of 2007 to replace two buildings sold by the Company that previously served as collateral.

5. STOCK TRANSACTIONS

During the six months ended June 30, 2008, stock options to purchase 70,000 and 3,750 shares of common stock were exercised at \$10.00 and \$9.51 per share, respectively. Total proceeds to the Company were approximately \$735. During the same period, two limited partners exchanged a total of 5,720 O.P. units for 5,720 shares of the Company's common stock under the terms of the Exchange Rights Agreement among the Company and all limited partners of the operating partnerships resulting in a reclassification of approximately \$54 from minority interests to additional paid-in capital. Neither the Company nor the operating partnerships received any proceeds from the issuance of the common stock in exchange for O.P. units.

6. DISCONTINUED OPERATIONS

The Company adopted SFAS No. 144, "Accounting for the Impairment or

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Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment and disposal of long lived assets. In general, income or loss attributable to the operations and sale of property and the operations related to property held for sale is classified as discontinued operations in the condensed consolidated statements of operations. Prior period condensed consolidated statements of operations presented in this report have been reclassified to reflect the income or loss related to properties that were sold and presented as discontinued operations in 2007. All periods presented in this report will likely require further reclassification in future periods if there are properties held for sale or property sales occur.

In the third quarter of 2007, the Company sold two R&D properties that qualified as discontinued operations. Condensed results of operations for these properties for the three and six months ended June 30, 2007 are as follows:

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MISSION WEST PROPERTIES, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
 (dollars in thousands, except per share and per square footage)
 (unaudited)

	Three Months Ended June 30,	
	2008	2007
	(dollars in thou (unaudited)	
Revenues		
Rental revenue from real estate	-	\$135
Tenant reimbursements	-	14
Total revenues	-	149
Expenses		
Property operating, maintenance and real estate taxes	-	58
Depreciation of real estate	-	56
Total expenses	-	114
Income from discontinued operations	-	35
Minority interest in earnings attributable to discontinued operations	-	(32)
Income from discontinued operations	-	\$ 3

7. NET INCOME PER SHARE

Basic operating net income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted operating net income per share is computed by dividing net income by the sum of the weighted-average number of common shares outstanding for

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the period plus the assumed exercise of all dilutive securities using the treasury stock method.

The computation for weighted average shares is detailed below:

	Three Months Ended June 30,	
	2008	2007
Weighted average shares outstanding (basic)	19,695,988	19,639,928
Incremental shares from assumed option exercise	206,316	380,668
Weighted average shares outstanding (diluted)	19,902,304	20,020,596

At June 30, 2008, outstanding options to purchase 1,040,000 shares of common stock were excluded from the computation of diluted net income per share under the treasury stock method because the option exercise price was greater than the weighted average closing price of the Company's common stock during the period. The outstanding O.P. units, which are exchangeable at the unit holder's option, subject to certain conditions, for shares of common stock on a one-for-one basis have been excluded from the diluted net income per share calculation, as there would be no effect on the calculation after adding the minority interests' share of income back to net income. The total number of O.P. units outstanding at June 30, 2008 and 2007 was 85,528,215 and 85,009,699, respectively.

8. RELATED PARTY TRANSACTIONS

As of June 30, 2008, the Berg Group owned 77,902,384 O.P. units. The Berg Group's combined ownership of O.P. units and shares of common stock as of June 30, 2008 represented approximately 74% of the total equity interests, assuming conversion of all O.P. units outstanding into the Company's common stock.

As of June 30, 2008, debt in the amount of approximately \$8,997 was due the Berg Group under a mortgage note established May 15, 2000 in connection with the acquisition of a 50% interest in Hellyer Avenue Limited Partnership, the obligor under the mortgage note. The mortgage note bears interest at 7.65% and is due in June 2010 with principal payments amortized over 20 years. Interest expense incurred in connection with the mortgage note was approximately \$174 and \$182 for the three months ended June 30, 2008 and 2007, respectively, and \$349 and \$366 for the six months ended June 30, 2008 and 2007, respectively.

As of June 30, 2008, debt in the amount of approximately \$1,923 was due the Berg Group under a short-term note payable established on January 1, 2008 in connection with the acquisition of 5981 Optical Court. The note payable bears interest at LIBOR plus 2% and is due September 30, 2008. Interest expense incurred in connection with the loan was approximately \$106 and \$355 for the three and six months ended June 30, 2008, respectively.

During the first six months of 2008 and 2007, Carl E. Berg or entities controlled by him held financial interests in several companies that lease space from the operating partnerships, which include companies where Mr. Berg has a greater than 10% ownership interest. These related tenants contributed approximately \$307 and \$361 in rental revenue for the three months ended June 30, 2008 and 2007, respectively, and \$614 and \$721 in

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rental revenue for the six months ended June 30, 2008 and 2007, respectively.

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MISSION WEST PROPERTIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
(dollars in thousands, except per share and per square footage)
(unaudited)

Under the Company's charter, bylaws and agreements with the Berg Group, the individual members of the Berg Group are prohibited from acquiring or holding shares of the Company's common stock if such acquisition would result in their beneficial ownership percentage of the Company's common stock causing the Company to violate any REIT qualification requirement. Currently their share ownership is below a level at which rent from related tenants would be excluded in determining compliance with REIT qualification tests.

The Berg Group has an approximately \$2,500 commitment to complete certain tenant improvements in connection with the Company's 2002 acquisition of 5345 Hellyer Avenue in San Jose. The Company has recorded this portion of the purchase price paid to the Berg Group in "Other assets" on its condensed consolidated balance sheets. The Berg Group is in the process of satisfying this commitment to complete certain tenant improvements.

The Berg Group has an approximately \$7,500 commitment to complete an approximately 75,000 to 90,000 square foot building in connection with the Company's 2001 acquisition of 245 Caspian in Sunnyvale which is comprised of approximately three acres of unimproved land. The Company has recorded this portion of the purchase price paid to the Berg Group in "Other assets" on its condensed consolidated balance sheets. The Berg Group plans to satisfy this commitment to construct a building when requested by the Company following the approval of the Independent Directors Committee.

The Company currently leases office space owned by Berg & Berg Enterprises for the Company's headquarters. Rental amounts and overhead reimbursements paid to Berg & Berg Enterprises were approximately \$30 and \$24 for the three months ended June 30, 2008 and 2007, respectively, and \$54 and \$47 for the six months ended June 30, 2008 and 2007, respectively.

