MISSION WEST PROPERTIES INC
Form 10-K
March 16, 2010

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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Fiscal Year Ended: December 31, 2009

OR

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

For the transition period from______________ to______________

Commission File No. 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 No.)
10050 Bandley Drive, Cupertino, CA (Address of principal executive offices)	95014 (Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.001 par value per share	The Nasdaq Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [X]

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

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

As of June 30, 2009, the aggregate market value of the Registrant's common stock held by non-affiliates of the registrant was $132,479,536 based on the closing price as reported on the NASDAQ Stock Market LLC.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 28, 2010
Common Stock, $.001 par value per share	21,877,211 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement in connection with the Registrant's 2010 Annual Meeting of Stockholders to be held May 20, 2010 are incorporated by reference into Part III of this Form 10-K. The Registrant intends to file its proxy statement within 120 days after its fiscal year end.

FORWARD LOOKING INFORMATION

This annual report 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 Litigation Reform Act of 1995, and are including this statement for purposes of complying with these safe harbor provisions. Forward-looking statements include our discussion of “Quantitative and Qualitative Disclosures about Market Risks” in Item 7A below.Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of us, are generally identifiable by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions. Our ability to predict results or the a effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects or would cause actual results in the future to differ materially from any of our forward-looking statements of the Company include, but are not limited to, changes in: the credit markets and the overall availability and cost of credit, economic conditions generally and the real estate market specifically, legislative or regulatory provisions affecting the Company (including changes to laws governing the taxation of Real Estate Investment Trusts (“REITs”)), availability of capital, interest rates, competition, supply of and demand for office and industrial properties in our current and proposed market areas, tenant defaults and bankruptcies, and general accounting principles, policies and guidelines applicable to REITs. In addition, the actual timing of development, construction, and leasing on the projects that the Company believes it may acquire in the future is unknown presently. These risks and uncertainties, together with the other risks described from time to time in our reports and documents filed with the Securities and Exchange Commission, should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements (see Item 1A, “Risk Factors”).

MISSION WEST PROPERTIES, INC.
2009 FORM 10-K ANNUAL REPORT

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PART I

Item 1. Business

Organization and General Business Description

Mission West Properties, Inc. (the "Company") acquires, markets, leases, and manages research and development ("R&D") properties, primarily located in the Silicon Valley portion of the San Francisco Bay Area. As of December 31, 2009, we owned and managed 111 properties totaling approximately 8.0 million rentable square feet of R&D properties through four limited partnerships, or operating partnerships, for which we are the sole general partner. R&D 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 properties in the Silicon Valley. There are two tenants who individually lease in excess of 300,000 rentable square feet from us: Microsoft Corporation and Apple Computer, Inc. For federal income tax purposes we have operated as a self-managed, self-administered and fully integrated Real Estate Investment Trust ("REIT") since fiscal 1999.

Prior to July 1, 1998, most of our properties were under the ownership or control of Carl E. Berg, his brother Clyde J. Berg, certain members of their respective immediate families, and certain entities in which Carl E. Berg and/or Clyde J. Berg held controlling or other ownership interests, including Berg & Berg Developers, Berg & Berg Enterprises, Inc. and Berg & Berg Enterprises, LLC (the "Berg Group"). We acquired these properties as of July 1, 1998 by becoming the general partner of each of the four operating partnerships in an UPREIT transaction. At that time, we also acquired ten properties comprising approximately 560,000 rentable square feet from entities controlled by third parties in which the Berg Group members were significant owners.

Through various property acquisition agreements with the Berg Group and subject to the approval of the Independent Directors Committee of the Board of Directors, we have the right to purchase, on pre-negotiated terms, R&D and other types of office and light industrial properties that the Berg Group develops in the future. With in-house development, architectural and construction personnel, the Berg Group continues to focus on a full range of land acquisition, development and construction activities for R&D properties, often build-to-suit, to meet the demands of Silicon Valley information technology companies. As the developer, the Berg Group takes on the risks of purchasing the land, obtaining regulatory approvals and permits and financing construction. Since September 1998, we have acquired approximately 3,386,000 additional rentable square feet of R&D properties from the Berg Group under these agreements.

Our executive offices are located at 10050 Bandley Drive, Cupertino, California 95014, and our telephone number is (408) 725-0700. Our website is located at http://www.missionwest.com. You can access on our website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the "SEC"). A copy of these filings is available to all interested parties upon written request to "Investor Relations" at our corporate offices.

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.W., Washington, D.C. 20549. You may obtain information about the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements, and other information regarding registrants that file electronically with the SEC (http://www.sec.gov).

Our Relationship with the Berg Group

Through a series of transactions occurring between May 1997 and December 1998, we became the vehicle for substantially all of the Silicon Valley R&D property operating activities of the Berg Group. We are the general partner pursuant to the partnership agreements of the operating partnerships and, along with members of the Berg Group and other individuals, are party to an acquisition agreement dated as of May 14, 1998 and amended, as of July 1, 1998, exchange rights agreement and the Berg Land Holdings Option Agreement. Each agreement defines the material rights and obligations among us, the Berg Group members, and other parties to those agreements. Among other things, these agreements give us rights to:

- control the operating partnerships;
- until December 31, 2010, acquire, subject to approval of the Independent Directors Committee of the Board of Directors, on pre-negotiated terms, all future R&D properties developed by the Berg Group on land currently owned or acquired in the future; and
- acquire R&D, office and industrial properties identified by the Berg Group in California, Oregon and Washington, subject to approval of the Independent Directors Committee of the Board of Directors.

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Under these agreements, our charter and our bylaws, the Berg Group has the right to:

- designate two of five nominees for director to be elected by our stockholders, subject to the Berg Group's maintenance of certain ownership interests;
- participate in our securities offerings;
- exchange their operating partnership interests ("O.P. Units") for shares of our common stock;
- vote on major transactions, subject to maintenance of certain ownership thresholds; and
- prevent us from selling properties when the sale will have adverse tax consequences to the Berg Group members.

To comply with REIT requirements that restrict the percentage of the total value of our stock that may be owned by five or fewer individuals to 50% or less, our charter generally prohibits the direct or indirect ownership of more than 9% of our common stock by any stockholder. This limit excludes the Berg Group, which has an aggregate ownership limit of 20%. Currently, the Berg Group members collectively own approximately 9.1% of the outstanding shares of our common stock.

Carl E. Berg, the Company's Chairman of the Board of Directors and Chief Executive Officer and the controlling member of the Berg Group, has been engaged in the development and long-term ownership of Silicon Valley real estate for almost 40 years. In 1969, Mr. Berg foresaw the rising demand for efficient, multi-purpose facilities for the rapidly growing information technology industry in the Silicon Valley. Since 1972, in addition to his real estate activities, Mr. Berg also has been actively involved in venture capital investments in many information technology companies in the Silicon Valley, including such companies as Amdahl Corporation, Sun Microsystems, Inc., and Integrated Device Technologies, Inc. He serves on the board of directors of numerous electronics and energy technology companies. These activities have helped Mr. Berg develop a detailed understanding of the real estate requirements of technology companies, acquire valuable market information and increase his name recognition within the venture capital and entrepreneurial communities. These activities also manifest his commitment to the growth and success of Silicon Valley companies. We believe that Mr. Berg's substantial knowledge of and contacts in various technology industries provide a significant benefit to the Company.

Acquiring Properties Developed by the Berg Group

We entered into the Berg Land Holdings Option Agreement in December 1998 under which we have an option to purchase all land acquired, directly or indirectly, by Carl E. Berg or Clyde J. Berg that has not been improved with completed buildings and which is zoned, intended or appropriate for R&D, office and/or industrial development or use in the states of California, Oregon and Washington. Currently, the Berg Land Holdings Option Agreement gives us the right to acquire future R&D property developments by the Berg Group on up to 84 additional acres of land currently controlled by the Berg Group, which could support approximately 1.4 million square feet of new development. In light of the continued overcapacity in the Silicon Valley R&D properties marketat this time we do not anticipate acquiring any additional newly constructed R&D properties from the Berg Group under the Berg Land Holding Option Agreement prior to its expiration at the end of 2010.

As of December 31, 2009, we had acquired 23 leased R&D properties totaling approximately 2,243,000 rentable square feet under the Berg Land Holdings Option Agreement at a cost of approximately $237.8 million, for which we have issued 8,482,085 O.P. Units and assumed debt of approximately $141.4 million. The principal terms of the agreement include the following:

- So long as the Berg Group members and their affiliates own or have the right to acquire shares representing at least 65% of our common stock on a Fully Diluted basis, or until December 31, 2010, whichever occurs first, we have the option to acquire any building developed by any member of the Berg Group on the land subject to the Berg Land Holdings Option Agreement at such time as the building has been leased. Upon our exercise of the option, the option price will equal the sum of the following or a lesser amount as approved by the Independent Directors Committee:

1. the full construction cost of the building; plus
2. 10% of the full construction cost of the building; plus
3. interest at LIBOR plus 1.65%, on the amount of the full construction cost of the building for the period from the date funds were disbursed by the developer to the close of escrow; plus
4. the original acquisition cost of the parcel on which the improvements will be constructed, which range from $8.50 to $20.00 per square foot for land currently owned or under option; plus
5. 10% per annum of the amount of the original acquisition cost of the parcel from the later of January 1, 1998 and the seller's acquisition date, to the close of escrow; minus
6. the aggregate principal amount of all debt encumbering the acquired property.

- The acquisition cost, net of any debt, will be payable in cash, or O.P. Units valued at the average closing price of our common stock over the 30-trading-day period preceding the acquisition or, in cash, at the option of the Berg Group.
- We also must assume all property tax assessments.
- If we elect not to exercise the option with respect to any property, the Berg Group may hold and lease the property for its own account, or may sell it to a third party.
- All action taken by us under the Berg Land Holdings Option Agreement, including any variations from stated terms outlined above must be approved by a majority of the members of the Independent Directors Committee.

As a general policy which has been established by the Independent Directors Committee, we do not acquire properties under the Berg Land Holdings Option Agreement until they have been leased. We are responsible for a significant portion of the leasing process in connection with such acquisitions, however.

Recent Rental Market Developments and Their Impact on Our Business

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. In the past several years, the Silicon Valley R&D property market has fluctuated with the local economy. According to a recent report by Cassidy Turley BT Commercial Real Estate (the “CTBT Report”), vacancy rates for Silicon Valley R&D property increased from approximately 16.1% in late 2008 to 19.3% at the end of 2009. Total vacant R&D square footage in Silicon Valley at the end of the fourth quarter of 2009 amounted to approximately 30.2 million rentable square feet, of which 16.3%, or approximately 4.9 million rentable square feet, was sublease space. According to the CTBT Report, in 2008 total negative net absorption (which is the computation of gross square footage leased less gross new square footage vacated for the period presented) amounted to approximately 33 thousand rentable square feet, and in 2009 there was total negative net absorption of approximately 5.2 million rentable square feet as local economic conditions deteriorated due to a weakened economy, dysfunctional financial markets, depressed housing, a falling stock market and rising unemployment rates. According to the CTBT Report, the average asking market rent per square foot was $1.03 and $1.26 at year-end 2009 and 2008, respectively, although 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. Moreover, the impact of vacancies has not been uniform throughout the area. 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.
In addition, leasing activity for new build-to-suit and vacated R&D properties has slowed considerably during the past several years. The time to complete the marketing and lease up of vacant space has increased from an average of several months to as much as an average of 18 to 40 months as a result of the over-supply of R&D properties in the market.

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 tends to increase our leasing costs and operating expenses and reduce the profitability of our leasing activities. Although we scrutinize each prospective tenant’s creditworthiness and continually evaluate the financial capacity of both our prospective and existing tenants, a downturn in tenants’ businesses may weaken their financial condition and could result in defaults under their lease obligations.

We believe that the average 2010 renewal rental rates for our properties will be approximately equal to, or perhaps, below current market rents. Excluding month-to-month leases comprised of approximately 53,000 rentable square feet, leases representing approximately 217,000 rentable square feet, or 2.6% of our 2010 cash rent, are scheduled to expire during 2010. If we are unable to lease a significant portion of any vacant space or space scheduled to expire; if we experience significant tenant defaults as a result of the current economic downturn; if we restructure existing leases and lower existing rents in order to retain tenants for an extended term; if we increase our lease costs and operating expenses substantially to accommodate multiple tenants in our R&D properties; or if we are not able to lease space at or above current market rates, our results of operations and cash flows will be affected adversely.

Business Strategy

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

- capitalizing on opportunistic acquisitions from third parties of high-quality R&D properties that provide attractive initial yields and significant potential for growth in cash-flow;
- focusing on general purpose, single-tenant Silicon Valley R&D properties for 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.

Opportunistic Acquisitions

In addition to our potential acquisition opportunities under the Berg Land Holdings Option Agreement, we believe our acquisitions experience, established network of real estate and information technology professionals, and overall financial condition will continue to provide opportunities for external growth. In general, we will seek opportunistic acquisitions of high quality, well located Silicon Valley R&D properties in situations where illiquidity or inadequate management permit their acquisition at favorable prices, and where our management skills and knowledge of Silicon Valley submarkets may facilitate increases in cash flow and asset value. Notwithstanding the forthcoming expiration of the Berg Land Holdings Option Agreement and the present lack of new R&D development opportunities in Silicon Valley, the management and growth of our business remains Carl E. Berg's primary real estate focus. Moreover, under the Acquisition Agreement, Carl E. Berg has agreed not to directly or indirectly acquire or develop any real property zoned for office, industrial or R&D use in the states of California, Oregon and Washington without first disclosing and making the acquisition opportunity available to us. The Independent Directors Committee decides whether we will pursue each opportunity presented to us by Mr. Berg. This restriction will expire only when there is no Berg Group nominee on our board of directors and the Berg Group's fully diluted ownership percentage, which is calculated based on all outstanding shares of common stock and all shares of common stock that could be acquired upon the exercise of all outstanding options to acquire our voting stock, as well as all shares of common stock issuable upon exchange of all O.P. Units ("Fully Diluted"), falls below 25%.

We believe that our use of the operating partnership structure allows us to offer prospective sellers the opportunity to contribute properties on a tax-deferred basis in exchange for O.P. Units. Although we have not consummated any transactions on this basis since our July 1, 1998 acquisition of the Berg Group properties, this capacity to complete tax-deferred transactions with sellers of real property further enhances our ability to acquire additional properties.

Focus on Single Tenant Silicon Valley R&D Properties

We intend to continue to emphasize the acquisition of single-tenant rather than multi-tenant properties, a practice that has historically contributed to the relatively low turnover and higher occupancy rates on our properties. We believe that the relatively small number of tenants (71 total) leasing our properties, mostly under the triple net lease structure, allows us to efficiently manage the properties and to serve our tenants' needs without extensive in-house staff or the assistance of a third-party property management organization. In addition, this emphasis allows us to incur less expense for tenant improvements and leasing commissions than multi-tenant, high turnover property owners. This strategy also reduces the time and expense associated with obtaining building permits and other governmental approvals. We believe that the relatively stable, extended relationships that we have developed with our key tenants are valuable in the expansion of our business.

Operations

We operate as a self-administered, self-advised and self-managed REIT with our own employees. As the sole general partner of the operating partnerships, we control the business and assets of the operating partnerships and have full and complete authority, discretion and responsibility with respect to the operating partnerships' operations and transactions, including, without limitation, acquiring additional properties, borrowing funds, raising new capital, leasing buildings and selecting and supervising all agents of the operating partnerships.

Although most of our leases are triple net and building maintenance and tenant improvements are the responsibility of the tenants, from time to time we may be required to undertake construction and repair work at our properties. We bid all major work competitively to subcontractors. Members of the Berg Group may participate in the competitive bidding for the work, but all contracts with the Berg Group are subject to review and approval by the Independent Directors Committee.

We generally market our properties and negotiate leases ourselves. We make the availability of our properties known to the brokerage community to garner their assistance in locating prospective tenants, however. As a result, we expect to retain our policy of paying fixed commissions to tenants' brokers.

We believe that our business practices provide us with competitive advantages, including –

- External Development Affiliate. Although the Berg Land Holdings Option Agreement expires on December 31, 2010, we anticipate that our relationship with the Berg Group will continue to help us achieve our objectives of long-term sustainable growth as well as maximization of long-term stockholder value. We will still have access to one of the most experienced development teams in the Silicon Valley without the expense of maintaining development personnel. In addition, with the Berg Group's extensive experience and strong relationship in the Silicon Valley real estate industry, we believe we are well-positioned to take advantage of attractive acquisition and development opportunities. The relationship with the Berg Group helps us maintain and develop long-term relationships with a diverse tenant base and manage operating expenses, capital improvements and tenant improvements through the efficient use of our internal management and leasing function.

- Lean Organization, Experienced Team. In part because of our primary focus on Silicon Valley, our experience with the special real estate requirements of information technology tenants and the long-term triple-net structure of our leases, we are able to conduct and expand our business with a small management team comprised of highly qualified and experienced professionals working within a relatively flat organizational structure. We believe that the leanness of our organization and our experience will enable us to rapidly assess and respond to market opportunities and tenant needs, control operating expenses and develop and maintain excellent relationships with tenants. We further believe that these advantages translate into significantly lower costs for operations and give us the ability, along with the Berg Group, to compete favorably with other R&D property developers in Silicon Valley, especially for build-to-suit projects subject to competitive bidding. Furthermore, we believe this lower cost structure allows us to generate better returns from properties whose value can be increased through appropriate remodeling and efficient property management.

- Sound Property Management Practices. For each property, the management team, along with the Berg Group staff, develops a specific marketing and property management program. We select vendors and subcontractors on a competitive bid basis from a select group of highly qualified firms with whom we maintain ongoing relationships and carefully supervise their work.