9. COMMITMENTS AND CONTINGENCIES

Neither the operating partnerships, the Company's properties nor the Company are subject to any material litigation nor, to the Company's knowledge, is any material litigation threatened against the operating partnerships, the properties or the Company. From time to time, the Company is engaged in legal proceedings arising in the ordinary course of business. The Company does not expect any of such proceedings to have a material adverse effect on its cash flows, financial condition or results of operations. The Company is currently involved in the following legal proceedings and it believes that the ultimate outcome of these proceedings will not have a material adverse effect on its operating results, cash flows or financial condition.

Mission West Properties, L.P. v. Republic Properties Corporation, et al. Santa Clara County Superior Court, Case No. CV 796249. Republic Properties Corporation ("RPC") is a former 50% partner with Mission West Properties, L.P. in the Hellyer Avenue Limited Partnership ("Hellyer LP"), which was formed in July 2000. Under the terms of the Hellyer LP partnership agreement and other related contracts, Mission West Properties, L.P. ("MWP") had the right to obtain RPC's entire interest in Hellyer LP in the

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event of certain payment defaults which occurred in August 2000. Therefore, on September 1, 2000, MWP, as the general partner of Hellyer LP, ceased all allocations of income and cash flow to RPC and exercised the right under the partnership agreement to cancel RPC's entire interest in the partnership. Following discussions with and approval by the Independent Directors Committee, the Company authorized the transfer of RPC's interest in Hellyer LP to Berg & Berg Enterprises, Inc. ("BBE"). Under the Berg Land Holdings Option Agreement and the Acquisition Agreement dated as of May 14, 1998, the Independent Directors Committee had the right, but not the obligation, to reacquire the property interest and the related distributions related to the property interest at any time. The transfer was effective as of September 1, 2000. On November 20, 2000, RPC commenced a lawsuit against MWP in the Circuit Court of Maryland for Baltimore City. After lengthy litigation, which included a trial on the merits and subsequent appeals, in April 2006 Maryland's highest court upheld an earlier Maryland Appeals Court ruling in favor of MWP, finding that the Circuit Court of Maryland could not assert personal jurisdiction over MWP in the RPC suit. The Court vacated the judgment and decision in the trial court and dismissed the entire Maryland suit. In February 2001, while the Maryland case was pending, the Company filed a suit against RPC in the Superior Court of the State of California for the County of Santa Clara. The case was stayed pending resolution of the Maryland case, and the Company dismissed its suit on March 4, 2005. In April 2005, RPC submitted a motion asking the Superior Court to reinstate the case, which the Court granted on May 25, 2005. On July 5, 2006, RPC filed a cross-complaint in the case seeking partnership distributions to which the Company demurred. The Court sustained the Company's demurrer with leave to amend. Subsequently, RPC filed an amended complaint and the Company submitted another demurrer seeking dismissal of the claims on statute of limitations grounds. On February 20, 2007, the Court overruled the Company's demurrer. The Company sought a writ from the California State Court of Appeal for the Sixth District to direct the lower court to reverse its decision, but the petition for the writ was denied. In April 2008, the Company filed a motion for summary judgment in the California Superior Court which was denied. A trial in the California Superior Court will commence in late 2008.

Since the inception of Hellyer LP, the Company has accounted for the properties owned by the partnership on a consolidated basis, with reductions for the minority interest held by the minority partner (first RPC and then BBE). In each period, the Company has accrued amounts payable by Hellyer LP to the minority interest partner, including BBE prior to payment. BBE's share of earnings allocated to its 50% minority interest was approximately \$0.4 million in the first six months of 2008 and 2007. As of June 30, 2008,

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MISSION WEST PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
(dollars in thousands, except per share and per square footage)
(unaudited)

accumulated cash flow distributions from Hellyer LP totaling approximately \$4.9 million were accrued and distributed to BBE. If the Company's litigation with RPC is ultimately decided in RPC's favor, the Company anticipates that BBE may be required to return RPC's former interest in Hellyer LP and all prior distributions to RPC. As a result of this uncertainty, in October 2003, the Company recorded such distributions as an account receivable from BBE, which is included in "Other assets" on the Company's consolidated balance sheets, with an offsetting account payable to BBE.

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If the litigation is ultimately decided in favor of the Company, the Independent Directors Committee of the Board of Directors has the right, but not the obligation, to acquire on behalf of the Company the former RPC interest and related distributions from BBE under the terms of the Berg Land Holdings Option Agreement and the Acquisition Agreement between the Company and the Berg Group.

GUARANTEES AND INDEMNITIES

Under its articles of incorporation and bylaws, the Company has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officer or director's serving in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company believes the estimated fair value of these indemnification agreements is minimal and has recorded no liabilities for these agreements as of June 30, 2008.

The Company also enters into indemnification provisions under its agreements with other companies in the ordinary course of business, typically with lenders, joint venture partners, contractors, and tenants. Under these provisions the Company typically agrees to indemnify and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of certain kinds of activities or inactions of the Company. These indemnification provisions generally survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. To date, the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has recorded no liabilities for these agreements as of June 30, 2008.

SEISMIC ACTIVITY

The Company's properties are located in an active seismic area of Silicon Valley. Insurance policies currently maintained by the Company do not cover seismic activity, although they do cover losses from fires after an earthquake.

ENVIRONMENTAL ISSUES

The environmental investigations that have been conducted on the Company's properties have not revealed any environmental liability that the Company believes would have a material adverse effect on its financial condition, results of operations and assets, and the Company is not aware of any such liability. Nonetheless, it is possible that there are material environmental liabilities of which the Company is unaware. In addition, the Company cannot assure that future laws, ordinances, or regulations will not impose any material environmental liability, or that the current environmental condition of the properties has not been, or will not be, affected by tenants and occupants of the properties, by the condition of properties in the vicinity of the properties, or by third parties unrelated to the Company.

ASSET DISPOSITIONS SUBJECT TO CERTAIN CONDITIONS

The Company has entered into sales agreements with unrelated parties subject to numerous material conditions, including but not limited to re-zoning of the property and negotiating certain agreements with the local municipality acceptable to the buyer. As a result of the conditions agreed to by the Company and the respective buyers, these assets do not meet the criteria set forth in SFAS 144 to be classified as assets held for sale. The following summarizes the assets for which the Company has an executed

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sales contract as of June 30, 2008 that is subject to such material conditions:

Property -----	Number of Buildings -----	Rentable Square Feet -----	Acres -----	Sales Pr -----
McCandless Drive Milpitas, California	8	427,000	23.03	\$76,50

10. SUBSEQUENT EVENTS

On July 3, 2008, the Company paid dividends of \$0.20 per share of common stock to all common stockholders of record as of June 30, 2008. On the same date, the operating partnerships paid a distribution of \$0.20 per O.P. unit to all holders of O.P. units. Aggregate dividends and distributions amounted to approximately \$21,054.

On July 3, 2008, a short-term note payable in the amount of approximately \$12,760 was issued to the Berg Group in connection with the quarterly distributions. The note payable bears interest at LIBOR plus 2% and is due September 30, 2008.

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MISSION WEST PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
(dollars in thousands, except per share and per square footage)
(unaudited)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying condensed consolidated financial statements and notes thereto under Part I, Item 1 of this Report and our audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K as of and for the year ended December 31, 2007. The results for the three and six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2008.

FORWARD-LOOKING INFORMATION

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and are including this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. Additionally, all disclosures under Part I, Item 3 constitute forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain.

Factors that could have a material adverse effect on our operations and future

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prospects or would cause actual results in the future to differ materially from any of our forward-looking statements include, but are not limited to, the following:

- economic conditions generally and the real estate market specifically,
- the occupancy rates of the properties,
- rental rates on new and renewed leases,
- legislative or regulatory provisions (including changes to laws governing the taxation of REITs),
- availability of capital,
- interest rates,
- competition,
- supply of and demand for R&D, office and industrial properties in our current and proposed market areas,
- tenant defaults and bankruptcies,
- lease term expirations and renewals,
- changes in general accounting principles, policies and guidelines applicable to REITs, and
- ability to timely refinance maturing debt obligations and the terms of any such refinancing.

These risks and uncertainties, together with the other risks described under Part I, Item 1A - "Risk Factors" of our 2007 Annual Report on Form 10-K and from time to time in our other reports and documents filed with the Securities and Exchange Commission ("SEC"), should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

OVERVIEW

We acquire, market, lease, and manage R&D/office properties, primarily located in the Silicon Valley portion of the San Francisco Bay Area. As of June 30, 2008, we owned and managed 111 properties totaling approximately 8.0 million rentable square feet through four limited partnerships, or operating partnerships, for which we are the sole general partner. This class of property is designed for research and development and office uses and, in some cases, includes space for light manufacturing operations with loading docks. We believe that we have one of the largest portfolios of R&D/office properties in the Silicon Valley. As of June 30, 2008, two tenants individually lease in excess of 300,000 rentable square feet from us: Microsoft Corporation and Apple, Inc.

For federal income tax purposes, we have operated as a self-managed, self-administered and fully integrated real estate investment trust ("REIT") since the beginning of fiscal 1999.

Our acquisition, growth and operating strategy incorporates the following elements:

- working with the Berg Group to take advantage of their abilities and resources to pursue development opportunities which we have an option to acquire, on pre-negotiated terms, upon completion and leasing;
- capitalizing on opportunistic acquisitions from third parties of high-quality R&D/office properties that provide attractive initial yields and significant potential for growth in cash-flow;
- focusing on general purpose, single-tenant Silicon Valley R&D/office properties for information technology companies in order to maintain low operating costs, reduce tenant turnover and capitalize on our relationships with these companies and our extensive knowledge of their real estate needs; and
- maintaining prudent financial management principles that emphasize current cash flow while building long-term value, the acquisition of pre-leased properties to reduce development and leasing risks and the maintenance of sufficient liquidity to acquire and finance properties on desirable terms.

CURRENT ECONOMIC ENVIRONMENT

All of our properties are located in the Northern California area known as Silicon Valley, which generally consists of portions of Santa Clara County, Southwestern Alameda County, Southeastern San Mateo County and Eastern Santa Cruz County. Historically, the Silicon Valley R&D property market has fluctuated with the local economy. After fast-paced growth in 1999 and 2000, the Silicon Valley economy and business activity slowed markedly from 2001 through 2006 and have been growing slowly since then. According to a recent report by NAI BT Commercial Real Estate (the "BT Report"), the vacancy rate for Silicon Valley R&D property was approximately 16.6% in late 2007 and 16.0% at the end of the second quarter of 2008. Total vacant R&D square footage in Silicon Valley at the end of the second quarter of 2008 amounted to approximately 24.7 million square feet, of which 15.4%, or 3.8 million square feet, was being offered under subleases. According to the BT Report, total positive net absorption (which is the computation of gross square footage leased less gross new square footage vacated for the period presented) in 2007 amounted to approximately 3.5 million square feet, and in the first six months of 2008 there was total positive net absorption of approximately 0.16 million square feet. Also according to the BT Report, the average asking market rent per square foot at the end of the second quarter of 2008 was \$1.29 compared with \$1.26 in late 2007. The Silicon Valley R&D property market is characterized by a substantial number of submarkets, with rent and vacancy rates varying by submarket and location within each submarket, however, and individual properties within any particular submarket presently may be leased above or below the current average asking market rental rates within that submarket and the region as a whole.

Our occupancy rate at June 30, 2008 was 64.9% compared with 67.8% at June 30, 2007. We believe that our occupancy rate could decline further going forward if key tenants seek the protection of bankruptcy laws, consolidate operations or discontinue operations. In addition, leases with respect to approximately 191,000 rentable square feet are expiring prior to the end of 2008. The properties subject to these leases may take anywhere from 24 to 36 months or longer to re-lease. We believe that the average 2008 renewal rental rates for our properties will be approximately equal to, or perhaps below, current market rents, but we cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current quoted market rates.

Despite our strategic focus on single tenant properties and leases, in order to meet market conditions, we have been, and expect to continue leasing less than the entire premises of some of our R&D properties to a single tenant from time to time. Leasing our R&D properties, which generally have been built for single tenant occupancy, to multiple tenants can increase our leasing costs and operating expenses and reduce the profitability of our leasing activities.