Operating Partnership Agreements

Management

The operating partnerships consist of four separate limited partnerships engaged in the combined operation and ownership of all our properties. The operating partnership agreements are identical in all material respects for all four of the limited partnerships. Pursuant to the operating partnership agreements, we act as the sole general partner of the operating partnerships, in which capacity we have exclusive control of the business and assets of the operating partnerships and generally have full and complete authority, discretion and responsibility with respect to the operating partnerships' operations and transactions, including, without limitation, acquisitions of additional properties, borrowing funds, raising new capital, leasing buildings, as well as selecting and supervising all employees and agents of the operating partnerships. Through our authority to manage our business and affairs, our Board of Directors directs the business of the operating partnerships.

Notwithstanding our effective control of the operating partnerships, the Berg Group holds a substantial majority of the outstanding O.P. Units and the consent of the limited partners holding a majority of the outstanding O.P. Units is required with respect to certain extraordinary actions involving the operating partnerships, including:

- the amendment, modification or termination of the operating partnership agreements;
- a general assignment for the benefit of creditors or the appointment of a custodian, receiver or trustee for any of the assets of the operating partnerships;
- the institution of any proceeding for bankruptcy of the operating partnerships;

- the transfer of any general partner interests in the operating partnerships, including, with certain exceptions, transfers attendant to any merger, consolidation or liquidation of our corporation;
- the admission of any additional or substitute general partner in the operating partnerships; and
- a change of control of the operating partnerships.

In addition, until the ownership interest of the Berg Group and its affiliates is less than 15% of the common stock on a Fully Diluted basis, the consent of the limited partners holding a majority of the outstanding O.P. Units is also required with respect to:

- the liquidation of the operating partnerships;
- the sale or other transfer of all or substantially all of the assets of the operating partnerships and certain mergers and business combinations resulting in the complete disposition of all O.P. Units; and
- the issuance of limited partnership interests having seniority as to distributions, assets and voting over the O.P. Units.

Transferability of O.P. Units

The operating partnership agreements provide that the limited partners may transfer their O.P. Units, subject to certain limitations. Except for certain transfers by the limited partners to or from certain of their affiliates, however, all transfers may be made only with our prior written consent as the sole general partner of the operating partnerships.

In addition, no transfer of O.P. Units by the limited partners may be made in violation of certain regulatory and other restrictions set forth in the operating partnership agreements. Except in the case of certain permitted transfers to or from certain affiliates of the limited partners, the exchange rights, the put rights, rights to participate in future equity financings and provisions requiring the approval of certain limited partners for certain matters will no longer be applicable to O.P. Units so transferred, and the transferee will not have any rights to nominate persons to our Board of Directors.

Additional Capital Contributions and Loans

Each operating partnership agreement provides that, if the operating partnership requires additional funds to pursue its investment objectives, we may fund such investments by raising additional equity capital and making a capital contribution to the operating partnerships or by borrowing such funds and lending the net proceeds of such loans to the operating partnerships. If we intend to provide additional funds through a contribution to capital and purchase of units of general partner interest, the limited partners will have the right to participate in such funding on a pro rata, pari passu basis and to acquire additional O.P. Units. If the limited partners do not participate in such financing, we will acquire additional units of general partner interest. In either case, the number of additional units of partnership interest will be increased based upon the amount of the additional capital contributions and the value of the operating partnerships as of the date such contributions are made.

In addition, as general partner of the operating partnerships, we have the ability to cause the operating partnerships to issue additional O.P. Units. In the event that the operating partnerships issue new O.P. Units for cash but not property, the limited partners will have the right to purchase new O.P. Units at the price we offer in the transaction giving rise to such participation right in order, and to the extent necessary, to maintain their respective percentage interests in the operating partnerships.

Exchange Rights, Put Rights and Registration Rights

Under the Exchange Rights Agreement between us and the limited partners, the limited partners have exchange rights that generally became exercisable on December 29, 1999. The Exchange Rights Agreement permits every limited partner to tender O.P. Units to us, and, at our election, to receive common stock on a one-for-one basis at then-current market value, an equivalent amount of cash, or a combination of cash and common stock in exchange for the O.P. Units tendered, subject to the 9% overall ownership limit imposed on non-Berg Group stockholders under our charter document, or the overall 20% Berg Group ownership limit, as the case may be. For more information, please refer to Item 1A, “Risk Factors – Failure to satisfy federal income tax requirements for REITs could reduce our distributions, reduce our income and cause our stock price to fall.” This exchange ratio is subject to adjustment for stock splits, stock dividends, recapitalizations of our common stock and similar types of corporate actions. In addition, once in each 12-month period beginning each December 29, the limited partners, other than Carl E. Berg and Clyde J. Berg, may exercise a put right to sell their O.P. Units to the operating partnerships at a price equal to the average market price of the common stock for the 10-trading day period immediately preceding the date of tender. Upon any exercise of the put rights, we will have the opportunity for a period of 15 days to elect to fund the purchase of the O.P. Units and purchase additional general partner interests in the operating partnerships for cash, unless the purchase price exceeds $1 million in the aggregate for all tendering limited partners, in which case, the operating partnerships or we will be entitled, but not required, to reduce proportionally the number of O.P. Units to be acquired from each tendering limited partner so that the total purchase price is not more than $1 million. Through December 31, 2009 no limited partner ever has exercised this put right.

The number of shares of our common stock issuable in exchange for the total number of O.P. Units outstanding at July 1, 1998 and the O.P. Units issued pursuant to the Pending Projects Acquisition Agreement were registered under the Securities Act and generally may be sold without restriction if they are acquired by limited partners that are not affiliates, as defined under SEC Rule 144. For more information please refer to Item 1A, “Risk Factors – Shares eligible for future sale could affect the market price of our stock.” The Exchange Rights Agreement gives the holders of O.P. Units the right to participate in any registered public offering of the common stock initiated by us to the extent of 25% of the total shares sold in the offering upon converting O.P. Units to shares of common stock, but subject to the underwriters’ unlimited right to reduce the participation of all selling stockholders. The holders of O.P. Units will be able to request resale registrations of shares of common stock acquired on exchange of O.P. Units on a Form S-3, or any equivalent form of registration statement, subject to limitations and restrictions contained in the Exchange Rights Agreement. In April 2006, we registered up to 86,088,095 shares of common stock issuable on exchange of O.P. Units for resale pursuant to the prospectus included in a registration statement on Form S-3 that the SEC declared effective on April 28, 2006. We intend to maintain the effectiveness of this registration statement in order to facilitate re-sales of shares of common stock acquired by O.P. Unit holders from time to time without volume limitations or other resale restrictions under SEC Rule 144.

Other Matters

The operating partnership agreements require that the operating partnerships be operated in a manner that will enable us to satisfy the requirements for being classified as a REIT and to avoid any federal income or excise tax liability.

The operating partnership agreements provide that the combined net operating cash flow from all the operating partnerships, as well as net sales and refinancing proceeds, will be distributed from time to time as determined by our Board of Directors, but not less frequently than quarterly, pro rata in accordance with the partners' percentage interests in the operating partnerships, taken as a whole. This provision is intended to cause the periodic distributions per O.P. Unit and per share of our common stock to be equal. As a consequence of this provision, the capital interest of a partner in each of the operating partnerships, including our capital interests, might at times differ significantly from the partner's percentage interest in the net income and cash flow of that operating partnership. We do not believe that such differences would have a material impact on our business, financial condition or funds available for distributions, however.

Pursuant to the operating partnership agreements, the operating partnerships will also assume and pay when due, or reimburse us for payment of, certain costs and expenses relating to our continuity of existence and operations.

The operating partnership agreements provide that, upon the exercise of an outstanding option under the 2004 Equity Incentive Plan, we may purchase additional general partner interests in the operating partnerships by contributing the exercise proceeds to the operating partnerships. Our increased interest will be equal to the percentage of outstanding shares of common stock and O.P. Units on an as-converted basis represented by the shares acquired upon exercise of the option.

Term

The operating partnerships will continue in full force and effect until December 31, 2048 or until sooner dissolved pursuant to the terms of the operating partnership agreements.

Employees

As of February 28, 2010, we employed six people, all of whom work at our executive offices at 10050 Bandley Drive, Cupertino, California, 95014.

Facilities

We lease office space at 10050 Bandley Drive, Cupertino, California from Berg & Berg Enterprises, Inc. and share clerical staff and other overhead on what we consider to be favorable terms. The total monthly rent payable by us to Berg & Berg Enterprises, Inc. is $10,000.

Item 1A. Risk Factors

You should carefully consider the following risks, together with the other information contained elsewhere in this Form 10-K. The following risks relate principally to our business and the industry in which we operate. The risks and uncertainties classified below are not the only ones we face.

Silicon Valley market and economic conditions.

In the Silicon Valley, recent market and economic conditions have been unprecedented and challenging with tighter credit conditions and slower growth through the fourth quarter of 2009. For the year ended December 31, 2009, continued concerns about the systemic impact of inflation, the availability and cost of credit and a declining real estate market have contributed to increased market volatility and diminished expectations for the Silicon Valley economy. These conditions, combined with declining business and consumer confidence and increased unemployment have contributed to volatility of unprecedented levels.

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. Continued turbulence in the Silicon Valley economy may adversely affect the financial condition and the liquidity and financial condition of our tenants and result in a significantly higher level of defaults. If these market conditions continue, they may limit our ability and the ability of our tenants, to timely refinance maturing liabilities and access the capital markets to meet liquidity needs, resulting in adverse effects on our financial condition and results of operations.

We may be unable to renew leases or re-lease available space.

As of December 31, 2009, we had R&D space available for lease representing approximately 34.5% of the total rentable square footage of our properties. In addition, leases representing approximately 217,000 rentable square feet are scheduled to expire in 2010. Above market rental rates on some of our properties may force us to renew or re-lease expiring leases at rates below current lease rates. Declining rents in a number of our submarkets where our properties reside will affect our business adversely. 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 rental rates. If the average rental rates for our properties decrease, existing tenants do not renew their leases or vacancy rate increase, our financial condition, results of operations, cash flows, the quoted trading price of our security, and our ability to satisfy our debt service obligations and to pay distributions to stockholders could be adversely affected.

We may not be able to obtain additional capital to further our business objectives.

Our ability to acquire properties depends upon our ability to obtain capital. We expect the lack of capital to cause a decrease in the level of new investment activity. An inability to obtain debt financing on acceptable terms could delay or prevent us from acquiring desirable investments.

We are dependent on Carl E. Berg, and if we lose his services our business may be harmed and our stock price could fall.

We are substantially dependent upon the leadership of Carl E. Berg, our Chairman and Chief Executive Officer. Losing Mr. Berg’s knowledge and abilities could have a material adverse effect on our business and the value of our common stock. Mr. Berg manages our day-to-day operations and devotes a significant portion of his time to our affairs, but he has a number of other business interests as well. These other activities reduce Mr. Berg’s attention to our business.

Mr. Berg and his affiliates effectively control our corporation and the operating partnerships and may act in ways that are disadvantageous to other stockholders.

Special Board Voting Provisions

Our governing corporate documents, which are our articles of amendment and restatement, or charter, and our bylaws, provide substantial control rights for the Berg Group. The Berg Group's control of our corporation means that the value and returns from an investment in our common stock are subject to the Berg Group's exercise of its rights. These rights include a requirement that Mr. Berg or his designee as director approve certain fundamental corporate actions, including amendments to our charter and bylaws and any merger, consolidation or sale of all or substantially all of our assets. In addition, our bylaws provide that a quorum necessary to hold a valid meeting of the Board of Directors must include Mr. Berg or his designee. The rights described in the two preceding sentences apply only as long as the Berg Group members and their affiliates, other than us and the operating partnerships, beneficially own, in the aggregate, at least 15% of our outstanding shares of common stock on a Fully Diluted basis. Also, directors representing more than 75% of the entire Board of Directors must approve other significant transactions, such as incurring debt above certain amounts and conducting business other than through the operating partnerships. Without the approval of Mr. Berg or his designee, the Board of Directors' approval that we may need for actions that might result in a sale of your stock at a premium or raising additional capital when needed could be difficult or impossible to obtain.

Board of Directors Representation

The Berg Group members have the right to designate two of the director nominees submitted by our Board of Directors to stockholders for election, as long as the Berg Group members and their affiliates, other than us and the operating partnerships, beneficially own, in the aggregate, at least 15% of our outstanding shares of common stock calculated on a Fully Diluted basis. If the Fully Diluted ownership of the Berg Group members and their affiliates, other than us and the operating partnerships, is less than 15% but is at least 10% of the common stock, the Berg Group members have the right to designate one of the director nominees submitted by our Board of Directors to stockholders for election. Its right to designate director nominees affords the Berg Group substantial control and influence over the management and direction of our corporation. The Berg Group's interests could conflict with the interests of our stockholders and could adversely affect the price of our common stock.

Substantial Ownership Interest

The Berg Group currently owns common stock and O.P. Units representing approximately 74.0% of the equity interests in the operating partnerships and approximately 73.8% of our equity interests on a Fully Diluted basis as of December 31, 2009. The O.P. Units may be converted into shares of common stock, subject to limitations set forth in our charter and other agreements with the Berg Group, and upon conversion would represent voting control of our corporation. The Berg Group's ability to exchange its O.P. Units for common stock permits it to exert substantial influence over the management and direction of our corporation. This influence increases our dependence on the Berg Group.

Limited Partner Approval Rights

Mr. Berg and other limited partners, including other members of the Berg Group, may restrict our operations and activities through rights provided under the terms of the amended and restated agreement of limited partnership which governs each of the operating partnerships and our legal relationship to each operating partnership as its general partner. Matters requiring approval of the holders of a majority of the O.P. Units, which necessarily would include the Berg Group, include the following:

- the amendment, modification or termination of any of the operating partnership agreements;
- the transfer of any general partner interest in the operating partnerships, including, with certain exceptions, transfers attendant to any merger, consolidation or liquidation of our corporation;
- the admission of any additional or substitute general partners in the operating partnerships;
- any other change of control of the operating partnerships;
- a general assignment for the benefit of creditors or the appointment of a custodian, receiver or trustee for any of the assets of the operating partnerships; and
- the institution of any bankruptcy proceeding for any operating partnership.

In addition, as long as the Berg Group members and their affiliates, other than us and the operating partnerships, beneficially own, in the aggregate, at least 15% of the outstanding shares of common stock on a Fully Diluted basis, the consent of the limited partners holding the right to vote a majority of the total number of O.P. Units outstanding is also required with respect to:

- the sale or other transfer of all or substantially all of the assets of the operating partnerships and certain mergers and business combinations resulting in the complete disposition of all O.P. Units;
- the issuance of limited partnership interests senior to the O.P. Units as to distributions, assets and voting; and
- the liquidation of the operating partnerships.

The liquidity of an investment in our common stock, including our ability to respond to acquisition offers, will be subject to the exercise of these rights.

Our contractual business relationships with the Berg Group present additional conflicts of interest, which may result in the realization of economic benefits or the deferral of tax liabilities by the Berg Group without equivalent benefits to our stockholders.

Our contracts with the Berg Group provide it with interests that could conflict with those of our other stockholders, including the following:

- our headquarters are leased from an entity owned by the Berg Group, to whom we pay rent of $10,000 per month;
- the Berg Group is permitted to conduct real estate and business activities other than our business;
- if we decline an opportunity that has been offered to us under the terms of the Berg Land Holdings Option Agreement and the Acquisition Agreement, the Berg Group may pursue it, which would reduce the amount of time that Mr. Berg could devote to our affairs and could result in the Berg Group's development of properties that compete with our properties for tenants;
- in general, we have agreed to limit the liability of the Berg Group to our corporation and our stockholders arising from the Berg Group's pursuit of these other opportunities;
- we acquired most of our properties from the Berg Group on terms that were not negotiated at arm's length and without many customary representations and warranties that we would have sought in an acquisition from an unrelated party; and
- we have assumed liability for debt to the Berg Group and debt for which the Berg Group was liable.

The Berg Group has agreed that the Independent Directors Committee of our Board of Directors must approve all new transactions between us and any of its members, or between us and any entity in which it directly or indirectly owns 5% or more of the equity interests, including the operating partnerships for this purpose. This committee currently consists of three directors who are independent of the Berg Group.

Berg Land Holdings
The Berg Group owns several parcels of unimproved land in the Silicon Valley that the operating partnerships and we have the right to acquire under the terms of the Berg Land Holdings Option Agreement. We have agreed to pay an amount based on pre-negotiated terms for any of the properties that we do acquire. We must pay the acquisition price in cash unless the Berg Group elects, in its discretion, to receive O.P. Units valued at the average market price of a share of common stock during the 30-trading-day period preceding the acquisition date. At the time of acquisition, which is subject to the approval of the Independent Directors Committee, these properties may be encumbered by debt that we or the operating partnerships will be required to assume or repay. The use of our cash or an increase in our indebtedness to acquire these properties could have a material adverse effect on our financial condition, results of operations and ability to make cash distributions to our stockholders. This agreement will expire on December 31, 2010, after which we will no longer have the right to acquire properties from the Berg Group or the pre-determined terms provided in that agreement.

Terms of Transfers: Enforcement of Agreement of Limited Partnership
The terms of the Pending Projects Acquisition Agreement, the Berg Land Holdings Option Agreement, the partnership agreement of each operating partnership and other material agreements through which we have acquired our interests in the operating partnerships and the properties formerly controlled by the Berg Group were not determined through arm's-length negotiations and could be less favorable to us than those obtained from an unrelated party. In addition, Mr. Berg and representatives of the Berg Group sitting on our Board of Directors may be subject to conflicts of interests with respect to their obligations as our directors to enforce the terms of the partnership agreement of each operating partnership when such terms conflict with their personal interests. The terms of our charter and bylaws also were not determined through arm's-length negotiations. Some of these terms, including representations and warranties applicable to acquired properties, are not as favorable as those that we would have sought through arm's-length negotiations with unrelated parties. As a result, an investment in our common stock may involve risks not found in businesses in which the terms of material agreements have been negotiated at arm's length.

Related Party Debt
We are liable to the Berg Group under a mortgage loan of approximately $8.3 million due in June 2013, which was extended from the original maturity date of June 2010, in connection with our acquisition of the 5300-5350 Hellyer Avenue R&D properties that we acquired in May 2000 under the Berg Land Holdings Option Agreement. Funds from operations have not been sufficient to fund both full dividend distributions and debt service. The Berg Group has been providing short-term funding for dividend distributions but is not obligated to do so. As of the date of this report, our total short-term debt owed to the Berg Group is approximately $33.9 million. We rely on these short-term loans from the Berg Group, which may not always be available. If they are not available we will have to find other probably more expensive sources of funding or reduce dividend distributions. If we are unable to repay our debt to the Berg Group when due, the Berg Group could take action to enforce our payment obligations. Potential actions by the Berg Group to enforce these obligations could result in the foreclosure in one or more of our properties and a reduction in the amount of cash distributions to our stockholders. In turn, if we fail to meet the minimum distributions test because of a loan default or another reason, we could lose our REIT classification for federal income tax purposes. For more information please refer to Item 1A, "Risk Factors – Failure to satisfy federal income tax requirements for REITs could reduce our distributions, reduce our income and cause our stock price to fall."

Our option to acquire on fixed terms R&D properties developed on existing land and land acquired in the future by the Berg Group will terminate when the Berg Group's ownership interest has been reduced, or if earlier, on December 31, 2010.

The Berg Land Holdings Option Agreement, as amended, which provides us with significant benefits and opportunities to acquire additional R&D properties from the Berg Group ,on fixed terms will expire on the earlier of December 31, 2010 and the date on which the Berg Group and their affiliates (excluding us and the operating partnerships) own less than 65% of our common stock on a Fully Diluted basis. Although we do not currently perceive growth opportunities from the land that is subject to the Berg Land Holdings Option Agreement, it is possible that the termination of that agreement will result in limitation of our growth, which could cause our stock price to fall.

We may change our investment and financing policies and increase your risk without stockholder approval.

Our Board of Directors determines the investment and financing policies of the operating partnerships and our policies with respect to certain other activities, including our business growth, debt capitalization, distribution, and operating policies. Our Board of Directors may amend these policies at any time without a vote of the stockholders. Changes in these policies could materially adversely affect our financial condition, results of operations and ability to make cash distributions to our stockholders, which could harm our business and cause our stock price to fall. For more information please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Policies with Respect to Certain Activities."

Anti-takeover provisions in our charter could prevent acquisitions of our stock at a substantial premium.

Provisions of our charter and our bylaws could delay, defer or prevent a transaction or a change in control of our corporation, or a similar transaction, that might involve a premium price for our shares of common stock or otherwise be in the best interests of our stockholders. Provisions of the Maryland general corporation law, which would apply to potential business combinations with acquirers other than the Berg Group or stockholders who invested in us in December 1998, also could prevent the acquisition of our stock for a premium, as discussed in "Certain Provisions of Maryland Law and of our Charter and Bylaws."

An investment in our stock involves risks related to real estate investments that could harm our business and cause our stock price to fall.

Rental Income Varies
Real property investments are subject to varying degrees of risk. Investment returns available from equity investments in real estate depend in large part on the amount of income earned and capital appreciation, which our properties generate, as well as our related expenses incurred. If our properties do not generate revenues sufficient to meet operating expenses, debt service and capital expenditures, our income and ability to make distributions to our stockholders will be adversely affected. Income from our properties may also be adversely affected by general economic conditions, local economic conditions such as oversupply of commercial real estate, the attractiveness of our properties to tenants and prospective tenants, competition from other available rental property, our ability to provide adequate maintenance and insurance, the cost of tenant improvements, leasing commissions and tenant inducements and the potential of increased operating costs, including real estate taxes.

Competitive Market
We face significant competition, which may decrease the occupancy and rental rates of our properties. We compete with several developers, owners, and operators of office, industrial, and other commercial real estate, many of which own properties similar to ours in the same submarkets in which our properties are located. Our competitors have an incentive to decrease rental rates until their available space is leased. If our competitors offer space at rental rates below the rates currently charged by us for comparable space, we may be pressured to reduce our rental rates below those currently charged in order to retain tenants when our tenant leases expire. As a result, our financial condition, results of operations, cash flow, the quoted trading prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders may be adversely affected.

Expenditures for Property Ownership are Fixed
Income from properties and real estate values also are affected by a variety of other factors, such as governmental regulations and applicable laws, including real estate, zoning and tax laws, interest rate levels and the availability of financing. Various significant expenditures associated with an investment in real estate, such as mortgage payments, real estate taxes and maintenance expenses, generally are not reduced when circumstances cause a reduction in revenue from the investment. Thus, our operating results and our cash flow may decline materially if our rental

income is reduced.

Illiquidity

Real estate investments are relatively illiquid, which limits our ability to restructure our portfolio in response to changes in economic or other conditions.

Geographic Concentration

All of our properties are located in the southern portion of the San Francisco Bay Area commonly referred to as the “Silicon Valley.” The Silicon Valley economy has weakened after relatively recent years and there remains significant excess capacity for R&D properties in the Silicon Valley. At present, future increases in values and rents for our properties depend to a significant extent on a strong recovery of this region’s economy, which we do not currently foresee.

Loss of Key Tenants

Single tenants, many of whom are large, publicly traded information technology companies, occupy most of our properties. We may lose tenants when existing leases expire because it may be difficult to re-lease the same property due to substantial overcapacity of R&D properties in the Silicon Valley at present. Losing a key tenant could adversely affect our operating results and our ability to make distributions to stockholders if we are unable to obtain replacement tenants promptly. Moreover, to retain key tenants upon the expiration of existing leases we may need to reduce rents, which also could adversely affect our operating results and ability to make distributions.

Tenant Bankruptcies

Key tenants could seek the protection of the bankruptcy laws, which could result in the rejection and termination of their leases, thereby causing a reduction in our rental income. Under the bankruptcy laws, these tenants may have the right to reject their leases with us and our claim for rent will be limited to the greater of one year or 15% of the total amount owing under the leases upon default, but not to exceed three years of the remaining term of the lease following the earlier of the petition filing date or the date on which we gained repossession of the property, as well as any rent that was unpaid on the earlier of those dates.

Our Substantial Indebtedness

Our properties are subject to substantial indebtedness. If we are unable to make required mortgage payments, we could sustain a loss as a result of foreclosure on our properties by the mortgagor. Furthermore, our mortgage loans may be subject to covenants that we are obligated to satisfy. For example, under our mortgage loan agreements with Northwestern Mutual Life Insurance Company, the payment of all $77.4 million outstanding could be accelerated upon the sale or certain other transfers of more than 51% of the total number of O.P. Units and shares of our common stock held by the members of the Berg Group. We have no reason to expect such a sale or transfer in the foreseeable future, but the members of the Berg Group have no obligation to us to refrain from any such sale or other transfer. We have adopted a policy of maintaining a consolidated ratio of debt to total market capitalization, which includes for this purpose the market value of all shares of common stock for which outstanding O.P. Units are exchangeable, of less than 50%. This ratio may not be exceeded without the approval of more than 75% of our entire Board of Directors. Our Board of Directors may vote to change this policy, however, and we could become more highly leveraged, resulting in an increased risk of default on our obligations and an increase in debt service requirements that could adversely affect our financial condition, our operating results and our ability to make distributions to our stockholders.

Environmental Clean-Up Liabilities

Our properties may expose us to liabilities under applicable environmental and health and safety laws. If these liabilities are material, our financial condition and ability to pay cash distributions may be affected adversely, which would cause our stock price to fall.

Uninsured Losses

We may sustain uninsured losses with respect to some of our properties. If these losses are material, our financial condition, our operating results and our ability to make distributions to our stockholders may be affected adversely.

Earthquake Damages are Uninsured

All of our properties are located in areas that are subject to earthquake activity. Our insurance policies do not cover damage caused by seismic activity although they do cover losses from fires after an earthquake. We generally do not consider such insurance coverage to be economical. If an earthquake occurs and results in substantial damage to our properties, we could lose our investment in those properties, which loss could have a material adverse effect on our financial condition, our operating results and our ability to make distributions to our stockholders.

Our real estate assets may be subject to impairment charges.

We continually evaluate the recoverability of the carrying value of our real estate assets for impairment indicators. Factors considered in evaluating impairment of our existing real estate assets include significant declines in property operating profits, recurring property operating losses and other significant adverse changes in general market conditions that are considered permanent in nature. Generally, a real estate asset is not considered impaired if the undiscounted, estimated future cash flows of the asset over its estimated holding period are in excess of the asset's net book value at the balance sheet date. Assumptions used to estimate annual and residual cash flow, the estimated holding period of such assets, the lease up period when properties are vacant and future rental income require the judgment of management. Actual results could be different than our estimates.

There can be no assurance that we will not take impairment charges in the future related to the impairment of our assets. As of the years ended December 31, 2009, 2008 and 2007, management believed it had applied reasonable estimates and judgments in determining the proper classification of its real estate assets. However, should external or internal circumstances change requiring the need to shorten the holding periods or adjust the estimated future cash flows of certain of our assets, we could be required to record additional impairment charges. If any real estate asset held for sale is considered impaired, a loss is provided to reduce the carrying value of the asset to its fair value, less selling costs. Any future impairment could have a material adverse affect on our results of operations and funds from operations in the period in which the charge is taken.

Failure to satisfy federal income tax requirements for REITs could reduce our distributions, reduce our income and cause our stock price to fall.

Failure to Qualify as a REIT
Although we currently operate in a manner designed to enable us to qualify and maintain our REIT status, it is possible that economic, market, legal, tax or other considerations may cause us to fail to qualify as a REIT or may cause our Board of Directors either to refrain from making the REIT election or to revoke that election once made. To maintain REIT status, we must meet certain tests for income, assets, distributions to stockholders, ownership interests, and other significant conditions. If we fail to qualify as a REIT in any taxable year, we will not be allowed a deduction for distributions to our stockholders in computing our taxable income and would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. Moreover, unless we were entitled to relief under certain provisions of the tax laws, we would be disqualified from treatment as a REIT for the four taxable years following the year in which our qualification was lost. As a result, funds available for distributions to our stockholders would be reduced for each of the years involved and, in addition, we would no longer be required to make distributions to our stockholders.

REIT Distribution Requirements
To maintain REIT status, we must distribute as a dividend to our stockholders at least 90% of our otherwise net taxable income, after certain adjustments, with respect to each tax year. We also may be subject to a 4% non-deductible excise tax in the event our distributions to stockholders fail to meet certain other requirements. Failure to comply with these requirements could result in our income being subject to tax at regular corporate rates and could cause us to be liable for the excise tax.

Ownership Limit Necessary to Maintain REIT Qualification
As a REIT, the federal tax laws restrict the percentage of the total value of our stock that may be owned by five or fewer individuals to 50% or less. Our charter generally prohibits the direct or indirect ownership of more than 9% of our common stock by any stockholder. This limit excludes the Berg Group, which has an aggregate ownership limit of 20%. In addition, as permitted by our charter, our Board of Directors has authorized an exception applicable to two other stockholders that permits them to collectively own, directly or indirectly, up to 18.5% of our common stock on an aggregate basis, subject to the terms of an ownership limit exemption agreement. In general, our charter prohibits the transfer of shares that result in a loss of our REIT qualification and provides that any such transfer or any other transfer that causes a stockholder to exceed the ownership limit will result in the shares being automatically transferred to a trust for the benefit of a charitable beneficiary. Accordingly, in the event that either the Berg Group or the two stockholders increase their stock ownership in our corporation, a stockholder who acquires shares of our common stock, even though his, her or its aggregate ownership may be less than 9%, may be required to transfer a portion of that stockholder’s shares to such a trust in order to preserve our status as a REIT.

Stockholders are not assured of receiving cash distributions from us.

Our income consists primarily of our share of the income of the operating partnerships, and our cash flow consists primarily of our share of distributions from the operating partnerships. Differences in timing between the receipt of income and the payment of expenses in arriving at our taxable income or the taxable income of the operating partnerships and the effect of required debt amortization payments could require us to borrow funds, directly or through the operating partnerships, on a short-term basis to meet our intended distribution policy.

Our Board of Directors will determine the amount and timing of distributions by the operating partnerships and of distributions to our stockholders. Our Board of Directors will consider many factors prior to making any distributions, including the following:

- the amount of cash available for distribution;

- availability of financing;
- our financial condition;
- whether to reinvest funds rather than to distribute such funds;
- our committed and projected capital expenditures;
- the amount of cash required for new property acquisitions, including acquisitions under our existing agreements with the Berg Group;
- the amount of our annual debt service requirements;
- the annual distribution requirements under the REIT provisions of the federal income tax laws;
- our projected rental rates and revenues;
- our ability to collect rent payments;
- prospects of tenant renewals and re-leases of properties subject to expiring leases;
- cash required for re-leasing activities; and
- such other factors as our Board of Directors deem relevant.

We cannot assure you that we will be able to meet or maintain our cash distribution objectives.

Our properties could be subject to property tax reassessments.

We do not believe that the acquisition of any of our interests in the operating partnerships has resulted in a statutory change in ownership that could give rise to a reassessment of any of our properties for California property tax purposes. We cannot assure you, however, that county assessors or other tax administrative agencies in California will not attempt to assert that such a change occurred as a result of these transactions. Although we believe that such a challenge would not be successful ultimately, we cannot assure you regarding the outcome of any related dispute or proceeding. A reassessment could result in increased real estate taxes on our properties that, as a practical matter, we may be unable to pass through to our tenants in full. This could reduce our net income and our funds available for distributions and cause our stock price to fall.

Our obligation to purchase tendered O.P. Units could reduce our cash distributions.

Each of the limited partners of the operating partnerships, other than Carl E. Berg and Clyde J. Berg, has the annual right to cause the operating partnerships to purchase the limited partner's O.P. Units at a purchase price based on the average market value of the common stock for the ten-trading-day period immediately preceding the date of tender. Upon a limited partner's exercise of any such right, we will have the option to purchase the tendered O.P. Units with available cash, borrowed funds or the proceeds of an offering of newly issued shares of common stock. These put rights became exercisable on December 29, 1999, and are available once during a 12-month period. If the total purchase price of the O.P. Units tendered by all of the eligible limited partners in one year exceeds $1 million, the operating partnerships or we will be entitled, but not required, to reduce proportionately the number of O.P. Units to be acquired from each tendering limited partner so that the total purchase price does not exceed $1 million. Thus, we might repurchase O.P. Units for a total purchase price of more than $1 million in one year. The exercise of these put rights may reduce the amount of cash that we have available to distribute to our stockholders and could cause our stock price to fall.

In addition, all O.P. Unit holders may tender their O.P. Units to us in exchange for shares of common stock on a one-for-one basis at then-current market value or an equivalent amount in cash, at our election. If we elect to pay cash for the O.P. Units, our liquidity may be reduced and we may lack sufficient funds to continue paying the amount of our anticipated or historical cash distributions. This could cause our stock price to fall.

Shares eligible for future sale could affect the market price of our stock.

We cannot predict the effect, if any, that future sales of shares of common stock, or the availability of shares for future sale, could have on the market price of our common stock. As of December 31, 2009, all outstanding shares of our common stock, other than shares controlled by affiliates, were eligible for sale in the public market without resale restrictions under the federal securities laws. Sales of substantial amounts of common stock, including shares issued in connection with the exercise of the exchange rights held by the limited partners of the operating partnerships, or the perception that such sales could occur, could adversely affect prevailing market prices for the common stock. Additional shares of common stock may be issued to limited partners, subject to the applicable REIT qualification ownership limit, if they exchange their O.P. Units for shares of common stock pursuant to their exchange rights, or may be sold by us to raise funds required to purchase such O.P. Units if eligible limited partners elect to tender O.P. Units to us using their put rights. Shares of stock controlled by our affiliates may be sold subject to Rule 144, including the limitation under Rule 144(e) on the number of shares that may be sold within a three-month period. In addition, pursuant to a registration statement on Form S-3 declared effective by the SEC in April 2006, all shares of common stock acquired upon exchange of currently outstanding O.P. Units may be resold without any such restrictions. Additional common stock reserved under our 2004 Equity Incentive Plan, including stock options, also may be sold in the market at some time in the future. Future sales of our common stock in the market could adversely affect the price of our common stock.

Market interest rates may reduce the value of the common stock.

One of the factors that investors consider important in deciding whether to buy or sell shares of a REIT is the distribution rate on such shares, as a percentage of the price of such shares, relative to market interest rates. If market interest rates go up, prospective purchasers of REIT shares may expect a higher distribution rate. Higher interest rates would not, however, increase the funds available for us to distribute, and, in fact, would likely increase our borrowing costs and decrease funds available for distributions. Thus, higher market interest rates could cause the price of our common stock to fall.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Geographic and Tenant Focus

We focus principally on the facility requirements of information technology companies in the Silicon Valley, which include space for office, R&D, light manufacturing and assembly. With the Silicon Valley's highly educated and skilled work force, history of numerous successful start-up companies and large contingent of venture capital firms, we believe that this region will, following the current significant slowdown in the market, continue to spawn successful new high-growth industries and entrepreneurial businesses to an extent matched nowhere else in the United States. We believe that our focus and thorough understanding of the Silicon Valley real estate market enables us to:

- anticipate trends in the market;
- identify and concentrate our efforts on the most favorably located sub-markets;
- take advantage of our experience and extensive contacts and relationships with local government agencies, real estate brokers and subcontractors, as well as with tenants and prospective tenants; and
- identify strong tenants.

All of our properties are general-purpose R&D/office type properties located in desirable sub-markets of the Silicon Valley. Many of our properties have been developed for or leased to single tenants, many of whom are large, publicly traded information technology companies. Most of our major tenants have occupied our properties for many years under triple-net leases that require the tenant to pay substantially all operating costs, including property insurance, real estate taxes and general operating costs.