If we are unable to lease a significant portion of any vacant space or space subject to expiring leases; if we experience significant tenant defaults as a result of the current economic downturn; if we are not able to lease space at or above current market rates; if we restructure existing leases and lower existing rents in order to retain tenants for an extended term; or if we increase our lease costs and operating expenses substantially to accommodate multiple tenants in our R&D properties, our results of operations and cash flows will be affected adversely. Furthermore, in this event it is probable that our board of directors will reduce the quarterly dividend on the common stock and the outstanding O.P. units. Our operating results and ability to pay dividends at current levels remain subject to a number of material risks, as indicated under the caption "Forward-Looking Information" above and in the section entitled "Risk Factors"

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in our most recent Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which requires us to make certain estimates, judgments and assumptions that affect the reported amounts in the accompanying condensed consolidated financial statements, disclosure of contingent assets and liabilities and related footnotes. Accounting and disclosure decisions with respect to material transactions that are subject to significant management judgments or estimates include impairment of long lived assets, deferred rent reserves, and allocation of purchase price relating to property acquisitions and the related depreciable lives assigned. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that require management to make estimates, judgments and assumptions, giving due consideration to materiality, in certain circumstances that affect amounts reported in the condensed consolidated financial statements, and potentially result in materially different results under different conditions and assumptions. We believe that the following best describe our critical accounting policies:

BUSINESS COMBINATIONS. Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" ("SFAS 141"), was effective July 1, 2001. The acquisition costs of each property acquired prior to July 1, 2001 were allocated only to building, land and leasing commissions with building depreciation being computed based on an estimated weighted average composite useful life of 40 years and leasing commission amortization being computed over the term of the lease. Acquisitions of properties made subsequent to the effective date of SFAS 141 are based on an allocation of the acquisition cost to land, building, tenant improvements, and intangibles for at market, including lease origination and lease up period costs, and above and below market in place leases, and the determination of their useful lives are guided by a combination of SFAS 141 and management's estimates. Amortization expense of above and below market lease intangible asset is offset against rental revenue in the revenue section while amortization of in-place lease value intangible asset is included in depreciation and amortization of real estate in the expense section of our condensed consolidated statements of

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operations. If we do not appropriately allocate these components or we incorrectly estimate the useful lives of these components, our computation of depreciation and amortization expense may not appropriately reflect the actual impact of these costs over future periods, which will affect net income.

IMPAIRMENT OF LONG-LIVED ASSETS. We review real estate assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets" ("SFAS 144"). If the carrying amount of the asset exceeds its estimated undiscounted net cash flow, before interest, we will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value. If impairment is recognized, the reduced carrying amount of the asset will be accounted for as its new cost. For a depreciable asset, the new cost will be depreciated over the asset's remaining useful life. Generally, fair values are estimated using discounted cash flow, replacement cost or market comparison analyses. The process of evaluating for impairment requires estimates as to future events and conditions, which are subject to varying market factors, such as the vacancy rates, future rental rates, lease periods, deferred maintenance and operating costs for R&D

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facilities in the Silicon Valley area and related submarkets. Therefore, it is reasonably possible that a change in estimate resulting from judgments as to future events could occur which would affect the recorded amounts of the property.

ALLOWANCE FOR DOUBTFUL ACCOUNTS AND DEFERRED RENT. We must estimate the uncollectibility of our accounts receivable based on the evaluation of our tenants' financial position, analyses of accounts receivable and current economic trends. We also make estimates for reserves against our deferred rent receivable for existing tenants with the potential of early termination, bankruptcy or ceasing operations. We charge or credit rental income for increases or decreases to our deferred rent reserves. Our estimates are based on our review of tenants' payment histories, the remaining lease term, whether or not the tenant is currently occupying our building, publicly available financial information and such additional information about their financial condition as tenants provide to us. The information available to us might lead us to overstate or understate these reserve amounts. The use of different estimates or assumptions could produce different results. Moreover, actual future collections of accounts receivable or reductions in future reported rental income due to tenant bankruptcies or other business failures could differ materially from our estimates.

CONSOLIDATED JOINT VENTURES. We, through an operating partnership, own three properties that are in joint ventures of which we have controlling interests. We manage and operate all three properties. We recognize these properties and 100% of their operating results in our condensed consolidated financial statements, with appropriate allocation to minority interests, because we have operational and financial control of the investments. We make judgments and assumptions about the estimated monthly payments made to our minority interest joint venture partners, which are reported with our periodic results of operations. Actual results may differ from these estimates under different assumptions or conditions.

INVESTMENT IN UNCONSOLIDATED JOINT VENTURE. We, through an operating partnership, have a 50% non-controlling limited partnership interest in one unconsolidated joint venture. This investment is not consolidated because we do not exercise significant control over major operating and financial decisions. We account for this joint venture interest using the equity method of accounting.

FAIR VALUE OF FINANCIAL INSTRUMENTS. Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, and debt. Considerable judgment is required in interpreting market data to develop estimates of fair value. Our estimates of fair value are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Cash and cash equivalents, accounts receivable, and accounts payable are carried at amounts that approximate their fair values due to their short-term maturities. The carrying amounts of our variable rate debt approximate fair value since the interest rates on these instruments are equivalent to rates currently offered to us. For fixed rate debt, we estimate fair value by using discounted cash flow analyses based on borrowing rates for similar kinds of borrowing arrangements.

STOCK-BASED COMPENSATION. In December 2004, the FASB issued SFAS 123R, which addresses the accounting for stock options. SFAS 123R requires that the cost of all employee, director and consultant stock options, as well as other equity-based compensation arrangements, be reflected in the financial statements based on the estimated fair value of the awards. SFAS 123R is an amendment to SFAS 123 and supersedes APB 25. SFAS 123R is applicable to any award that is settled or measured in stock, including stock options, restricted stock, stock appreciation rights, stock units, and employee stock purchase plans. We have

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adopted the requirements of SFAS 123R effective January 1, 2006 using the modified prospective method of transition. Accordingly, prior periods have not been restated. The adoption of this standard did not have a material effect on our condensed consolidated statements of operations or financial position. Compensation cost under SFAS 123R may differ due to different assumptions and treatment of forfeitures.

REVENUE RECOGNITION. Rental revenue is recognized on the straight-line method of accounting required by GAAP under which contractual rent payment increases are recognized evenly over the lease term, regardless of when the rent payments are received by us. The difference between recognized rental income and rental cash receipts is recorded as "Deferred rent receivable" on the condensed consolidated balance sheets.