Leasing

The current leases for our properties have terms ranging from month-to-month to 12 years. Most of the leases provide for fixed periodic rental increases. Substantially all of the leases are triple-net leases pursuant to which the tenant is required to pay substantially all of the property operating expenses, including all maintenance and repairs, property taxes and insurance, and excluding only certain structural repairs to the building shell. Most of the leases contain renewal options that allow the tenant to extend the lease based on adjustments to then prevailing market rates, or based on fixed rental adjustments, which may be at or below market rates.

Property Portfolio

All of our properties are R&D/office type properties. Generally, these properties are one- to two-story buildings of tilt-up concrete construction, have on average 3.5 or more parking spaces per thousand rentable square feet, clear ceiling heights of less than 18 feet, and range in size from approximately 4,500 to 211,000 rentable square feet. Most of the office space is open and suitable for configuration to meet the tenants' requirements with the use of movable dividers.

The following table sets forth certain information relating to our properties as of December 31, 2009:

Location	No. of Properties	Total Rentable Sq. Ft.	Percentage Occupied as of	Average 2009 Occupancy	Major Tenants	Major Tenants Rentable Sq. Ft. at 12/31/09	2009 Annual

			Dec. 31, 2009				Base Rent (1)
5300-5350 Hellyer Avenue (2)	2	160,000	100%	100%	Tyco Electronics Corporation	160,000	$3,959,614
10401-10411 Bubb Road (2)	1	20,330	78%	78%	Aeroflex, Inc.	15,830	246,952
45365 Northport Loop West	1	64,218	15%	8.6%	Optovue, Inc.	9,373	28,120
45738 Northport Loop West	1	44,256	100%	100%	Quicksil, Inc.	44,256	632,861
4050 Starboard Drive	1	52,232	100%	100%	Flash Electronics, Inc.	52,232	519,813
3501 West Warren Avenue & 46600 Fremont Boulevard	1	67,864	24%	24%	Sunnyvale Fluid System Tech, Inc.	16,524	145,200
48800 Milmont Drive	1	53,000	0%	0%	Vacant	-	-
4750 Patrick Henry Drive	1	63,105	100%	100%	Infoblox, Inc.	63,105	541,441
Triangle Technology Park (2)	7	416,927	78%	77%	Intevac Corporation Xicom Technology, Inc. LSA Cleanpart, LLC SASCO	169,795 72,336 28,300 25,350	3,405,533

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Location	No. of Properties	Total Rentable Sq. Ft.	Percentage Occupied as of Dec. 31, 2009	Average 2009 Occupancy	Major Tenants	Major Tenants Rentable Sq. Ft. at 12/31/09	2009 Annual Base Rent (1)
5830-5870 Hellyer Avenue	1	109,715	71%	64%	Shocking Technologies, Inc. MeiVac, Inc.	51,859 26,557	689,156
5750 Hellyer Avenue	1	73,312	100%	100%	NDS Surgical Imaging, LLC	73,312	712,004
5500-5550 Hellyer Avenue	2	196,534	67%	67%	CTS Corporation Snap-on, Inc.	78,794 52,243	1,987,264
5400 Hellyer Avenue	1	77,184	60%	53%	Quantum 3D, Inc. Capella, Inc.	24,777 21,750	545,472
5325-5345 Hellyer Avenue	2	256,500	100%	100%	Celestica Asia, Inc.	256,500	6,150,192
5905-5965 Silver Creek Valley Rd.	4	346,000	0%	0%	Vacant	-	-
5845 Hellyer Avenue	1	98,500	0%	0%	Vacant	-	-
855 Embedded Way	1	67,912	100%	100%	Celestica Asia, Inc. Lynuxworks, Inc.	39,039 28,873	1,068,000
1065-1105 La Avenida Street	5	515,700	100%	100%	Microsoft Corporation	515,700	12,873,252
1875 Charleston Road	1	42,126	100%	100%	Netlogic Microsystems, Inc.	42,126	893,028
1750 Automation Parkway	1	80,641	100%	100%	JDS Uniphase Corporation	80,641	1,514,918
1756 Automation Parkway	1	80,640	36%	36%	A&D Engineering, Inc.	28,739	326,883
1762 Automation Parkway	1	61,100	100%	100%	Hermes Microvision, Inc.	61,100	730,470

1768 Automation Parkway	1	110,592	67%	67%	2Wire, Inc.	74,584	930,504
255 Caspian Drive	1	119,756	100%	100%	Equinix Operating Company, Inc.	119,756	2,608,286
245 Caspian Drive (3)	1	-	-	-	-	-	-
5981 Optical Court	1	110,542	100%	100%	SoloPower, Inc.	110,542	2,252,400
5970 Optical Court	1	128,520	100%	100%	Orbotech Ltd.	128,520	1,937,961
5900 Optical Court	1	165,000	100%	100%	Stryker Corporation	165,000	3,581,316
2630 Orchard Parkway	1	60,633	0%	0%	Vacant	-	-
2610 Orchard Parkway	1	54,093	0%	0%	Vacant	-	-
55 West Trimble Road	1	91,722	0%	0%	Vacant	-	-
2001 Walsh Avenue	1	80,000	100%	100%	Nvidia Corporation	80,000	981,415
2880 Scott Boulevard	1	200,000	100%	100%	NEC Electronics America, Inc.	200,000	2,720,784
2890 Scott Boulevard	1	75,000	100%	100%	Nvidia Corporation	75,000	1,602,564
2770-2800 Scott Boulevard	1	99,800	100%	100%	Nvidia Corporation	99,800	1,352,794
2300 Central Expressway	1	46,338	0%	16%	Vacant	46,338	111,192
2220 Central Expressway	1	62,522	100%	100%	Tellabs, Inc.	62,522	766,710
2330 Central Expressway	1	62,522	100%	100%	Huawei Technologies Company Ltd.	62,522	850,678
233 South Hillview Drive	2	95,690	100%	100%	Exar Corporation	95,690	1,370,178
2251 Lawson Lane	1	125,000	51%	51%	Synaptics, Inc.	64,270	1,159,903
1230 East Arques	1	60,000	100%	100%	Fujitsu	60,000	349,964
1250 East Arques	4	200,000	100%	100%	Fujitsu	200,000	869,311

Location	No. of Properties	Total Rentable Sq. Ft.	Percentage Occupied as of Dec. 31, 2009	Average 2009 Occupancy	Major Tenants	Major Tenants Rentable Sq. Ft. at 12/31/09	2009 Annual Base Rent (1)
20400 Mariani Avenue	1	105,000	100%	100%	Apple, Inc.	105,000	626,743
10500 De Anza Boulevard	1	211,000	100%	100%	Apple, Inc.	211,000	4,192,686
20605-705 Valley Green Drive	2	142,000	100%	100%	Apple, Inc.	142,000	2,562,475
10300 Bubb Road	1	23,400	100%	100%	Apple, Inc.	23,400	285,714
10440 Bubb Road	1	19,500	100%	100%	Novare Surgical Systems, Inc.	10,833	281,776
10450-10460 Bubb Road	1	45,460	100%	100%	Ricoh Corporation VMWare, Inc.	30,460 15,000	736,123
1135 Kern Avenue	1	18,300	0%	0%	Vacant	-	-
450 National Avenue	1	36,100	0%	0%	Vacant	-	-
3301 Olcott Street	1	64,500	0%	0%	Vacant	-	-
2800 Bayview Avenue	1	59,736	0%	0%	Vacant	-	-
5521 Hellyer Avenue	1	203,800	44%	44%	Nanosolar, Inc.	89,040	710,512
6850 Santa Teresa Boulevard	1	30,000	41%	41%	Bio-Medical Applications of CA	12,350	125,645
6810 Santa Teresa Boulevard & 180 Great Oaks Boulevard	1	54,996	87%	87%	ZiLOG, Inc.	40,527	634,938
140-160 Great Oaks Boulevard & 6781 Via Del Oro	2	105,300	100%	88%	Semiconductor Tooling Services Instant Asphalt, Inc. Santa Clara Valley Water District	53,300 26,571 25,429	796,687
	2	66,600	53%	50%	Modutek Corporation	15,000	270,607

6540-6541 Via Del Oro & 6385-6387 San Ignacio Avenue								
6311-6351 San Ignacio Avenue	5	362,767	52%	54%	Saint Gobain Stion Corporation Teledex, LLC	95,953 64,435 30,000		3,215,061
6320-6360 San Ignacio Avenue	1	157,292	0%	4%	Vacant	-		123,780
75 East Trimble Road & 2610 North First Street	2	170,810	59%	59%	Comerica, Inc.	93,984		1,197,222
2904 Orchard Parkway	1	75,335	100%	100%	BAE Systems Land & Armaments	75,335		1,258,095
3236 Scott Boulevard	1	54,672	100%	100%	Mimix Broadband, Inc.	54,672		759,267
1212 Bordeaux Lane	1	71,800	100%	100%	Loral Space & Communications, Inc.	71,800		744,006
McCandless Technology Park	14	705,958	13%	18%	STATS ChipPAC, Inc. Rorze Automation, Inc.	33,984 11,087		835,250
1600 Memorex Drive	1	107,500	21%	21%	International Network Services, Inc.	22,800		231,366
1688 Richard Avenue	1	52,800	100%	100%	NWE Technology, Inc.	52,800		442,648
1700 Richard Avenue	1	58,783	100%	100%	Silicon Valley Colocation, Inc.	58,783		1,177,303
Morgan Hill Land (4)	-	-	-	-	-	-		-
300 Montague Expressway	1	49,457	0%	0%	Vacant	-		27,037
337 Trade Zone Boulevard	1	42,912	0%	0%	Vacant	-		-
324-368 Montague Expressway	1	56,265	0%	0%	Vacant	-		-
TOTAL	111	8,047,569	66%					$81,651,074

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(1) Annual cash rents do not include the recognition of rental income on the straight-line method of accounting required by accounting principles generally accepted in the United States of America ("GAAP") under which contractual rent payment increases are recognized evenly over the lease term.
(2) Joint venture properties.
(3) Property represents a commitment by the Berg Group to construct an approximate 75,000 to 90,000 square foot building on land acquired during 2001.
(4) This property comprises of 55 acres of vacant land, which could support approximately 800,000 rentable square feet of space. The vacant land is currently zoned for industrial use and a portion has the potential to be rezoned for residential use.

We own 100% of all of the properties listed in the table, except: one of the buildings in the Triangle Technology Park, which is owned by a joint venture in which we, through an operating partnership, own a 75% interest; the property at 10401-10411 Bubb Road, which is owned by a joint venture in which we, through an operating partnership, own an 83.33% interest; and the properties at 5300-5350 Hellyer Avenue, which are owned by a joint venture in which we, through an operating partnership, own a 50% interest, and a Berg affiliate owns the other 50% venture interest.

For the years ended December 31, 2009, 2008 and 2007, the occupancy rates for leased properties in our portfolio were 65.5%, 66.4% and 61.7%, respectively.

The average annual rental per square foot for our portfolio of properties for the years ended December 31, 2009, 2008 and 2007 was approximately $15.58, $14.97 and $17.05, respectively.

Schedule of Lease Expirations

The following table sets forth a schedule of the lease expirations for the properties beginning with 2010, assuming that none of the tenants exercise existing renewal options or termination rights. The table excludes 2,789,338 rentable square feet that were vacant as of December 31, 2009.

Year of Lease Expiration	Number of Expiring Leases	Rentable Square Footage Subject to Expiring Leases (1)	2010 Annual Base Rent Under Expiring Leases (2)	Percentage of Total Annual Base Rent Represented By Expiring Leases (3)
2010	9	217,003	$2,155,923	2.6%
2011	17	844,452	13,107,735	15.7%
2012	14	1,010,825	15,486,191	18.5%
2013	6	397,215	5,431,036	6.5%
2014	17	1,492,430	26,537,863	31.8%
2015	7	613,556	9,784,061	11.7%
2016	3	159,600	3,421,710	4.1%
2017	5	349,949	4,888,985	5.9%
Thereafter	1	119,756	2,695,260	3.2%

79	5,204,786	$83,508,764	100%

(1) Excludes approximately 53,000 rentable square feet which are on month-to-month leases.

(2) The base rent for expiring leases is based on 2010 scheduled cash rent, which is different than annual rent determined in accordance with GAAP.

(3) Based upon 2010 cash rent as discussed in Note (1).

If we are unable to lease a significant portion of the available space and space scheduled to expire in 2010 and thereafter at any of our properties; if existing tenants do not renew their leases; or if rental rates decrease, our results of operations, financial condition and cash flows would be affected adversely.

Environmental Matters

To date, compliance with laws and regulations relating to the protection of the environment, including those regarding the discharge of materials into the environment has not had any material effects upon our capital expenditures, earnings or competitive position.

Under various federal, state and local laws, ordinances and regulations, an owner or operator of real property may be held liable for the costs of removal or remediation of certain hazardous or toxic substances located on or in the property. Such laws often impose liability on the owner and expose the owner to governmental proceedings without regard to whether the owner knew of, or was responsible for, the presence of the hazardous or toxic substances. The cost of any required remediation or removal of such substances may be substantial. In addition, the owner's liability as to any specific property is generally not limited and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remove or remediate such substances, may also adversely affect the owner's ability to sell or rent the property or to borrow using the property as collateral. Persons who arrange for treatment or the disposal of hazardous or toxic substances may also be liable for the costs of any required remediation or removal of the hazardous or toxic substances at a disposal facility, regardless of whether the facility is owned or operated by such owner or entity. In connection with the ownership of the properties or the treatment or disposal of hazardous or toxic substances, we may be liable for such costs.

Some of our properties are leased, in part, to businesses, including manufacturers that use, store or otherwise handle hazardous or toxic substances in their business operations. These operations create a potential for the release of hazardous or toxic substances. In addition, groundwater contaminated by chemicals used in various manufacturing processes, including semiconductor fabrication, underlies a significant portion of northeastern Santa Clara County, where many of our properties are located.

Environmental laws also govern the presence, maintenance and removal of asbestos. These laws require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, that they adequately inform or train those who may come into contact with asbestos and that they undertake special precautions, including removal or other abatement in the event that asbestos is disturbed during renovation or demolition of a building. These laws may impose fines and penalties on building owners or operators for failure to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos fibers. We are aware that there are asbestos-containing materials ("ACMs"), present at several of the properties, primarily in floor coverings. We believe that the ACMs present at these properties are generally in good condition and that no ACMs are present at the remaining properties. We believe we are in compliance in all material respects with all present federal, state and local laws relating to ACMs and that if we were given limited time to remove all ACMs present at the properties, the cost of such removal would not have a material adverse effect on our financial condition, results of operations and ability to make cash distributions to our stockholders.

Phase I assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. Phase I assessments generally include a historical review, a public records review, an investigation of the surveyed site and surrounding properties and the preparation and issuance of a written report, but do not include soil sampling or subsurface investigations and typically do not include an asbestos survey. Environmental assessments have been conducted for about half of the properties.

The environmental investigations that have been conducted on our properties have not revealed any environmental liability that we believe would have a material adverse effect on our financial condition, results of operations and assets. To the extent any environmental report or investigation reveals environmental issues, the tenant is responsible for the cost of any remediation under the terms and conditions of our lease agreement and the law. Nonetheless, it is possible that there are material environmental liabilities of which we are unaware. We cannot assure you 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 us.

Item 3. Legal Proceedings

Neither the operating partnerships, our properties nor we are subject to any material litigation nor, to our knowledge, is any material litigation threatened against the operating partnerships, our properties or us. From time to time, we are engaged in legal proceedings arising in the ordinary course of our business. We do not expect any of such proceedings to have a material adverse effect on our cash flows, financial condition or results of operations. We are currently involved in the following legal proceedings and we believe that the ultimate outcome of these proceedings will not have a material adverse effect on our operating results, cash flows or financial condition.

Mission West Properties, L.P. v. Republic Properties Corporation ("RPC"), et al. Santa Clara County Superior Court, Case No. CV 796249. In February 2001, while the Maryland case was pending, we filed a suit against RPC in the Superior Court of the State of California for the County of Santa Clara, Case No. CV 796249. The case was stayed pending resolution of the Maryland case, and we dismissed our 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. In April 2006, the Maryland case was dismissed by the highest court in Maryland for lack of personal jurisdiction. On July 5, 2006, RPC filed a cross-complaint in the case seeking partnership distributions to which we demurred. The court sustained our demurrer with leave to amend. Subsequently, RPC filed an amended complaint, and we submitted another demurrer seeking dismissal of the claims on statute of limitations grounds. On February 20, 2007, the court overruled our demurrer. We 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, we filed a motion for summary judgment in the California Superior Court which was denied. In October 2008, a motion filed by RPC for summary judgment in the California Superior Court was denied. A trial in the California Superior Court commenced in February 2009. On June 11, 2009, the superior court issued a tentative decision that concluded RPC is a partner in the Hellyer LP and is entitled to distribution of profits of the Hellyer LP in accordance with its percentage interest together with pre-judgment interest on each distribution from the date it was due and payable. On September 17, 2009, the superior court issued a final decision and entry of judgment in favor of RPC in the amount of approximately $6.6 million, together with pre-judgment interest of 10% through September 3, 2009 in the sum of approximately $2.7 million, for a total of approximately $9.3 million. As a result, we recorded an additional $0.5 million in interest expense. We filed an appeal following the court's issuance of a final decision and entry of judgment. A motion for new trial is pending. On October 5, 2009, we deposited with the clerk of the Santa Clara County Superior Court a check in the amount of approximately $14.0 million, of which approximately $4.7 million, or 50% of $9.3 million, was a deposit to appeal the court's final decision. The additional $4.7 million appeal deposit is refundable regardless of the outcome of the appeal process. Pending the outcome of the appeal, we have accrued approximately $3.0 million in interest payable on the amount of past distributions that would be payable to RPC by Hellyer LP based on the judgment determined at the legal rate of interest of 10%. In addition, we have accrued approximately $1.0 million in interest receivable due from Berg & Berg Enterprises, Inc. because past distributions with respect to RPC's interest in Hellyer LP were paid to Berg & Berg Enterprises, Inc. which interest income accrual was calculated at an interest rate of LIBOR plus 1.25%.

For additional information about this litigation and the underlying transactions you should refer to Part II "Item 8. – Notes to Consolidated Financial Statements – Notes 13 and 16."

The Independent Directors Committee of the Board of Directors has exercised the right to acquire on behalf of the Company the former RPC interest and related distributions from Berg & Berg Enterprises, Inc. under the terms of the Berg Land Holdings Option Agreement between the Company and the Berg Group if the litigation is ultimately decided in favor of the Company, as more fully explained under Item 8, "Financial Statements and Supplementary Data - Note 13."

Item 4. Reserved

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Historical Performance Comparison

The following graph compares the change in the Company's cumulative stockholder return on its shares of common stock to the cumulative total return of the NAREIT Equity REIT Total Return Index ("NAREIT Equity Index") and the Standard & Poor's 500 Stock Index ("S&P 500 Index") from December 31, 2004 to December 31, 2009. The line graph starts December 31, 2004. The graph assumes that the value of the investment in the Company's common stock was $100 at December 31, 2004 and that all dividends were reinvested. The common stock's price on December 31, 2004 was $10.64. The Company obtained the information about the NAREIT Equity Index and S&P 500 Index from each entity respectively, and has assumed that the information is reliable, but cannot assume its accuracy. The return shown on the graph is not necessarily indicative of future performance.

The stock price performance shown in the graph is not necessarily indicative of future performance of the Company's common stock.

Our common stock is listed on the Nasdaq Stock Market, LLC ("NASDAQ") and trades under the symbol "MSW." The closing price of our common stock on December 31, 2009, the last trading day of the year, was $7.19 per share. The high and low closing price per share of common stock as reported on NASDAQ during each quarter of 2009 and 2008 were as follows:

	2009		2008	
	High	Low	High	Low
1st Quarter	$ 7.66	$ 5.60	$ 10.13	$ 8.36
2nd Quarter	$ 7.17	$ 6.21	$ 12.39	$ 9.45
3rd Quarter	$ 7.07	$ 6.40	$ 11.36	$ 8.58
4th Quarter	$ 7.31	$ 6.39	$ 9.27	$ 6.11

On February 28, 2010, there were 157 registered holders of the Company’s common stock.

Dividend Policy

We declared and paid dividends in each quarter of 2009 and 2008. We expect to pay quarterly dividends in 2010. The following tables show information for quarterly dividends for 2009 and 2008.

2009

	Record Date	Payment Date	Dividend Per Share	
1st Quarter	03/31/09	04/09/09	$	0.20
2nd Quarter	06/30/09	07/09/09		0.15
3rd Quarter	09/30/09	10/08/09		0.15
4th Quarter	12/31/09	01/07/10		0.15
Total			$	0.65

2008

	Record Date	Payment Date	Dividend Per Share	
1st Quarter	03/31/08	04/03/08	$	0.20
2nd Quarter	06/30/08	07/03/08		0.20
3rd Quarter	09/30/08	10/09/08		0.20
4th Quarter	12/31/08	01/08/09		0.20
Total			$	0.80

The declaration and payment of dividends and distributions will continue to be determined by the Board of Directors in light of conditions then existing, including the Company’s earnings, financial condition, capital requirements, debt service requirements and other factors.

For federal income tax purposes, we have characterized the dividends declared in 2009 as follows: 93.4% taxable ordinary income and 6.6% return of capital (unaudited). For 2008, we have characterized 73.3% taxable ordinary income, 22.2% capital gain and 4.5% unrecaptured section 1250 gain (unaudited).

Securities Authorized for Issuance under Equity Compensation Plans

See Item 12 of Part III of this Report regarding information about securities authorized for issuance under our equity compensation plans.

Item 6. Selected Financial Data

The following table sets forth selected historical financial information for Mission West Properties, Inc. (see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview and Background" for discussion of business combinations and property dispositions that materially affect the comparability of the selected financial data).

Selected consolidated financial data is derived from the audited financial statements and notes thereto (see Item 8, "Financial Statements and Supplementary Data") and is as follows:

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(dollars in thousands, except per share data)				
OPERATING INFORMATION: (1)					
Operating revenues:					
Rental income	$ 82,520	$ 79,075	$ 80,337	$ 91,457	$ 99,082
Above market lease intangible asset amortization	-	-	(4,091)	(1,888)	(1,888)
Tenant reimbursements	18,732	16,406	13,355	13,061	14,030
Other income, including lease terminations and settlements	3,756	4,223	61,982	18,222	4,023
Total operating revenues	105,008	99,704	151,583	120,852	115,247
Operating expenses:					
Property operating, maintenance and real estate taxes	27,860	23,460	20,371	18,505	18,613
General and administrative	2,336	2,635	3,035	2,248	1,910
Depreciation and amortization	24,110	23,224	22,588	21,579	20,329
Total operating expenses	54,306	49,319	45,994	42,332	40,852
Operating income	50,702	50,385	105,589	78,520	74,395
Other income (expenses):					
Equity in earnings of unconsolidated joint venture	309	19,617	1,408	1,985	724
Interest and dividend income	1,309	1,735	3,086	2,344	567
Unrealized gain (loss) from investment	5,011	(278)	-	-	-
Interest expense	(22,117)	(19,787)	(20,131)	(20,708)	(21,294)
Interest expense – related parties	(765)	(1,332)	(724)	(755)	(972)
Income from continuing operations	34,449	50,340	89,228	61,386	53,420
Discontinued operations:					
Net gain on disposal of discontinued operations (2)	-	-	6,529	18,102	2,206
Net income attributable to discontinued operations (2)	-	-	91	1,500	1,925

Income from discontinued operations	-	-	6,620	19,602	4,131
Net income	34,449	50,340	95,848	80,988	57,551
Net income attributable to noncontrolling interests	(26,058)	(40,206)	(76,960)	(66,358)	(47,524)
Net income available to common stockholders	$ 8,391	$ 10,134	$ 18,888	$ 14,630	$ 10,027
Basic net income per share from continuing operations	$ 0.39	$ 0.51	$ 0.90	$ 0.60	$ 0.51
Diluted net income per share from continuing operations	$ 0.38	$ 0.51	$ 0.89	$ 0.59	$ 0.51
Basic net income per share from discontinued operations	-	-	$ 0.06	$ 0.17	$ 0.04
Diluted net income per share from discontinued operations	-	-	$ 0.06	$ 0.17	$ 0.04
Basic net income per share to common stockholders	$ 0.39	$ 0.51	$ 0.96	$ 0.77	$ 0.55
Diluted net income per share to common stockholders	$ 0.38	$ 0.51	$ 0.95	$ 0.76	$ 0.55
PROPERTY AND OTHER INFORMATION:					
Total properties, end of period (3)	111	111	109	107	107
Total rentable square feet, end of period (000's)	8,048	8,048	7,862	7,701	7,780
Average monthly rental income per square foot (4)	$ 1.30	$ 1.25	$ 1.42	$ 1.57	$ 1.58
Occupancy for leased properties, end of period	66 %	66 %	62 %	69 %	69 %
Dividends per share to common stockholders	$ 0.65	$ 0.80	$ 0.64	$ 0.64	$ 0.64
Funds from operations (5)	$ 60,467	$ 55,334	$ 114,867	$ 86,585	$ 79,152
Funds from operations per share (5) (6)	$ 0.57	$ 0.52	$ 1.09	$ 0.83	$ 0.76
CASH FLOW INFORMATION:					
Cash flows provided by operating activities	$ 56,072	$ 76,872	$ 78,814	$ 82,630	$ 69,422
Cash flows used in investing activities	$ (278)	$ (26,496)	$ (8,548)	$ (5,369)	$ (2,875)
Cash flows (used in) provided by financing activities	$ (54,808)	$ (74,067)	$ (80,360)	$ (74,917)	$ 31,441

	2009	2008	December 31, 2007 (dollars in thousands)	2006	2005
BALANCE SHEET INFORMATION:					
Net investments in properties	$ 919,647	$ 943,579	$ 922,117	$ 898,889	$ 927,381
Total assets	$ 986,389	$ 1,034,285	$ 1,053,885	$ 1,027,487	$ 1,023,377
Mortgage notes payable	$ 318,818	$ 330,908	$ 337,520	$ 348,101	$ 357,481
Mortgage note payable – related parties	$ 8,261	$ 8,761	$ 9,224	$ 9,654	$ 10,051
Note payable – related parties	$ 9,325	-	-	-	-
Revolving line of credit	$ 14,466	$ 13,079	-	-	-
Total liabilities	$ 389,260	$ 402,382	$ 388,581	$ 397,327	$ 407,680
Stockholders' equity attributable to Mission West Properties, Inc.	$ 144,844	$ 134,418	$ 138,678	$ 128,878	$ 115,015
Noncontrolling interests in operating partnerships	$ 452,285	$ 497,485	$ 526,626	$ 501,282	$ 500,682
Common stock outstanding	21,870,211	19,748,211	19,664,087	19,443,587	18,448,791
O.P. Units issued and outstanding	83,404,965	85,526,965	85,533,935	85,206,199	86,088,095

(1) Certain reclassifications have been made to prior period amounts in order to conform to current period presentation.

(2) The operating results of real estate held for sale and sold are reported as discontinued operations for all years presented. Additionally, all gains and losses on the sale of assets classified as held for sale are included in discontinued operations.

(3) As of December 31, 2009, 2008, 2007, 2006 and 2005, total properties include a property at 245 Caspian in Sunnyvale with no building. In 2001, we paid the Berg Group approximately $7.5 million for their commitment to complete an approximate 75,000 to 90,000 square foot building on the property.

(4) Average monthly rental income per square foot has been determined by taking the total cash base rent for the period divided by the number of months in the period, and then divided by the average occupied square feet in the period.

(5) Funds from Operations ("FFO") is a non-GAAP financial term used by REITs to measure and compare operating performance. As defined by the National Association of Real Estate Investment Trusts ("NAREIT"), FFO represents net income (loss) (computed in accordance with GAAP), including non-recurring events other than "extraordinary items" under GAAP and excluding gains and losses from sales of discontinued operations or depreciable operating properties, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets) and after adjustments for unconsolidated partnerships and joint ventures. FFO does include impairment losses for properties held for sale and held for use. Additionally, our 2009, 2008, 2007, 2006 and 2005 FFO calculation includes our portion of the depreciation and amortization of real estate from our unconsolidated joint venture, but excludes the above-market lease intangible asset, which was recorded as a reduction of revenues. Management considers FFO to be an appropriate supplemental measure of our operating and financial performance because when compared year over year, it reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, general and administrative expenses and interest costs, providing a perspective not immediately apparent from net income. In

addition, management believes that FFO provides useful information about our financial performance when compared to other REITs because FFO is generally recognized as the industry standard for reporting the operations of REITs. FFO should neither be considered as an alternative for neither net income as a measure of profitability nor is it comparable to cash flows provided by operating activities determined in accordance with GAAP. FFO is not comparable to similarly entitled items reported by other REITs that do not define them exactly as we define FFO.

(6) Considering the potential effect of all O.P. Units being exchanged for shares of our common stock.

Our definition of FFO also assumes conversion at the beginning of the period of all convertible securities, including O.P. Units represented by O.P. Units that may be exchanged for shares of common stock. Our FFO does not represent the amount available for management's discretionary use; as such funds may be needed for capital replacement or expansion, debt service obligations or other commitments and uncertainties. Furthermore, FFO is not comparable to similarly entitled items reported by other REITs that do not define FFO exactly as we do.

A reconciliation of net income to FFO for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 follows:

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(dollars in thousands, except per share data)				
Net income	$34,449	$50,340	$95,848	$80,988	$57,551
Add:					
Depreciation and amortization (1)	26,425	25,833	26,050	24,636	24,286
Less:					
Gain on sales of assets or joint venture assets	-	(20,471)	(6,529)	(18,540)	(2,206)
Noncontrolling interests of joint ventures	(407)	(368)	(502)	(499)	(479)
FFO	$60,467	$55,334	$114,867	$86,585	$79,152
Weighted average common shares and O.P. Units - diluted	105,461,581	105,524,677	105,016,651	104,809,155	104,545,776
FFO per common share and O.P. Unit - diluted	$0.57	$0.52	$1.09	$0.83	$0.76

(1) Also includes our portion of depreciation and amortization of real estate from our unconsolidated joint venture totaling approximately $238, $900, $757, $849 and $984 in 2009, 2008, 2007, 2006 and 2005, respectively, and amortization of leasing commissions totaling approximately $2,077, $1,709, $2,558, $1,513 and $1,703 in 2009, 2008, 2007, 2006 and 2005, respectively. Amortization of leasing commissions is included in the property operating, maintenance and real estate taxes line item in our consolidated statements of operations. (dollars in thousands)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion includes forward-looking statements, including, but not limited to, statements with respect to the future financial performance, operating results, plans and objectives of Mission West Properties, Inc. Actual results may differ materially from those currently anticipated depending upon a variety of factors, including those described in Part I – Item 1A, Risk Factors.

Overview and Background

Our original predecessor was formed in 1969 as Palomar Mortgage Investors, a California business trust, which operated as a mortgage REIT until 1979 when, under the name of Mission Investment Trust, it terminated its status as a REIT and began to develop and market its own properties. In 1982, Mission West Properties was incorporated as a successor to Mission Investment Trust. In 1997, our predecessor, Mission West Properties, sold all of its real estate assets and paid a special dividend of $9.00 per share to stockholders, after which it retained only nominal assets. Subsequently, the Berg Group acquired control of the corporation as a vehicle to acquire R&D properties, or interests in entities owning such properties, in a transaction completed on September 2, 1997. At that time the Berg Group and other investors acquired an aggregate 79.6% controlling ownership position. In May 1998, we, the Berg Group members, an independent limited partner, and certain other persons entered into an acquisition agreement providing, among other things, for our acquisition of interests as the sole general partner in the operating partnerships. At the time, the operating partnerships held approximately 4.34 million rentable square feet of R&D property located in Silicon Valley. The agreement also provided for the parties to enter into the Pending Projects Acquisition Agreement, the Berg Land Holdings Option Agreement and the Exchange Rights Agreement, following stockholder approval. Effective July 1, 1998, we consummated our acquisition of the general partner interests in the operating partnerships through the purchase of the general partner interests, and all limited partnership interests in the operating partnerships were converted into 59,479,633 O.P. Units, which represented ownership of approximately 87.89% of the operating partnerships. Our general partner interests represented the balance of the ownership of the operating partnerships. At December 31, 2009, we owned a 20.65% general partner interest in the operating partnerships, taken as a whole, on a weighted average basis.

Since the beginning of calendar year 1999, we have been taxed as a qualified REIT.

Our reincorporation under the laws of the State of Maryland through the merger of Mission West Properties into Mission West Properties, Inc. occurred on December 30, 1998, at which time all outstanding shares issued by our predecessor California corporation were converted into shares of our common stock on a one-for-one basis.

In July 1999, we completed a public offering of 8,680,000 shares of our common stock at $8.25 per share. The net proceeds of approximately $66.9 million, after deducting underwriting discounts and other offering costs, were used primarily to repay indebtedness.

We have grown through property acquisitions. Since September 1998, we have acquired a total of approximately 7.14 million rentable square feet of R&D buildings and vacant land under the Pending Project Acquisition Agreement, the Berg Land Holdings Option Agreement, and from unrelated third parties. The total cost of these properties was approximately $739.3 million. To acquire these properties, we paid cash or exchanged existing properties, issued a total of 28,510,261 O.P. Units and assumed debt totaling approximately $331.3 million.

Since 1998, we have sold a total of approximately 1.0 million rentable square feet of R&D buildings. The total sales price of these properties was approximately $144.2 million.

Almost all of our earnings and cash flow is derived from rental income received pursuant to leased R&D space at our properties. Key factors that affect our business and financial results include the following:

- the current turmoil in the credit markets;
- economic conditions generally and the real estate market specifically;
- the occupancy rates of the properties;
- rental rates on new and renewed leases;
- tenant improvement and leasing costs incurred to obtain and retain tenants;
- operating expenses;
- cost and availability of capital;
- interest rates;
- the extent of acquisitions and sales of real estate;
- legislative or regulatory provisions (including changes to laws governing the taxation of REITs);
- 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.

Negative effects from any of these factors could cause deterioration in our operating results, cash flows and financial condition.

Critical Accounting Policies and Estimates

We prepare our 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 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 receivables, 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 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:

Real Estate Assets
Real estate assets are stated at cost. Cost includes expenditures for improvements or replacements. Maintenance and repairs are charged to expense as incurred. Gains and losses from sales are included in income. 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.

Business Combinations
The acquisition costs of each property acquired prior to July 1, 2001 were allocated only to building, land and leasing commission 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 July 1, 2001 are based on an allocation of the acquisition cost to land, building, tenant improvements, and intangibles for at market and above and below market in place leases, and the determination of their useful lives are guided by the accounting provision for business combinations and management's estimates. Amortization of above and below market lease intangible asset is offset against rental income 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 consolidated statements of 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. 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 and operating costs for R&D facilities in the Silicon Valley area and related submarkets. The analysis that we prepare in connection with determining if there may be any asset impairment loss considers several assumptions: holding period of ten years, 36 months lease up period and cap rate ranging from 8% to 9%. Therefore, it is reasonably possible that a change in these estimates resulting from judgments as to future events could occur which would affect the recorded amounts of the property and increase our operating expense.

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Allowance for Deferred Rent and Doubtful Accounts

The preparation of the consolidated financial statements requires us to make estimates and assumptions. As such, we must make estimates of the uncollectability 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 a straight-line adjustment reserve for existing tenants with the potential of early termination, bankruptcy or ceasing operations. 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.