Rental revenue is affected if existing tenants terminate or amend their leases. We try to identify tenants who may be likely to declare bankruptcy, cease operations or are likely to seek a negotiated settlement of their obligation. By anticipating these events in advance, we expect to take steps to minimize their impact on our reported results of operations through lease renegotiations, reserves against deferred rent, and other appropriate measures. Our judgments and estimations about tenants' capacity to continue to meet their lease obligations

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will affect the rental revenue recognized. Material differences may result in the amount and timing of our rental revenue for any period if we made different judgments or estimations.

SFAS No. 66, "Accounting for Sales of Real Estate" ("SFAS 66"), establishes accounting standards for recognizing profit or loss on sales of real estate. The gain on the sale is only recognized proportionately as the seller receives payments from the purchaser. Interest income is recognized on an accrual basis, when appropriate.

Lease termination fees are recognized as other income when there is a signed termination letter agreement, all of the conditions of the agreement have been met, and when the tenant no longer has the right to occupy the property. These fees are paid by tenants who want to terminate their lease obligations before the end of the contractual term of the lease. We cannot predict or forecast the timing or amounts of future lease termination fees.

We recognize income from rent, tenant reimbursements and lease termination fees and other income once all of the following criteria are met in accordance with SEC Staff Accounting Bulletin 104:

- the agreement has been fully executed and delivered;
- services have been rendered;
- the amount is fixed and determinable; and
- collectibility is reasonably assured.

With regard to critical accounting policies, where applicable, we have explained and discussed the criteria for identification and selection, methodology in application and impact on the financial statements with the Audit Committee of our Board of Directors. The Audit Committee has reviewed the critical accounting policies we identified.

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RESULTS OF OPERATIONS

COMPARISON OF THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 WITH THE THREE AND SIX MONTHS ENDED JUNE 30, 2007

As of June 30, 2008, through our controlling interests in the operating partnerships, we owned 111 properties totaling approximately 8.0 million rentable square feet compared with 110 properties totaling approximately 7.8 million rentable square feet owned by us as of June 30, 2007. This represents a net increase of approximately 2.6% in total rentable square footage, as we acquired three R&D/office properties consisting of approximately 284,000 rentable square feet and sold two R&D/office properties consisting of approximately 87,000 rentable square feet since the second quarter of 2007. Included in the 8.0 million rentable square feet are approximately 854,000 rentable square feet (or 16 buildings) that we are seeking to have rezoned for residential development.

Rental revenue from real estate for the three and six months ended June 30, 2008 compared with the same three- and six-month periods in 2007 was as follows:

	Three Months Ended June 30,			% Chan Propert
	2008	2007	\$ Change	
	(dollars in thousands)			
Same Property (1)	\$18,452	\$21,126	(\$2,674)	(12)
2007 Acquisitions	6	22	(16)	(73)
2008 Acquisitions	901	-	901	100
Total	\$19,359	\$21,148	(\$1,789)	(8)

	Six Months Ended June 30,			% Chan Propert
	2008	2007	\$ Change	
	(dollars in thousands)			
Same Property (1)	\$36,751	\$42,329	(\$5,578)	(13)
2007 Acquisitions	20	21	(1)	(4)
2008 Acquisitions	1,585	-	1,585	100
Total	\$38,356	\$42,350	(\$3,994)	(9)

(1) "Same Property" is defined as properties owned by us prior to 2007 that we still owned as of June 30, 2008.

RENTAL REVENUE FROM REAL ESTATE FROM CONTINUING OPERATIONS

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For the quarter ended June 30, 2008, rental revenue from real estate decreased by approximately (\$1.8) million, or (8.5%), from \$21.1 million for the three months ended June 30, 2007 to \$19.4 million for the three months ended June 30, 2008. For the six months ended June 30, 2008, rental revenue from real estate decreased by approximately (\$4.0) million, or (9.4%), from \$42.4 million for the six months ended June 30, 2007 to \$38.4 million for the six months ended June 30, 2008. The decline in rental revenue resulted primarily from renewing existing leases at lower rental rates and the loss of several tenants due to lease terminations, relocation or cessation of their operations in 2007, all of which resulted from current adverse market conditions. Total rental revenue was reduced by amortization expense of approximately (\$4.1) million for the six months ended June 30, 2007 for an above-market lease intangible asset acquired pursuant to a lease termination. That resulted in the write-off of all remaining above-market lease intangible asset. Our occupancy rate at June 30, 2008 was approximately 64.9%, compared with approximately 67.8% at June 30, 2007.

EQUITY IN EARNINGS FROM UNCONSOLIDATED JOINT VENTURE

As of June 30, 2008, we held investments in three R&D buildings totaling approximately 466,600 rentable square feet through an unconsolidated joint venture, TBI-MWP, in which we acquired a 50% interest in January 2003 from the Berg Group under the Berg Land Holdings Option Agreement. We have a non-controlling limited partnership interest in this joint venture, which we account for using the equity method of accounting. For the three months ended June 30, 2008, we recorded equity in earnings from the unconsolidated joint venture of approximately \$0.41 million compared with equity in earnings of \$0.35 million for the same period in 2007. For the six-month periods ended June 30, 2008 and 2007, equity in earnings from the unconsolidated joint venture was approximately \$0.79 million and \$0.69 million, respectively. The occupancy rate for the properties owned by this joint venture at June 30, 2008 and 2007 was 100%.

LEASE TERMINATION INCOME

Lease termination fee income for the three months ended June 30, 2007 was approximately \$0.2 million. Lease termination fee income for the six months ended June 30, 2008 and 2007 were approximately \$1.9 million and \$10.3 million, respectively. These lease termination fees were paid by tenants who terminated their lease obligations before the end of the contractual term of the lease by agreement with us. We do not consider those transactions to be recurring items.

OTHER INCOME FROM CONTINUING OPERATIONS

Other income of approximately \$0.5 million for the three months ended June 30, 2008 included approximately \$0.2 million from interest and \$0.3 million from management fees and miscellaneous income. Other income of approximately \$1.0 million for the three months

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ended June 30, 2007 included approximately \$0.5 million from interest, \$0.3 million from management fees and \$0.2 million from security deposit forfeitures and miscellaneous income. For the six months ended June 30, 2008, other income of approximately \$1.3 million included approximately \$0.8 million from interest and \$0.5 million from management fees and miscellaneous income. For the six months ended June 30, 2007, other income of approximately \$4.0 million included approximately \$1.6 million from a forfeited deposit under a contract for the sale of property, \$1.3 million from interest, \$0.6 million from management fees, \$0.3 million from a bankruptcy settlement claim and \$0.2 million from security deposit forfeitures and miscellaneous income.