Consolidation of Joint Ventures

We hold interests in consolidated joint ventures. We consolidate joint ventures when we exhibit financial or operational control. Control is determined using accounting standards related to the consolidation of 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. The recognition of these properties and their operating results are 100% reflected on our consolidated financial statements, with appropriate allocation to noncontrolling interests, because we have operational and financial control of the investments. We make judgments and assumptions about the estimated monthly payments made to our noncontrolling 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 hold interests in one unconsolidated joint venture. Control is determined using accounting standards related to the consolidation of variable interest entities. For joint ventures that are defined as variable interest entities, the primary beneficiary consolidates the entity. In instances where we are not the primary beneficiary, we do not consolidate the joint venture for financial purposes. 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 the joint venture using the equity method of accounting.

Under the equity method, investments in unconsolidated joint ventures are initially recognized in the balance sheet at cost and are subsequently adjusted to reflect our proportionate share of net earnings or losses of the joint venture, distributions received, contributions and certain other adjustments, as appropriate.

Consolidation of Variable Interest Entities

We consolidate all variable interest entities ("VIE") in which we are deemed to be the primary beneficiary. As of December 31, 2009, we consolidated one VIE in the accompanying consolidated financial statements in connection with an assignment of a lease agreement with an unrelated party, M&M Real Estate Control & Restructuring, LLC (see Item 8, "Financial Statements and Supplementary Data – Note 7" for further discussion of this transaction).

Revenue Recognition

Rental income 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 consolidated balance sheets.

Rental income 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 receivable, and other appropriate measures. Our judgments and estimations about tenants' capacity to continue to meet their lease obligations will affect the rental income recognized. Material differences may result in the amount and timing of our rental income for any period if we made different judgments or estimations.

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 by agreement with us. 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:

- the agreement has been fully executed and delivered;
- services have been rendered;
- the amount is fixed and determinable; and
- collectability 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, which has reviewed these policies.

Results of Operations

Comparison of the year ended December 31, 2009 to the year ended December 31, 2008

Rental Income

As of December 31, 2009 and 2008, through our controlling interests in the operating partnerships, we owned 111 R&D properties totaling approximately 8.0 million rentable square feet. We did not acquire any new properties in 2009.

The following table depicts the amounts of rental income from operations for the years ended December 31, 2009 and 2008 represented by our historical properties and the percentage of the total increase in rental income over the period that is represented by each group of properties.

	Year Ended December 31, 2009	Year Ended December 31, 2008 (dollars in thousands)	$ Change	% Change
Same Property (1)	$ 81,209	$ 77,982	$ 3,227	4.1%
2008 Acquisitions (2)	1,311	1,093	218	19.9%
Total	$ 82,520	$ 79,075	$ 3,445	4.4%

(1) "Same Property" is defined as properties owned by us prior to 2008 that we still owned as of December 31, 2009.
(2) Operating rental income for 2008 Acquisitions does not reflect a full 12 months of operations in 2008 because these properties were acquired at various times during the year.

For the year ended December 31, 2009, our rental income increased by approximately $3.4 million, or 4.4%. The $3.4 million increase in rental income resulted from new lease agreements entered into during the year ended December 31, 2009, as well as full year rental income from leases entered during the year ended December 31, 2008.

Our overall occupancy rate for leased properties at December 31, 2009 and 2008 was approximately 65.5% and 66.4%, respectively. According to the CTBT Report, the leased occupancy rate for R&D property in the Silicon Valley at December 31, 2009 was approximately 80.7%. Due to an over-supply of R&D properties, Silicon Valley landlords are bidding competitively for tenants and consequently, our occupancy rate may drop further in 2010 if we cannot renew or re-lease the approximately 217,000 rentable square feet scheduled to expire this year. The primary factors that have contributed to our low occupancy rate for several consecutive years have been the general downturn in the Silicon Valley's economy, the softening of the R&D property market specifically, and the weaker relative performance of certain of our properties due to their location and the weak demand in those submarkets.

Other Income from Continuing Property Operations

The following table depicts the amounts of other income, including lease terminations and settlements, from operations for the years ended December 31, 2009 and 2008.

	Year Ended December 31, 2009	Year Ended December 31, 2008 (dollars in thousands)	$ Change	% Change
Other income	$ 3,756	$ 4,223	$ (467)	(11.1%)

Other income of approximately $3.8 million for the year ended December 31, 2009 included approximately $2.0 million from the forfeiture of a purchase deposit under a contract for the sale of our McCandless properties, $1.0 million of management fees, $0.3 million from an insurance claim, $0.1 million from a lease settlement and $0.4 million of miscellaneous income. Other income of approximately $4.2 million for the year ended December 31, 2008 included approximately $3.0 million of lease termination fees, $1.0 million of management fees, and $0.2 million of miscellaneous income. Management fees are paid by tenants for our administration and supervision of the property. We do not consider termination fees and tenant bankruptcy settlements to be recurring items.

Expenses

The following table reflects the amounts of property operating and maintenance expenses and real estate taxes ("operating expenses") from operations for the years ended December 31, 2009 and 2008 and the percentage of total increase in expenses over the period that is represented by each group of properties.

	Year Ended December 31, 2009	2008	$ Change	% Change
	(dollars in thousands)			
Same Property (1)	$ 27,560	$ 23,285	$ 4,275	18.4%
2008 Acquisitions (2)	300	175	125	71.4%
Total	$ 27,860	$ 23,460	$ 4,400	18.8%

(1) "Same Property" is defined as properties owned by us prior to 2008 that we still owned as of December 31, 2009.
(2) Operating expenses for 2008 Acquisitions do not reflect a full 12 months of operations in 2008 because these properties were acquired at various times during the year.

Operating expenses increased by approximately $4.4 million, or 18.8%, from $23.5 million for the year ended December 31, 2008 to $27.9 million for the year ended December 31, 2009 primarily due to higher real estate taxes and repair and maintenance costs. Tenant reimbursements from continuing operations increased by approximately $2.3 million, or 14.2%, from $16.4 million for the year ended December 31, 2008 to $18.7 million for the year ended December 31, 2009. The increase in tenant reimbursements resulted primarily from the increase in operating expenses. Total operating expenses exceeded tenant reimbursements because of vacancies which reached approximately 2.8 million rentable square feet by year-end 2009. Certain operating expenses such as property insurance, real estate taxes, and other fixed expenses are not recoverable from vacant properties. At December 31, 2009 our vacancy rate was approximately 34.5%.

The following table depicts the amounts of general and administrative expenses from operations for the years ended December 31, 2009 and 2008.

	Year Ended December 31, 2009	2008	$ Change	% Change
	(dollars in thousands)			
General and administrative	$ 2,336	$ 2,635	$ (299)	(11.3%)

General and administrative expenses decreased by approximately ($0.3) million, or (11.3%), from $2.6 million for the year ended December 31, 2008 to $2.3 million for the year ended December 31, 2009. The decrease in general and administrative expenses was primarily a result of lower stock-based compensation expense and legal fees in 2009.

The following table depicts the amounts of depreciation and amortization expense from operations for the years ended December 31, 2009 and 2008.

	Year Ended December 31, 2009	2008	$ Change	% Change
	(dollars in thousands)			
Depreciation and amortization	$ 24,110	$ 23,224	$ 886	3.8%

Depreciation and amortization expense increased by approximately $0.9 million, or 3.8%, primarily due to construction of new tenant improvements and the write-off of tenant improvements in connection with a lease termination.

Other Income and Expenses

The following table depicts the amounts of equity in earnings of unconsolidated joint venture from operations for the years ended December 31, 2009 and 2008.

	Year Ended December 31, 2009	2008	$ Change	% Change
	(dollars in thousands)			
Equity in earnings of unconsolidated joint venture	$ 309	$ 19,617	$ (19,308)	(98.4%)

As of December 31, 2009, we had investments in one R&D building, totaling approximately 155,500 rentable square feet in Morgan Hill, California, through an unconsolidated joint venture with TBI, in which we acquired a 50% interest from the Berg Group in January 2003. We have a non-controlling limited partnership interest in this joint venture, which we account for using the equity method of accounting. For the years ended December 31, 2009 and 2008, equity in earnings from the unconsolidated joint venture was approximately $0.3 million and $19.6 million, respectively. Our equity in earnings from this unconsolidated joint venture decreased primarily due to a gain from the sale of two R&D properties in 2008. The occupancy rate for the remaining property owned by this joint venture at December 31, 2009 and 2008 was 100%.

The following table depicts the amounts of interest and dividend income from operations for the years ended December 31, 2009 and 2008.

	Year Ended December 31, 2009	2008	$ Change	% Change
	(dollars in thousands)			
Interest and dividend income	$ 1,309	$ 1,735	$ (426)	(24.6%)

Interest and dividend income decreased by approximately ($0.4) million, or (24.6%), from $1.7 million for the year ended December 31, 2008 to $1.3 million for the year ended December 31, 2009. The decrease in interest and dividend income was primarily a result of lower cash balances and interest rates. For the year ended December 31, 2009, interest and dividend income totaled approximately $1.1 million and $0.2 million, respectively. For the year ended December 31, 2008, interest and dividend income totaled approximately $1.1 million and $0.6 million, respectively.

In 2009, we recorded an unrealized gain from investment in marketable securities of approximately $5.0 million. As of December 31, 2009, the fair value of the investment totaled approximately $12.1 million and our cost was approximately $6.6 million. In 2008, we recorded an unrealized loss from investment in marketable securities of approximately ($0.3) million. As of December 31, 2008, the fair value of the investment totaled approximately $3.3 million and our cost was approximately $3.6 million.

The following table depicts the amounts of interest expense from operations for the years ended December 31, 2009 and 2008.

	Year Ended December 31, 2009	2008	$ Change	% Change
	(dollars in thousands)			
Interest	$ 22,117	$ 19,787	$ 2,330	11.8%
Interest (related parties)	765	1,332	(567)	(42.6%)
Total	$ 22,882	$ 21,119	$ 1,763	8.3%

Interest expense increased by approximately $2.3 million, or 11.8%, primarily due to approximately $2.4 million related to the Hellyer Avenue Limited Partnership litigation. Interest expense (related parties) decreased by approximately ($0.6) million, or (42.6%), due to lower interest rates in 2009.

Net Income to Common Stockholders and Net Income to Noncontrolling Interests

The following table depicts the amounts of earnings attributable to common stockholders and noncontrolling interests for the years ended December 31, 2009 and 2008.

	Year Ended December 31, 2009	2008	$ Change	% Change
	(dollars in thousands)			
Net income to common stockholders	$ 8,391	$ 10,134	$ (1,743)	(17.2%)
Net income to noncontrolling interests	26,058	40,206	(14,148)	(35.2%)
Total net income	$ 34,449	$ 50,340	$ (15,891)	(31.6%)

As of December 31, 2009 and 2008, we owned a controlling general partner interest of 24.31%, 21.85%, 16.31% and 12.52% and 20.02%, 21.85%, 16.31% and 12.52% in the four operating partnerships, 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. We owned a 20.65% and 18.73% general partner interest in the operating partnerships, taken as a whole, on a consolidated weighted average basis as of December 31, 2009 and 2008, respectively. Net income available to common stockholders in 2009 decreased by approximately ($1.7) million, or (17.2%), from 2008. Net income attributable to noncontrolling interests in 2009 decreased by approximately ($14.1) million, or (35.2%), from 2008. The decrease in net income attributable to common stockholders and noncontrolling interests resulted primarily because net income in 2008 reflected gain from the sale of two R&D properties in our unconsolidated joint venture, TBI-MWP.

Noncontrolling interests represent the limited partners' ownership interest of 79.35% and 81.27% in the operating partnerships, on a weighted average basis, as of December 31, 2009 and 2008, respectively.

Comparison of the year ended December 31, 2008 to the year ended December 31, 2007

Rental Income from Continuing Property Operations

As of December 31, 2008 and 2007, through our controlling interests in the operating partnerships, we owned 111 and 109 R&D properties totaling approximately 8.0 and 7.9 million rentable square feet, respectively. We acquired two R&D properties during 2008.

The following table depicts the amounts of rental income from continuing operations for the years ended December 31, 2008 and 2007 represented by our historical properties and the percentage of the total decrease in rental income over the period that is represented by each group of properties.

	Year Ended December 31, 2008	2007	$ Change	% Change
	(dollars in thousands)			
Same Property (1)	$ 75,653	$ 80,282	$ (4,629)	(5.8%)
2007 Acquisitions (2)	33	55	(22)	(40%)
2008 Acquisitions (3)	3,389	-	3,389	100%
Total	$ 79,075	$ 80,337	$ (1,262)	(1.6%)

(1) "Same Property" is defined as properties owned by us prior to 2007 that we still owned as of December 31, 2008.
(2) Operating rental income for 2007 Acquisitions does not reflect a full 12 months of operations in 2007 because these properties were acquired at various times during the year.
(3) Operating rental income for 2008 Acquisitions does not reflect a full 12 months of operations in 2008 because these properties were acquired at various times during the year.

For the year ended December 31, 2008, our rental income decreased by approximately ($1.3) million, or (1.6%). Approximately $4.1 million of amortization expense with respect to above-market leases that we obtained through property acquisitions was offset against revenue for the year ended December 31, 2007. The ($1.3) million decrease in rental income resulted from current adverse market conditions as "Same Property" rents decreased due to lease terminations, cessation of tenant operations and tenant relocations since December 31, 2007.

Our overall occupancy rate for leased properties at December 31, 2008 and 2007 was approximately 66.4% and 61.7%, respectively. According to the CTBT Report, the leased occupancy rate for R&D property in the Silicon Valley at December 31, 2008 was approximately 83.7%. Factors that contributed to our low occupancy rate were primarily the general downturn in the Silicon Valley's economy in recent years, the softening of the R&D property market specifically, as well as the weaker relative performance of certain properties due to their location and the weak demand in those submarkets.

Other Income from Continuing Property Operations

The following table depicts the amounts of other income, including lease terminations and settlements, from continuing operations for the years ended December 31, 2008 and 2007.

	Year Ended December 31, 2008	2007	$ Change	% Change
	(dollars in thousands)			
Other income	$ 4,223	$ 61,982	$ (57,759)	(93.2%)

Other income, including lease terminations and settlements, of approximately $4.2 million for the year ended December 31, 2008 included approximately $3.0 million of lease termination fees, $1.0 million of management fees, and $0.2 million of miscellaneous income. Other income, including lease terminations and settlements, of approximately $62.0 million for the year ended December 31, 2007 included approximately $57.5 million of lease termination fees, $1.8 million from security deposit forfeitures, $1.0 million of management fees, $0.3 million from tenant bankruptcy settlements and $1.4 million of miscellaneous income. In 2007, of the $57.5 million in lease termination fees, approximately $46 million was from the Ciena Corporation lease termination. Management fees are paid by the tenants to the landlord for the administration and supervision of the property. We do not consider termination fees and tenant bankruptcy settlements to be recurring items.

Expenses from Continuing Property Operations

The following table reflects the amounts of property operating and maintenance expenses and real estate taxes ("operating expenses") from continuing operations for the years ended December 31, 2008 and 2007 and the percentage of total increase in expenses over the period that is represented by each group of properties.

	Year Ended December 31, 2008	2007	$ Change	% Change
	(dollars in thousands)			
Same Property (1)	$ 22,657	$ 20,107	$ 2,550	12.7%
2007 Acquisitions (2)	403	264	139	52.7%
2008 Acquisitions (3)	400	-	400	100%
Total	$ 23,460	$ 20,371	$ 3,089	15.2%

(1) "Same Property" is defined as properties owned by us prior to 2007 that we still owned as of December 31, 2008.

(2) Operating expenses for 2007 Acquisitions do not reflect a full 12 months of operations in 2007 because these properties were acquired at various times during the year.

(3) Operating expenses for 2008 Acquisitions do not reflect a full 12 months of operations in 2008 because these properties were acquired at various times during the year.

Operating expenses from continuing operations increased by approximately $3.1 million, or 15.2%, from $20.4 million for the year ended December 31, 2007 to $23.5 million for the year ended December 31, 2008 primarily due to higher real estate taxes, repair and maintenance costs and utility rates. Tenant reimbursements from continuing operations increased by approximately $3.0 million, or 22.8%, from $13.4 million for the year ended December 31, 2007 to $16.4 million for the year ended December 31, 2008. The increase in tenant reimbursements resulted primarily from the increase in operating expenses. Total operating expenses exceeded tenant reimbursements because of vacancies which reached approximately 2.7 million rentable square feet by year-end 2008. Certain operating expenses such as property insurance, real estate taxes, and other fixed expenses are not recoverable from vacant properties. At December 31, 2008 our vacancy rate was approximately 34%.

The following table depicts the amounts of general and administrative expenses from operations for the years ended December 31, 2008 and 2007.

	Year Ended December 31,			
	2008	2007	$ Change	% Change
		(dollars in thousands)		
General and administrative	$ 2,635	$ 3,035	$ 400	(13.2%)

General and administrative expenses decreased by approximately ($0.4) million, or (13.2%), from $3.0 million for the year ended December 31, 2007 to $2.6 million for the year ended December 31, 2008. The decrease in general and administrative expenses was primarily a result of higher legal fees associated with a potential acquisition of the Company in 2007 that did not recur in 2008.

The following table depicts the amounts of depreciation and amortization expense of real estate from continuing operations for the years ended December 31, 2008 and 2007.

	Year Ended December 31,			
	2008	2007	$ Change	% Change
		(dollars in thousands)		
Depreciation and amortization	$ 23,224	$ 22,588	$ 636	2.8%

Depreciation and amortization expense of real estate from continuing operations increased by approximately $0.6 million, or 2.8%, primarily due to two property acquisitions, construction of new tenant improvements and the write-off of tenant improvements in connection with a lease termination.

Other Income and Expenses

The following table depicts the amounts of equity in earnings of unconsolidated joint venture from operations for the years ended December 31, 2008 and 2007.

	Year Ended December 31,			
	2008	2007	$ Change	% Change
		(dollars in thousands)		
Equity in earnings of unconsolidated joint venture	$ 19,617	$ 1,408	$ 18,209	1,293.3%

As of December 31, 2008, we had investments in one R&D building, totaling approximately 155,500 rentable square feet in Morgan Hill, California, through an unconsolidated joint venture with TBI, in which we acquired a 50% interest from the Berg Group in January 2003. We have a non-controlling limited partnership interest in this joint venture, which we account for using the equity method of accounting. For the years ended December 31, 2008 and

2007, equity in earnings from the unconsolidated joint venture was approximately $19.6 million and $1.4 million, respectively. Our equity in earnings from this unconsolidated joint venture increased primarily due to a gain from the sale of two R&D properties in 2008. The occupancy rate for the properties owned by this joint venture at December 31, 2008 and 2007 was 100%.

The following table depicts the amounts of interest and dividend income from operations for the years ended December 31, 2008 and 2007.

	Year Ended December 31, 2008	2007	$ Change	% Change
	(dollars in thousands)			
Interest and dividend income	$ 1,735	$ 3,086	$ (1,351)	(43.8%)

Interest and dividend income decreased by approximately ($1.4) million, or (43.8%), from $3.1 million for the year ended December 31, 2007 to $1.7 million for the year ended December 31, 2008. The decrease in interest and dividend income was primarily a result of lower cash balance and interest rates. For the year ended December 31, 2008, interest and dividend income totaled approximately $1.1 million and $0.6 million, respectively. For the year ended December 31, 2007, interest income totaled approximately $3.1 million.

In 2008, we recorded an unrealized loss from investment in marketable securities of approximately ($0.3) million. As of December 31, 2008, the fair value of the investment totaled approximately $3.3 million and our cost was approximately $3.6 million.

The following table depicts the amounts of interest expense from operations for the years ended December 31, 2008 and 2007.

	Year Ended December 31, 2008	2007	$ Change	% Change
	(dollars in thousands)			
Interest	$ 19,787	$ 20,131	$ (344)	(1.7%)
Interest (related parties)	1,332	724	608	84%
Total	$ 21,119	$ 20,855	$ 264	1.3%

Interest expense decreased by approximately ($0.3) million, or (1.7%). Interest expense (related parties) increased by approximately $0.6 million, or 84.0%, due to short-term notes payable issued to the Berg Group in connection with quarterly dividend distributions. As of December 31, 2008, the short-term notes payable were paid off in full.

Discontinued Operations

The following table depicts the amounts of income from discontinued operations for the years ended December 31, 2008 and 2007.

	Year Ended December 31, 2008	2007
	(dollars in thousands)	
Net gain on disposal of discontinued operations	-	$ 6,529
Net income attributable to discontinued operations	-	91
Income from discontinued operations	-	$ 6,620

In 2007, we sold two R&D properties and classified the net gains on sale and operating results of the disposed properties as discontinued operations. Prior period results of operations for these properties were retrospectively adjusted and presented in discontinued operations in prior consolidated statements of operations.

Net Income to Common Stockholders and Net Income to Noncontrolling Interests

The following table depicts the amounts of earnings attributable to common stockholders and noncontrolling interests for the years ended December 31, 2008 and 2007.

	Year Ended December 31, 2008	2007	$ Change	% Change
	(dollars in thousands)			
Net income to common stockholders	$ 10,134	$ 18,888	$ (8,754)	(46.3%)
Net income to noncontrolling interests	40,206	76,960	(36,754)	(47.8%)
Total net income	$ 50,340	$ 95,848	$ (45,508)	(47.5%)

As of December 31, 2008 and 2007, we owned a controlling general partner interest of 20.02%, 21.85%, 16.31% and 12.52% and 19.94%, 21.78%, 16.26% and 12.48% in the four operating partnerships, 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. We owned an 18.73% general partner interest in the operating partnerships, taken as a whole, on a consolidated weighted average basis as of December 31, 2008 and 2007. Net income available to common stockholders in 2008 decreased by approximately ($8.8) million, or (46.3%), from 2007. Our net income attributable to noncontrolling interests in 2008 decreased by approximately ($36.8) million, or (47.8%), from December 31, 2007. The decrease in net income attributable to common stockholders and noncontrolling interests resulted primarily due to lower lease termination income and higher operating expenses described above.

Noncontrolling interests represent the limited partners' ownership interest of 81.27% in the operating partnerships, on a weighted average basis, as of December 31, 2008 and 2007.

Changes in Financial Condition

Year Ended December 31, 2009
The most significant changes in our financial condition in 2009 resulted from the exchange of O.P. Units for shares of our common stock.

Debt outstanding, including amounts due related parties, decreased by approximately ($1.9) million, or (0.5%), from $352.7 million as of December 31, 2008 to $350.9 million as of December 31, 2009. During 2009, we borrowed from the Berg Group and our revolving line of credit and made recurring scheduled debt payments.

In 2009, two limited partners exchanged a total of 2,122,000 O.P. Units for 2,122,000 shares of our common stock pursuant to the Exchange Rights Agreement resulting in a reclassification of approximately $15.8 million from noncontrolling interests to additional paid-in-capital.

The conversion of O.P. Units to shares of our common stock was applied to increase our percentage interest as general partner in the operating partnerships.

Year Ended December 31, 2008
The most significant changes in our financial condition in 2008 resulted from the acquisition of two R&D properties, the exercise of stock options and the exchange of O.P. Units for shares of our common stock.

During 2008, we acquired two R&D properties representing approximately 186,000 rentable square feet for an aggregate gross purchase price of approximately $35.8 million. We acquired one R&D property in a tax-deferred exchange transaction plus cash and paid cash to members of the Berg Group to acquire the second R&D property.

Debt outstanding, including amounts due related parties, increased by approximately $6.0 million, or 1.7%, from $346.7 million as of December 31, 2007 to $352.7 million as of December 31, 2008. During 2008, we repaid the remaining balance on the Prudential loan with proceeds from the $115 million Hartford loan, borrowed from the Berg Group and our revolving line of credit and made recurring scheduled debt payments.

During the year ended December 31, 2008, stock options to purchase 70,487 shares of our common stock were exercised at $10.00 per share and stock options to purchase 6,667 shares of our common stock were exercised at $9.51 per share. The total proceeds of approximately $0.8 million increased additional paid-in-capital.

In 2008, three limited partners exchanged a total of 6,970 O.P. Units for 6,970 shares of our common stock pursuant to the Exchange Rights Agreement resulting in a reclassification of approximately $0.07 million from noncontrolling interests to additional paid-in-capital.

The conversion of O.P. Units to shares of our common stock was applied to increase our percentage interest as general partner in the operating partnerships.

Liquidity and Capital Resources

In 2010, we anticipate operating cash flows from our property portfolio to be lower compared with 2009. We are still experiencing weak demand for our R&D properties in certain areas of the Silicon Valley, principally the south San Jose area. If we are unable to lease a significant portion of the approximately 217,000 rentable square feet scheduled to expire in 2010, as well as our currently available space, our operating cash flows will be affected adversely. 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 result in reduction in cash flows from operations beyond the level we are anticipating currently.

We expect our principal source of liquidity for distributions to stockholders and O.P. Unit holders (noncontrolling interests), debt service, leasing costs, capital expenditures and tenant improvement to come from net cash flow provided by operations and borrowings from our credit facility and other sources of financing, as required. We expect these sources of liquidity to be adequate to meet projected distributions to stockholders and other presently anticipated liquidity requirements in 2010. 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 the issuance of additional equity securities by us. We have the ability to meet short-term obligations or other liquidity needs based on our existing cash reserves. In 2010, we will be obligated to make payments totaling approximately $22.7 million of debt principal under our existing mortgage notes without regard to any debt refinancing or new debt obligations that we might incur, or optional payments of debt principal.

The cost and availability of credit have been adversely affected by the continuing state of the capital and commercial lending markets. We continue to evaluate sources of financing for our business activities, including borrowings under the credit facility and fixed-rate secured mortgage financing. However, our ability to obtain new financing or refinance existing borrowings on favorable terms could be impacted by various factors including the continuing recessionary conditions, significant tenant defaults, a further decline in the demand for R&D/office properties, and a decrease in market rental rates or market values of real estate assets in our submarkets.

On March 4, 2008, we established a $10 million uncollateralized revolving line of credit with Heritage Bank of Commerce ("HBC"). We paid approximately $26,000 in loan and legal fees. On April 17, 2008, we entered into a change in terms agreement with HBC that increased the facility from $10 million to $17.5 million. On October 13, 2009, we entered into a change in terms agreement with HBC to amend the maturity date to September 15, 2011. The interest rate on the revolving line of credit is the greater of LIBOR plus 1.75% or 4.00% per annum. We paid approximately $23,000 in loan and legal fees for the renewal of the loan. The HBC revolving line of credit is secured by three properties consisting of approximately 0.2 million rentable square feet and contains certain customary covenants as defined in the loan agreement. The proceeds from the HBC revolving line of credit may be used to repay debt, complete acquisitions, pay dividends and distributions and finance other working capital requirements.

In 2009, we issued multiple notes in the aggregate amount of $22 million to M&M Real Estate Control & Restructuring, LLC for funds borrowed from restricted cash. The notes bear interest at LIBOR plus 2% and are due December 31, 2010. The proceeds were used to pay outstanding short-term notes issued to the Berg Group and for general corporate purposes. This cash is required to be paid to us in any event between now and December 2011 under the terms of the lease termination and assumption agreements with M&M Real Estate Control & Restructuring, LLC and the former tenant under the lease.

As of December 31, 2009, we were in compliance with loan covenants relating to the Allianz, Hartford, Northwestern mortgage loans and the HBC revolving line of credit.

Cash and cash equivalents increased by approximately $1.0 million from $0 as of December 31, 2008 to $1.0 million as of December 31, 2009.

Restricted cash totaled approximately $0.2 million as of December 31, 2009 (see Item 8, "Financial Statements and Supplementary Data – Note 7" for further discussion of restricted cash). Of this amount, $0.1 million represents a balance we have consolidated due to the accounting provision for variable interest entity. We do not possess or control these funds or have any rights to receive them except as provided in the applicable agreements. Therefore, restricted cash is not available for distribution to stockholders. The balance of restricted cash is a $0.1 million deposit for a property purchase offer.

Since 1999, we have elected to be taxed as a REIT under the Internal Revenue Code of 1986. We intend to continue operating as a REIT in 2010. As a REIT, we are subject to a number of organizational and operating requirements, including a requirement to distribute 90% of our taxable income to our stockholders. Also as a REIT, we generally will not be subject to federal income taxes on our taxable income.

Generally, our objective is to meet our short-term liquidity requirement of funding the payment of our current level of quarterly common dividends to stockholders and O.P. Unit holders through our net cash flows provided by operating activities, borrowings from the Berg Group and borrowings from our credit facility, less our recurring and nonrecurring property capital expenditures. These operating capital expenditures are the capital expenditures necessary to maintain the earnings capacity of our operating assets over time.

For 2010, we expect to maintain our quarterly dividend payment at the current rate of $0.15 per share to common stockholders and O.P. Unit holders and fund it with net cash flow provided by operations and borrowings from our credit facility and other sources of financing, as required. 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 (see Item 1A, "Risk Factors - Stockholders are not assured of receiving cash distributions from us").

On January 7, 2010, we paid dividends of $0.15 per share of common stock to all common stockholders of record as of December 31, 2009. On the same date, the operating partnerships paid a distribution of $0.15 per O.P. Unit to all holders of O.P. Units, with the exception of the Berg Group. A short-term note payable, which bears interest at LIBOR plus 1.75%, in the aggregate amount of approximately $20.8 million was issued to the Berg Group in connection with the fourth quarter 2009 dividend distributions and the loan amount outstanding at December 31, 2009. Aggregate dividends and distributions for the quarter ended December 31, 2009 amounted to approximately $15.8 million.

Funds available for distributions does not represent cash generated from operating activities and is not necessarily indicative of cash available to fund cash needs. The actual return that we will realize and the amount available for distributions to stockholders will be affected by a number of factors, including the revenues received from our properties, our operating expenses, debt service on borrowings, and planned and unanticipated capital expenditures.

We anticipate that cash available for distribution will exceed earnings and profits for federal income tax purposes, as the latter figure takes into account non-cash expenses such as depreciation and amortization that we will incur. Distributions other than capital gain distributions by us to the extent of our current and accumulated earnings and profits for federal income tax purposes most likely will be taxable to U.S. stockholders as ordinary dividend income unless a stockholder is a tax-exempt entity. Distributions in excess of earnings and profits generally will be treated as a non-taxable reduction of the U.S. stockholder's basis in the common stock to the extent of such basis, and thereafter as taxable gain. The percentage of such distributions in excess of earnings and profits, if any, may vary from period to period.

Contractual Obligations

The following table identifies the contractual obligations with respect to the maturities and scheduled principal repayments of our secured debt, note, credit facility and scheduled interest payments of our fixed-rate and variable-rate debt at December 31, 2009 and provides information about our operating lease obligations that will impact our liquidity and cash flow in future periods.

	2010	2011	2012	2013	2014	Thereafter	Total
Principal payments (1)	$ 22,653	$ 28,575	$ 14,935	$ 81,269	$ 10,891	$ 192,547	$ 350,870
Interest payments-fixed rate debt (2)	18,433	17,652	16,825	12,820	11,366	62,288	139,384
Interest payments-variable rate debt (3)	809	-	-	-	-	-	809
Operating lease obligations (4)	120	30	-	-	-	-	150
Total	$ 42,015	$ 46,257	$ 31,760	$ 94,089	$ 22,257	$ 254,835	$ 491,213

(1) As of December 31, 2009, 93.2% of our debt was contractually fixed and 6.8% of our debt bore interest at variable rates. Our debt obligations are set forth in detail in the table below.
(2) The information in the table above reflects our projected interest rate obligations for the fixed-rate payments based on the contractual interest rates, interest payment dates and scheduled maturity dates.
(3) The information in the table above reflects our projected interest rate obligations for the variable-rate payments based on 4.00% and LIBOR plus a 1.75% spread at December 31, 2009, the scheduled interest payment dates and maturity dates.
(4) Our operating lease obligations relate to a lease of our corporate office facility from a related party.

At December 31, 2009, we had total indebtedness of approximately $350.9 million. A table listing our indebtedness as of December 31, 2009 is set forth in Item 8, “Financial Statements and Supplementary Data – Note 8.”

At December 31, 2009, 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 $7.19 per share on December 31, 2009) on a fully diluted basis, including the conversion of all O.P. Units into common stock, was approximately 31.6%. On December 31, 2009, the last trading day for the year, total market capitalization was approximately $1.11 billion. By comparison, on December 31, 2008 total debt as a percentage of market capitalization was 30.4% and total market capitalization was approximately $1.16 billion.

At December 31, 2009, the outstanding balance remaining under certain demand notes that we owed to the operating partnerships was approximately $2.3 million. The due date of the demand notes has been extended to September 30, 2011. The principal of the demand 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 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 noncontrolling interest as reported on the consolidated statements 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

Our cash flow activities are summarized as follows:

	Year Ended December 31, 2009	2008	2007
	(dollars in thousands)		
Cash flow provided by operating activities	$ 56,072	$ 76,872	$ 78,814
Cash flow used in investing activities	$ (278)	$ (26,496)	$ (8,548)
Cash flow used in financing activities	$ (54,808)	$ (74,067)	$ (80,360)

Comparison of the year ended December 31, 2009 to the year ended December 31, 2008
Cash and cash equivalents were approximately $1.0 million at December 31, 2009 compared with $0 at December 31, 2008.

Net cash provided by operating activities for the year ended December 31, 2009 was approximately $56.1 million, compared with approximately $76.9 million for the year ended December 31, 2008. Cash provided by operating activities was higher in 2008 primarily because of a $16.9 million cash distribution received from our unconsolidated joint venture, TBI-MWP, from the sale of two R&D buildings. In addition, in 2009 we used operating cash flow to fund a $4.7 million deposit to appeal the court’s final decision in the RPC litigation and for higher leasing commission payments (included in other assets).

Cash used in investing primarily consists of property acquisitions, improvements to our properties and proceeds from investment in marketable securities. Net cash used in investing activities was approximately ($0.3) million for the year ended December 31, 2009 compared with approximately ($26.5) million for the year ended December 31, 2008. Net cash used in investing activities for the year ended December 31, 2009 related principally to capital expenditures relating to real estate improvements of approximately $0.2 million and approximately $0.1 million as a deposit for a property purchase offer. In 2008, we acquired two properties for approximately $35.8 million, incurred capital expenditures relating to real estate improvements of approximately $6.5 million and transferred excess restricted cash of approximately $7.7 million to our general cash account. We used restricted cash totaling approximately $8.1 million for the acquisition of one R&D property in a tax-deferred exchange transaction involving our former R&D property at Morse Avenue in Sunnyvale, California.

Net cash used in financing activities was approximately ($54.8) million for the year ended December 31, 2009 compared with approximately ($74.0) million for the year ended December 31, 2008. During 2009, financing activities included borrowing approximately $1.4 million under our line of credit, borrowing $22 million from M&M Real Estate Control & Restructuring, LLC through restricted cash, payments of approximately $12.6 million for outstanding debt, borrowing and repayment of approximately $39.4 million to the Berg Group to repay short-term loans, payments of approximately $14.8 million to common stockholders as dividends and payments of approximately $50.8 million to O.P. Unit holders as distributions. During 2008, financing activities included borrowing $115 million under a new collateralized mortgage loan, borrowing approximately $13.1 million under our line of credit, payments of approximately $122.1 million for outstanding debt, borrowing and repayment of approximately $19.4 million for the purchase of an R&D building, borrowing and repayment of $3.0 million under a short-term loan, payment of approximately $1.2 million in financing costs related to a new mortgage loan, refund of $1.5 million from a certificate of deposit related to a former loan escrow, receipt of approximately $0.8 million from stock option exercises, payments of approximately $15.0 million to common stockholders as dividends and payments of approximately $66.1 million to O.P. Unit holders as distributions.

Comparison of the year ended December 31, 2008 to the year ended December 31, 2007
Cash and cash equivalents were approximately $0 at December 31, 2008 compared with $23.7 million at December 31, 2007.