EXPENSES FROM CONTINUING OPERATIONS

Property operating expenses and real estate taxes during the second quarter of 2008 increased by approximately \$1.0 million, or 20.9%, from \$4.5 million to

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\$5.5 million for the three months ended June 30, 2007 and 2008, respectively. The increase in 2008 was primarily attributable to increases in utility usage and repair and maintenance expenses. Tenant reimbursements increased by approximately \$0.5 million, or 14.5%, from \$3.2 million for the three months ended June 30, 2007 to \$3.7 million for the three months ended June 30, 2008 due to reimbursements of recurring operating expenses. Certain expenses such as property insurance, real estate taxes, and other fixed operating expenses are not recoverable from vacant properties. For the six months ended June 30, 2008, property operating expenses and real estate taxes increased by approximately \$1.3 million, or 14.5%, from \$9.1 million for the six months ended June 30, 2007 to \$10.4 million for the six months ended June 30, 2008. General and administrative expenses remained the same at approximately \$0.7 million for the three months ended June 30, 2008 and 2007, and \$1.3 million and \$1.4 million for the six months ended June 30, 2008 and 2007, respectively.

Real estate depreciation and amortization expense increased by approximately \$0.3 million, or 5.3%, from \$5.4 million to \$5.7 million for the three months ended June 30, 2007 and 2008, respectively. The increase resulted from the acquisition of two R&D properties and additional tenant improvements since June 30, 2007. Real estate depreciation and amortization expense decreased by approximately (\$0.3) million, or (2.1%), from \$11.6 million to \$11.3 million for the six months ended June 30, 2007 and 2008, respectively. Such expense in the first six months of 2007 included additional amortization expense relating to in-place lease value intangible asset pursuant to SFAS 141 in connection with two lease terminations that did not recur in 2008.

Interest expense was approximately \$5.0 million for the three months ended June 30, 2008 and 2007. Interest expense (related parties) increased by approximately \$0.1 million, or 53.8%, from \$0.2 million for the three months ended June 30, 2007 to \$0.3 million for the three months ended June 30, 2008 due to higher related party debt incurred in the quarter just ended. Total debt outstanding, including amounts due related parties, decreased by approximately (\$1.1) million, or (0.3%), from \$352.3 million as of June 30, 2007 to \$351.2 million as of June 30, 2008.

INCOME FROM DISCONTINUED OPERATIONS

The following table depicts the amounts of income from discontinued operations for the three and six months ended June 30, 2007.

	Three Months Ended June 30,	
	2008	2007
		(dollars in thousands)
		(unaudited)
Income attributable to discontinued operations	-	\$35
Minority interests in earnings attributable to discontinued operations	-	(32)
Income from discontinued operations	-	\$ 3

In the third quarter of 2007, we sold two R&D properties, and in accordance with our adoption of SFAS 144, classified them as discontinued operations. The income to common stockholders attributable to discontinued operations from these properties for the three and six months ended June 30, 2007 was approximately \$3,000 and \$12,000, respectively.

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NET INCOME TO COMMON STOCKHOLDERS AND NET INCOME TO MINORITY INTERESTS

Net income to common stockholders decreased by approximately (\$0.6) million, or (32.1%), from \$2.0 million for the three months ended June 30, 2007 to \$1.4 million for the same period in 2008. The minority interest portion of income decreased by approximately (\$2.5) million, or (31.9%), from \$8.0 million for the three months ended June 30, 2007 to \$5.5 million for the three months ended June 30, 2008. The decrease in the quarter's net income for both common stockholders and minority interests was primarily due to lower rental revenue and higher operating expenses in the second quarter of 2008. For the six months ended June 30, 2008 and 2007, the minority interest portion of income was approximately \$12.7 million and \$21.8 million, respectively, and net income to common stockholders was approximately \$3.2 million and \$5.4 million, respectively. The combination of lower rental revenue, lower termination fee income and higher operating expenses led to the decrease in net income for both common stockholders and minority interests in the first half of 2008.

Minority interest in net income has been calculated by multiplying the net income of the operating partnerships (on a stand-alone basis) by the respective minority interest ownership percentage. Minority interests represent the ownership interest of all limited partners in the operating partnerships taken as a whole, which was approximately 81% as of June 30, 2008 and 2007.

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CHANGES IN FINANCIAL CONDITION

The most significant changes in our financial condition during the six months ended June 30, 2008 resulted from the acquisition of two R&D properties. At June 30, 2008, total investments in real estate increased on a net basis by approximately \$38.1 million from December 31, 2007 primarily due to two R&D property acquisitions consisting of approximately 186,000 rentable square feet located in the Silicon Valley and the construction of additional tenant improvements.

Total stockholders' equity, net, decreased by approximately (\$3.6) million from December 31, 2007. We obtained additional capital from the issuance of 73,750 and 5,720 shares of our common stock for stock option exercises and the exchange of O.P. units, respectively, which increased additional paid-in capital by approximately \$0.9 million. Share-based compensation relating to grants of stock options increased additional paid-in capital by approximately \$0.1 million. Stockholders' equity was reduced during the most recent quarter by distributions in excess of accumulated earnings of approximately (\$4.6) million.

LIQUIDITY AND CAPITAL RESOURCES

We expect a slight increase in operating cash flows from our operating property portfolio in 2008 compared with 2007 primarily from new leases, periodic payments from M&M Real Estate Control & Restructuring relating to the Ciena lease termination in 2007 (see Note 3 above) and an additional early lease termination. If we are unable to lease a significant portion of the approximately 191,000 rentable square feet scheduled to expire during the remainder of 2008 or an equivalent amount of our currently available space of approximately 2.8 million rentable square feet, however, our operating cash flows after 2008 may be affected adversely. With the expectation of lower rental revenues for the remainder of 2008, we expect our properties' net operating income to show a year-over-year decline compared with 2007 driven by excess capacity of commercial office and R&D space in the Silicon Valley. We are also subject to risks of decreased occupancy through tenant defaults and bankruptcies and potential reduction in rental rates upon renewal of properties, which would

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result in reduced cash flow from operations. Cash flows from lease terminations are non-recurring and to maintain or increase cash flows in the future we must re-lease our vacant properties.

We expect our principal source of liquidity for distributions to stockholders and O.P. unit holders, debt service, leasing commissions and recurring capital expenditures to come from cash provided by operations, as well as borrowings under our line of credit with Heritage Bank of Commerce ("HBC"). We expect these sources of liquidity to be adequate to meet projected distributions to stockholders and other presently anticipated liquidity requirements in 2008. We expect to meet our long-term liquidity requirements for the funding of property development, property acquisitions and other material non-recurring capital improvements through cash and investments, long-term secured and unsecured indebtedness, and potentially, the issuance of additional equity securities by us. We expect our total interest expense to increase through new financing activities.

In the first half of 2008, cash and cash equivalents decreased by approximately (\$22.9) million from \$23.7 million as of December 31, 2007 to \$0.8 million as of June 30, 2008.

As of June 30, 2008, restricted cash totaled approximately \$45.5 million. Of this amount, approximately \$44.0 million represents cash held by our consolidated VIE from the Ciena lease termination in the third quarter of 2007. We do not possess or control these funds or have any rights to receive them except as provided in the applicable agreements, however. We include this in our restricted cash under the principles of FIN 46R. The remaining \$1.5 million represents a certificate of deposit which represents a portion of our collateral securing the Prudential Insurance mortgage loan, which we placed in escrow in October 2007 as a substitution for two properties that we sold. We expect these funds to be returned to us in October 2008. The restricted cash is not available for distribution to stockholders.

DISTRIBUTIONS

On July 3, 2008, we paid dividends of \$0.20 per share of common stock to all common stockholders of record as of June 30, 2008. On the same date, the operating partnerships paid a distribution of \$0.20 per O.P. unit to all holders of O.P. units. Aggregate dividends and distributions amounted to approximately \$21.1 million. For the remainder of 2008, we expect to maintain our current quarterly dividend payment rate to common stockholders and O.P. unit holders of \$0.20 per share. However, distributions are declared at the discretion of our Board of Directors and are subject to actual cash available for distribution, our financial condition, capital requirements and such other factors, as our Board of Directors deems relevant.

DEBT

We currently have a \$17.5 million unsecured revolving line of credit with HBC established in April 2008. The revolving line of credit carries a variable interest rate based on the one-month LIBOR plus 1.75% per annum and matures June 15, 2009. We are in the process of increasing that line of credit to \$30 million.

At June 30, 2008, we had total indebtedness of approximately \$351.1 million, including \$332.0 million of fixed rate mortgage debt, \$8.2 million under the HBC line of credit, \$9.0 million debt under the Berg Group mortgage note (related parties) and \$1.9 million debt under the Berg Group note payable (related parties), as detailed in the table below. The Prudential Insurance, Northwestern Mutual, Allianz and HBC loans contain certain financial loan and reporting covenants as defined in the loan agreements. As of June 30, 2008, we were in compliance with these loan covenants.

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Our mortgage loan from Prudential Insurance Company of America, which had a principal balance of approximately \$111.3 million as of June 30, 2008, matures on October 15, 2008. We are currently evaluating and examining the refinancing options available to us and are seeking favorable proposals for replacement. We expect to be able to refinance this debt prior to maturity. We currently have not secured a commitment for replacement financing, however, and replacement financing is not assured. Failure to refinance this debt prior to maturity, with either short-term or long-term borrowings, would have a material adverse effect on our financial conditions and would prevent the payment or distributions to stockholders and O.P unit holders until we have refinanced it.

CONTRACTUAL OBLIGATIONS

The following table identifies the contractual obligations as of June 30, 2008 that will impact our liquidity and cash flow in future periods:

	2008	2009	2010	2011	2012
	(dollars in thousands)				
Debt Obligations (1)	\$117,764	\$17,806	\$10,105	\$10,681	\$11,030
Operating Lease Obligations (2)	60	30	-	-	
Total	\$117,824	\$17,836	\$10,105	\$10,681	\$11,030

- (1) Our debt obligations are set forth in detail in the schedule below.
(2) Our operating lease obligations relate to a lease of our corporate office facility from a related party.

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The following table sets forth information regarding debt outstanding as of June 30, 2008:

Debt Description	Collateral Properties	Balance
(dollars in thousands)		
Line of Credit:		
Heritage Bank of Commerce	Not Applicable	\$8,244
Note Payable (related parties):	Not Applicable	1,923
Mortgage Note Payable (related parties):	5300 & 5350 Hellyer Avenue, San Jose, CA	8,997
Mortgage Notes Payable (1):		
Prudential Insurance Company of America (2)	10300 Bubb Road, Cupertino, CA 10500 N. De Anza Boulevard, Cupertino, CA	111,256

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	4050 Starboard Drive, Fremont, CA 45738 Northport Loop, Fremont, CA 450 National Avenue, Mountain View, CA 6311 San Ignacio Avenue, San Jose, CA 6321 San Ignacio Avenue, San Jose, CA 6325 San Ignacio Avenue, San Jose, CA 6331 San Ignacio Avenue, San Jose, CA 6341 San Ignacio Avenue, San Jose, CA 6351 San Ignacio Avenue, San Jose, CA 3236 Scott Boulevard, Santa Clara, CA 3560 Bassett Street, Santa Clara, CA 3570 Bassett Street, Santa Clara, CA 3580 Bassett Street, Santa Clara, CA 1135 Kern Avenue, Sunnyvale, CA 1212 Bordeaux Lane, Sunnyvale, CA 1230 E. Arques, Sunnyvale, CA 1250 E. Arques, Sunnyvale, CA 1600 Memorex Drive, Santa Clara, CA 1688 Richard Avenue, Santa Clara, CA 1700 Richard Avenue, Santa Clara, CA 3540 Bassett Street, Santa Clara, CA 3542 Bassett Street, Santa Clara, CA 3544 Bassett Street, Santa Clara, CA 3550 Bassett Street, Santa Clara, CA	
Northwestern Mutual Life Insurance Co. (5)	1750 Automation Parkway, San Jose, CA 1756 Automation Parkway, San Jose, CA 1762 Automation Parkway, San Jose, CA 6320 San Ignacio Avenue, San Jose, CA 6540-6541 Via Del Oro, San Jose, CA 6385-6387 San Ignacio Avenue, San Jose, CA 2251 Lawson Lane, Santa Clara, CA 1325 McCandless Drive, Milpitas, CA 1650-1690 McCandless Drive, Milpitas, CA 20605-20705 Valley Green Dr., Cupertino, CA	83,160
Allianz Life Ins. Co. (Allianz Loan I) (6)	5900 Optical Court, San Jose, CA	23,423
Allianz Life Ins. Co. (Allianz Loan II) (6)	5325-5345 Hellyer Avenue, San Jose, CA 1768 Automation Parkway, San Jose, CA 2880 Scott Boulevard, Santa Clara, CA 2890 Scott Boulevard, Santa Clara, CA 2800 Scott Boulevard, Santa Clara, CA 20400 Mariani Avenue, Cupertino, CA 10450-10460 Bubb Road, Cupertino, CA	114,162
		----- 332,001 -----
TOTAL		=====