Net cash provided by operating activities for the year ended December 31, 2008 was approximately $76.9 million compared with approximately $78.8 million for the year ended December 31, 2007. The decrease in cash provided by operating activities resulted primarily from investing approximately $3.4 million in marketable securities.

Cash used in investing primarily consists of property acquisitions, improvements to our properties and investment in marketable securities. Net cash used in investing activities was approximately ($26.5) million for the year ended December 31, 2008 compared with approximately ($8.5) million for the year ended December 31, 2007. In 2008, we acquired two properties for approximately $35.8 million, incurred capital expenditures relating to real estate improvements of approximately $6.5 million and transferred excess restricted cash of approximately $7.7 million to our general cash account. We used restricted cash totaling approximately $8.1 million for the acquisition of one R&D property in a tax-deferred exchange transaction involving our former R&D property at Morse Avenue in Sunnyvale, California. In 2007, we acquired six properties for approximately $47.5 million, incurred capital expenditures relating to real estate improvements of approximately $4.9 million and transferred excess restricted cash of approximately $0.6 million to our general cash account. We used restricted cash totaling approximately $43.2 million for the acquisition of three R&D properties and 55 acres of vacant land in tax-deferred exchange transactions involving our former R&D properties at Samaritan Drive in San Jose, California. We sold two R&D properties for approximately $15.4 million, net, as described above, the proceeds of which were reflected on our consolidated balance sheet as restricted cash at December 31, 2007.

Net cash used in financing activities was approximately ($74.0) million for the year ended December 31, 2008 compared with approximately ($80.3) million for the year ended December 31, 2007. During 2008, financing activities included borrowing $115 million under a new collateralized mortgage loan, borrowing approximately $13.1 million under our line of credit, payments of approximately $122.1 million for outstanding debt, borrowing and repayment of approximately $19.4 million for the purchase of an R&D building, borrowing and repayment of $3.0 million under a short-term loan, payment of approximately $1.2 million in financing costs related to a new mortgage loan, refund of $1.5 million from a certificate of deposit related to a former loan escrow, receipt of approximately $0.8 million from stock option exercises, payments of approximately $15.0 million to common stockholders as dividends and payments of approximately $66.1 million to O.P. Unit holders as distributions. During 2007, financing activities included payments of approximately $11.0 million for outstanding debt, payment of approximately $1.5 million for a certificate of deposit related to a loan escrow, payments of approximately $12.5 million to common stockholders as dividends and payments of approximately $55.3 million to O.P. Unit holders as distributions.

Capital Expenditures

Our properties require periodic investments of capital for tenant-related capital expenditures and for general capital improvements. For the years ended December 31, 2005 through December 31, 2009, the recurring tenant/building improvement costs and leasing commissions incurred with respect to new leases and lease renewals of the properties averaged approximately $5.9 million annually. We will have approximately 217,000 rentable square feet under expiring leases in 2010. We expect that the average cost of recurring tenant/building improvements and leasing commissions related to these properties will be approximately $3.0 million during 2010. We believe we will recover substantially all of these costs from the tenants under the new or renewed leases through contractual increases in rental rates. Until we actually sign the leases, however, we cannot assure you that this will occur. Capital expenditures may fluctuate in any given period subject to the nature, extent, and timing of improvements required to be made to the properties. Tenant/building improvements and leasing costs also may fluctuate in any given period year depending upon factors such as the property, the term of the lease, the type of lease and the overall market conditions. We expect to meet our long-term liquidity requirements for the funding of property acquisitions and other material non-recurring capital improvements through our currently available sources of capital, including operating cash flows, cash on hand, and our credit facility (see "Policies with Respect to Certain Activities – Financing Policies" below).

Distribution Policy

Distributions are determined by our Board of Directors and depend on actual cash available for distributions, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and such other factors as the Board of Directors deems relevant. For a discussion of the risk that we will not meet our distribution objectives, see Item 1A, "Risk Factors – Stockholders are not assured of receiving cash distributions from us."

Policies with Respect to Certain Activities

We have adopted policies with respect to investment, financing, conflicts of interest and other activities. These policies have been formulated by our Board of Directors, are set forth in our charter, bylaws, operating partnership agreements or agreements with the Berg Group, and generally may be amended or revised from time to time, subject to applicable agreement terms, at the discretion of the Board of Directors without a vote of the stockholders. Among other things, these policies provide that:

- so long as the Berg Group members and their affiliates, other than us and the operating partnerships, beneficially own, in the aggregate, at least 15% of the outstanding shares of common stock on a Fully Diluted basis, the approval of a majority of our directors, including Carl E. Berg or his designee as a director, and of the holders of a majority of the O.P. Units is required for us to take title to assets, other than temporarily in connection with an acquisition prior to contributing such assets to the operating partnerships, or to conduct business other than through the operating partnerships, or for us or the operating partnerships to engage in any business other than the ownership, construction, development and operation of real estate properties, or for certain fundamental corporate actions, including amendments to our charter, bylaws or any operating partnership agreement and any merger, consolidation or sale of all or substantially all of our assets or the assets of the operating partnerships;
  - changes in certain policies with respect to conflicts of interest must be consistent with legal requirements;
- certain policies with respect to competition by and acquisitions from the Berg Group are imposed pursuant to provisions of the acquisition agreement that cannot be amended or waived without the approval of the Independent Directors Committee of our Board of Directors;
- we cannot take any action intended to terminate our qualification as a REIT without the approval of more than 75% of the entire Board of Directors; and
-

we cannot undertake certain other specified transactions, including the issuance of debt securities, and borrowings in excess of specified limits, or the amendment of our charter and bylaws, without the approval of more than 75% of the entire Board of Directors.

Investment Policies

We expect to pursue our business and investment objectives principally through the direct ownership by the operating partnerships of our properties and future acquired properties. Development or investment activities are not limited to any specified percentage of our assets. We may also participate with other entities in property ownership, through joint ventures or other types of co-ownership. Equity investments may be subject to existing mortgage financing and other indebtedness that have priority over our equity interests.

While we will emphasize equity real estate investments, we may, in our discretion and subject to the percentage ownership limitations and gross income tests necessary for REIT qualification, invest in mortgage and other real estate interests, including securities of other real estate investment trusts. We have not previously invested in mortgages of other real estate investment trusts. As of December 31, 2009, we have invested approximately $6.6 million in securities of another real estate investment trust.

Financing Policies

To the extent that our Board of Directors determines to seek additional capital, we may raise such capital through additional equity offerings, debt financing or retention of cash flow, or through a combination of these sources, after consideration of provisions of the Code requiring the distribution by a REIT of a certain percentage of its taxable income and taking into account taxes that would be imposed on undistributed taxable income. It is our present intention that any additional borrowings will be made through the operating partnerships, although we may incur borrowings that would be re-loaned to the operating partnerships. Borrowings may be unsecured or may be secured by any or all of our assets, the operating partnerships or any existing or new property, and may have full or limited recourse to all or any portion of our assets, the operating partnerships or any existing or new property.

We have adopted a policy of maintaining a consolidated ratio of debt to total market capitalization, which includes for this purpose the market value of all shares of common stock for which outstanding O.P. Units are exchangeable, of less than 50%. This ratio may not be exceeded without the approval of more than 75% of our entire Board of Directors. We also may determine to finance acquisitions through the exchange of properties or the issuance of additional O.P. Units in the operating partnerships, shares of common stock or other securities.

In the event that the Board of Directors determines to raise additional equity capital, it has the authority, without stockholder approval, to issue additional shares of common stock, preferred stock or other capital stock, including securities senior to the common stock, in any manner and on such terms and for such consideration it deems appropriate, including in exchange for property. In the event that we issue any shares of common stock or securities convertible into or exchangeable or exercisable for, shares of common stock, subject to limited exceptions, such as the issuance of common stock pursuant to any stock incentive plan adopted by us or pursuant to limited partners' exercise of the exchange rights or the put rights, the limited partners will have the right to purchase common stock or such securities in order to maintain their respective percentage interests in us on a Fully Diluted basis. If the Board of Directors determines that we will raise additional equity capital to fund investments by the operating partnerships, we will contribute such funds to the operating partnerships as a contribution to capital and purchase of additional units of general partner interest; however, holders of O.P. Units will have the right to participate in such funding on a pro rata basis. In the event that holders of O.P. Units sell their O.P. Units to us upon exercise of their put rights, we are authorized to raise the funds for such purchase by issuing additional shares of common stock. Alternatively, we may issue additional shares of common stock in exchange for the tendered O.P. Units.

Our Board of Directors also has the authority to cause the operating partnerships to issue additional O.P. Units in any manner and on such terms and for such consideration, as it deems appropriate, including in exchange for property. In the event that the operating partnerships issue new O.P. Units for cash, but not property, the limited partners holding O.P. Units in an operating partnership will have the right to purchase O.P. Units in order, and to the extent necessary, to maintain their respective percentage interests in that operating partnership. The new O.P. Units will be exchangeable for common stock pursuant to the exchange rights or may be tendered to us pursuant to the put rights.

Disposition Policies

From time to time we may dispose of properties in our portfolio, subject to the required approvals as set forth below. During the past five years we have sold vacant R&D properties that we did not believe were likely to earn the type of return on assets that we seek. We will continue to dispose of under-performing properties when we consider it appropriate.

A significant factor influencing our disposition policy is that the tax basis of the limited partners in the properties in the operating partnerships is substantially less than current fair market value. Accordingly, prior to the disposition of their O.P. Units, upon a disposition of any of the properties, a disproportionately large share of the gain for federal income tax purposes would be allocated to the limited partners.

In addition, the approval of a majority of our directors, including Carl E. Berg or his designee, will be required to sell all or substantially all of our assets. The consent of the holders of a majority of the O.P. Units will be required to effect a sale or sales of all, or substantially all, of the assets of any of the operating partnerships.

Impact of New Accounting Pronouncements

For discussion of recent accounting pronouncements, see Item 8, “Financial Statements and Supplementary Data – Note 2” to our consolidated financial statements included in this report.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We do not generally hold market risk sensitive instruments for trading purposes. We use fixed and variable rate debt to finance our operations. Our exposure to market risk for changes in interest rates relates primarily to our current variable rate debt and our future debt obligations. We are vulnerable to significant fluctuations of interest rates on our floating rate debt.

We manage our market risk by monitoring interest rates where we try to recognize the unpredictability of the financial markets and seek to reduce potentially adverse effects on the results of our operations. This takes frequent evaluation of available lending rates and examination of opportunities to reduce interest expense through new sources of debt financing. Several factors affecting the interest rate risk include governmental monetary and tax policies, domestic and international economics and other factors that are beyond our control. The following table provides information about the principal cash flows, weighted average interest rates, and expected maturity dates for debt outstanding as of December 31, 2009. The current terms of our outstanding debt are described in Item 8, "Financial Statements and Supplementary Data – Note 8." For fixed rate debt, we estimate fair value by using discounted cash flow analyses based on borrowing rates for similar kinds of borrowing arrangements.

For fixed rate debt, the table presents the assumption that the outstanding principal balance at December 31, 2009 will be paid according to scheduled principal payments and that we will not prepay any of the outstanding principal balance.

For variable rate debt, the table presents the assumption that the outstanding principal balance at December 31, 2009 will be paid upon maturity.

	2010	2011	2012	2013	2014	Thereafter	Total	Fair Value
				(dollars in thousands)				
Fixed Rate Debt:								
Secured notes payable	$13,328	$14,109	$14,935	$81,269	$10,891	$192,547	$327,079	$318,375
Weighted average interest rate	5.74%	5.74%	5.74%	5.74%	5.74%	5.74%		
Variable Rate Debt:								
Unsecured debt	$9,325	-	-	-	-	-	$9,325	$9,325
Weighted average interest rate	1.98%	-	-	-	-	-		
Secured debt	-	$14,466	-	-	-	-	$14,466	$14,466
Weighted average interest rate	-	4.00%	-	-	-	-		

The fixed rate debt represented 93.2% and 96.3% and the variable rate debt represented 6.8% and 3.7% of all debt outstanding for the years ended December 31, 2009 and 2008, respectively.

All of our debt is denominated in United States dollars. The weighted average interest rate for the fixed rate debt was approximately 5.74% and 5.86% for the years ended December 31, 2009 and 2008, respectively. The increase in interest expense attributable to the average interest rate difference between 2009 and 2008 was approximately $1.8 million, which was a result of approximately $2.4 million related to the Hellyer Avenue Limited Partnership litigation.

The primary market risk we face is the risk of interest rate fluctuations. The Heritage Bank of Commerce revolving line of credit and note payable (related parties), which are tied to a LIBOR based interest rate, was approximately $23.8 million, or 6.8%, of the total $350.9 million of debt as of December 31, 2009. The interest rate on the Heritage Bank of Commerce revolving line of credit is the greater of LIBOR plus 1.75% or 4.00% per annum, which is currently at 4.00%. With a floating interest rate we could pay lower rates of interest in periods of decreasing interest rates and higher rates of interest in periods of increasing interest rates. As of December 31, 2009 and 2008, we did not have any derivative instruments.

The following discussion of market risk is based solely on a possible hypothetical change in future market conditions related to our variable rate debt. It includes “forward-looking statements” regarding market risk, but we are not forecasting the occurrence of these market changes. Based on the amount of variable debt outstanding as of December 31, 2009, a 1% increase or decrease in interest rates on our $23.8 million of floating rate debt would decrease or increase, respectively, annual earnings and cash flows by approximately $0.09 million (excludes the HBC line of credit since its interest rate is greater than LIBOR plus 1.75%), as a result of the increased or decreased interest expense associated with the change in rate, and would not have an impact on the fair value of the floating rate debt. This amount is determined by considering the impact of hypothetical interest rates on our borrowing cost. Due to the uncertainty of fluctuations in interest rates and the specific actions that might be taken by us to mitigate any such fluctuations and their possible effects, the foregoing sensitivity analysis assumes no changes on our financial structure.

Item 8. Financial Statements and Supplementary Data

MISSION WEST PROPERTIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Mission West Properties, Inc.
Cupertino, California

We have audited the accompanying consolidated balance sheets of Mission West Properties, Inc. (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mission West Properties, Inc. at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2010 expressed an unqualified opinion thereon.

\S\ Burr Pilger Mayer, Inc.

San Francisco, California
March 16, 2010

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Board of Directors and Stockholders
Mission West Properties, Inc.
Cupertino, California

We have audited Mission West Properties, Inc.'s (the Company) internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Mission West Properties, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Mission West Properties, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2009, and the related financial statement schedules listed in the Index at Item 15(a), and our reports dated March 16, 2010 expressed an unqualified opinion thereon.

\S\ Burr Pilger Mayer, Inc.

San Francisco, California
March 16, 2010

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

ASSETS

	December 31, 2009	December 31, 2008
Investments in real estate:		
Land	$320,911	$320,911
Buildings and improvements	799,649	799,471
Real estate related intangible assets	3,240	3,240
Total investments in properties	1,123,800	1,123,622
Accumulated depreciation and amortization	(204,153)	(180,043)
Net investments in properties	919,647	943,579
Investment in unconsolidated joint venture	3,828	3,768
Net investments in real estate	923,475	947,347
Cash and cash equivalents	986	-
Restricted cash	197	39,478
Restricted investment in marketable securities	12,069	-
Investment in marketable securities	-	3,368
Deferred rent receivables	18,711	17,841
Other assets, net	30,951	26,251
Total assets	$986,389	$1,034,285

LIABILITIES AND EQUITY

	2009	2008
Liabilities:		
Mortgage notes payable	$318,818	$330,908
Mortgage note payable (related parties)	8,261	8,761
Note payable (related parties)	9,325	-
Revolving line of credit	14,466	13,079
Interest payable	1,573	1,596
Security deposits	4,849	5,272
Deferred rental income	6,539	3,964
Dividends and distributions payable	15,791	21,055
Accounts payable and accrued expenses	9,638	17,747
Total liabilities	389,260	402,382
Commitments and contingencies (Note 16)		
Equity:		
Stockholders’ equity attributable to Mission West Properties, Inc.:		
Preferred stock, $.001 par value, 20,000,000 shares authorized, none issued or outstanding	-	-
Common stock, $.001 par value, 200,000,000 shares authorized, 21,870,211 and 19,748,211 shares issued and outstanding at December 31, 2009 and 2008	22	20
Additional paid-in capital	170,606	154,412

Distributions in excess of accumulated earnings	(25,784)	(20,014)
Total stockholders' equity attributable to Mission West Properties, Inc.	144,844	134,418
Noncontrolling interests in operating partnerships	452,285	497,485
Total equity	597,129	631,903
Total liabilities and equity	$986,389	$1,034,285

See notes to consolidated financial statements.

MISSION WEST PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per share data)

	Year Ended December 31, 2009	2008	2007
Operating revenues:			
Rental income	$82,520	$79,075	$80,337
Above market lease intangible asset amortization	-	-	(4,091)
Tenant reimbursements	18,732	16,406	13,355
Other income, including lease terminations and settlements	3,756	4,223	61,982
Total operating revenues	105,008	99,704	151,583
Operating expenses:			
Property operating, maintenance and real estate taxes	27,860	23,460	20,371
General and administrative	2,336	2,635	3,035
Depreciation and amortization	24,110	23,224	22,588
Total operating expenses	54,306	49,319	45,994
Operating income	50,702	50,385	105,589
Other income (expenses):			
Equity in earnings of unconsolidated joint venture	309	19,617	1,408
Interest and dividend income	1,309	1,735	3,086
Unrealized gain (loss) from investment in marketable securities	5,011	(278)	-
Interest expense	(22,117)	(19,787)	(20,131)
Interest expense – related parties	(765)	(1,332)	(724)
Income from continuing operations	34,449	50,340	89,228
Discontinued operations:			
Net gain on disposal of properties classified as discontinued operations	-	-	6,529
Net income attributable to discontinued operations	-	-	91
Income from discontinued operations	-	-	6,620
Net income	34,449	50,340	95,848
Net income attributable to noncontrolling interests	(26,058)	(40,206)	(76,960)
Net income available to common stockholders			