\$351,165

- (1) Mortgage notes payable generally require monthly installments of principal and interest ranging from approximately \$177,000 to \$840,000 over various terms extending through the year 2025. The weighted average interest rate of mortgage notes payable was 5.85% at June 30, 2008.
- (2) The Prudential Insurance loan is payable in monthly installments of approximately \$827,000, which includes principal (based upon a 30-year amortization) and interest. A limited partner who is not a member of the Berg Group has guaranteed approximately \$12,000,000 of this debt. Costs and fees incurred with obtaining this loan aggregated approximately \$900,000,

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- which were deferred and amortized over the loan period.
- (3) Loan carries a variable interest rate equal to LIBOR plus 1.75%. The interest rate at June 30, 2008 was 4.26%. The Heritage Bank of Commerce ("HBC") line of credit contains certain financial loan and reporting covenants as defined in the loan agreements, including minimum tangible net worth and debt service coverage ratio. As of June 30, 2008, we were in compliance with these loan covenants.
 - (4) Loan carries a variable interest rate equal to LIBOR plus 2.0%. The interest rate at June 30, 2008 was 4.47%.
 - (5) The Northwestern loan is payable in monthly installments of approximately \$696,000, which includes principal (based upon a 20-year amortization) and interest. Costs and fees incurred with obtaining this loan aggregated approximately \$675,000, which were deferred and amortized over the loan period.
 - (6) The Allianz loans are payable in monthly aggregate installments of approximately \$1,017,000, which includes principal (based upon a 20-year amortization) and interest. Costs and fees incurred with obtaining these loans aggregated approximately \$1,089,000, which were deferred and amortized over the loan periods. The Allianz loans contain certain customary covenants as defined in the loan agreements. As of June 30, 2008, we were in compliance with these loan covenants.

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At June 30, 2008, our debt to total market capitalization ratio, which is computed as our total debt outstanding divided by the sum of total debt outstanding plus the market value of common stock (based upon the closing price of \$10.96 per share on June 30, 2008) on a fully diluted basis, including the conversion of all O.P. units into common stock, was approximately 23.3%. On June 30, 2008, the last trading day in the quarter, total market capitalization was approximately \$1.50 billion.

At June 30, 2008, the outstanding balance remaining under certain notes that we owed to the operating partnerships was approximately \$2.0 million. The due date of these notes has been extended to September 30, 2009. The principal amount of these notes, along with the interest expense, which is interest income to the operating partnerships, is eliminated in consolidation and is not included in the corresponding line items within the condensed consolidated financial statements. However, the interest income earned by the operating partnerships, which is interest expense to us, in connection with this debt, is included in the calculation of minority interests as reported on the condensed consolidated statement of operations, thereby reducing our net income by this same amount. At present, our only means for repayment of this debt is through distributions that we receive from the operating partnerships that are in excess of the amount of dividends to be paid to our stockholders or by raising additional equity capital.

HISTORICAL CASH FLOWS

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2008 WITH THE SIX MONTHS ENDED JUNE 30, 2007

Net cash provided by operating activities for the six months ended June 30, 2008 was approximately \$19.9 million compared with \$24.4 million for the same period in 2007. Cash flow decreases came primarily from lower rental and lease termination fee income, a forfeited deposit under a contract for the sale of property in 2007 that did not recur in 2008, and insurance premiums that were paid in full for the entire year 2008 instead of through installment payments as in 2007.

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Net cash used in investing activities was approximately \$22.4 million and \$1.8 million for the six months ended June 30, 2008 and 2007, respectively. Cash used in investing activities during the six months ended June 30, 2008 related principally to the acquisition of one R&D property at 5981 Optical Court in San Jose, California and one R&D property at 2904 Orchard Parkway in San Jose, California for a total of approximately \$35.8 million. The acquisition at 2904 Orchard Parkway was completed as a tax-deferred exchange transaction involving our former R&D property at 1170 Morse Avenue in Sunnyvale, California. The remaining excess restricted cash of approximately \$7.7 million was transferred to our general cash account. Capital expenditures for real estate improvements were approximately \$2.3 million for the six months ended June 30, 2008.

Net cash used in investing activities during the six months ended June 30, 2007 related principally to the acquisition of 50 acres of vacant land at the Morgan Hill Ranch in Morgan Hill, California for approximately \$25.5 million, the acquisition of five acres of vacant land at the Morgan Hill Ranch in Morgan Hill, California for approximately \$2.3 million and the acquisition of three R&D properties at Montague Expressway in Milpitas, California for approximately \$15.4 million. All three acquisitions were completed as a tax-deferred exchange transaction involving our former R&D properties at 2033-2243 Samaritan Drive in San Jose, California. The remaining excess restricted cash of approximately \$0.6 million was transferred to our general cash account. Capital expenditures for real estate improvements were approximately \$2.4 million for the six months ended June 30, 2007.

Net cash used in financing activities was approximately \$20.4 million for the six months ended June 30, 2008 compared with approximately \$17.4 million for the six months ended June 30, 2007. During the first six months of 2008, we financed approximately \$22.4 million in short-term debt, received approximately \$8.2 million from our line of credit, received approximately \$0.7 million from stock option exercises, paid approximately \$26.2 million towards outstanding debt, paid approximately \$7.0 million of dividends to common stockholders and paid approximately \$18.5 million to minority interests for distributions in excess of earnings. During the same period in 2007, we paid approximately \$5.4 million towards outstanding debt, paid approximately \$6.3 million of dividends to c