GENERAL EMPLOYMENT ENTERPRISES INC
Form SC TO-T/A
April 15, 2009

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE TO/A
(Amendment No.1)

TENDER OFFER STATEMENT UNDER SECTION 14(D)(1) or 13(e)(1)
OF THE SECURITIES EXCHANGE ACT OF 1934

GENERAL EMPLOYMENT ENTERPRISES, INC.
(Name of Subject Company (Issuer))

PSQ, LLC
(Names of Filing Persons (Offeror))

COMMON STOCK, NO PAR VALUE
(Title of Class of Securities)

369730106
(CUSIP Number of Class of Securities)

Stephen Pence
Managing-Member
Hurstbourne Place, Suite 1025
9300 Shelbyville Road
Louisville, KY 40222
Tel: (502) 736-6200
Fax: (502) 736-6205

Copy to:
Gregory Bartko, Esq.
Law Office of Gregory Bartko, LLC
3475 Lenox Road, Suite 400
Atlanta, Georgia 30326
Fax: (866) 342-4092

(Name, address and telephone number of person authorized to receive notices
and communications on behalf of filing persons)

CALCULATION OF FILING FEE

Transaction Valuation(1): $1,500,000 Amount of Filing Fee(2): $83.70

(1) Estimated solely for the purpose of calculating the amount of the filing fee in accordance with the Securities Exchange Act of 1934 based on the product of (i) $0.60 (i.e., the tender offer price) and (ii) 2,500,000, the maximum number of shares of common stock, no par value, of General Employment Enterprises, Inc. subject to the tender offer.

(2) The amount of the filing fee calculated in accordance with the Securities Exchange Act of 1934, as amended, equals $55.80 for each $1,000,000 of value. The filing fee was calculated in accordance with Rule 0-11 under the Securities Exchange Act of 1934 and Fee Rate Advisory #5 for Fiscal Year 2009, issued March 11, 2009.

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

Amount previously paid:	$83.70 on the date of initial filing.
Filing Party:	PSQ, LLC
Form or registration no.:	File No. 005-40677
Date Filed:	April 13, 2009

o Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

þ Third-party tender offer subject to Rule 14d-1.

o issuer tender offer subject to Rule 13e-4.

o going-private transaction subject to Rule 13e-3.

o amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer: o

Item 1 – Summary Term Sheet

Offer to Purchase Term Sheet

Tender offeror	PSQ, LLC, a Kentucky limited liability company
Securities subject to Offer to Purchase	Common Stock, no par value per share
Offer to Purchase Price	$.60 per share, net to shareholders
Number of Shares Subject to Offer	2,500,000 shares
Aggregate Maximum Offer Amount	$1,500,000
Duration of the Offer to Purchase	This Offer expires at 12:00AM, New York City time, on Tuesday, June 30, 2009, unless extended.

This Tender Offer Statement ("Schedule TO") relates to the offer by PSQ, LLC ("PSQ"), a Kentucky limited liability company, to purchase outstanding shares of the common stock of General Employment Enterprises, Inc. ("General Employment", or the "Company"), an Illinois corporation. PSQ entered into a Securities Purchase and Tender Offer Agreement ("Agreement") on March 30, 2009 with General Employment. Under the terms of the Agreement, PSQ has agreed to commence a cash tender offer to purchase from General Employment's shareholders up to 2,500,000 issued and outstanding shares of common stock at a purchase price of $0.60 per share, net to the holder in cash, without interest thereon, for a maximum aggregate amount equal to $1,5000,000, upon the terms and subject to the conditions set forth in the Agreement, incorporated by reference herein, and in the related Letter of Transmittal ("Letter of Transmittal"), copies of which are attached hereto as Exhibits (a)(1)(B) and (a)(1)(C) (which, together with any amendments or supplements from time to time thereto, constitute the "Tender Offer").

The information in the Agreement, including all schedules and annexes thereto, is hereby expressly incorporated herein by reference in response to all the items of this Schedule TO and is supplemented by the information specifically provided herein.

If more than 2,500,000 shares of common stock are tendered in response to the Offer to Purchase, the number of shares purchased from each tendering shareholder will be reduced proportionately to an amount equal to the product of the number of Shares tendered by each such shareholder and a percentage amount equal to the quotient of 2,500,000 over the number of shares of common stock tendered by all shareholders in response to the Tender Offer. The Tender Offer will remain open until Midnight, New York City Time, on June 30, 2009, subject to extension under certain circumstances as set forth in the Agreement.

Item 2. Subject Company Information.

(a) Name and Address. General Employment maintains its principal executive office at One Tower Lane, Suite 2200, Oakbrook Terrace, Illinois 60181. The telephone number at that office is (630) 954-0400.

(b) Securities. The Company had 5,165,265 of shares of Common Stock, no par value, issued and outstanding as of March 31, 2009.

(c) Trading and Market Price. The Common Stock is traded on the NYSE AMEX Stock Exchange and the range of high and low sales prices, based on information provided by published financial sources, for each quarter during the previous two years is as follows:

	High	Low
Q1 – 2009	.48	.35
Q4 – 2008	.42	.39
Q3 – 2008	.41	.40
Q2 – 2008	.85	.85
Q1 – 2008	1.38	1.32
Q4 – 2007	1.66	1.63
Q3 – 2007	1.76	1.76
Q2 – 2007	2.01	1.96

Item 3. Identify and Background of Filing Person.

(a) Name and Address. PSQ maintains its principal office address at 9300 Hurstbourne Place, Suite 1025, Louisville, KY 40222 and its telephone number is (502) 736-6200.

(b) Business and Background of Tender Offeror. PSQ, a Kentucky limited liability company, was formed by Stephen Pence as a special purpose vehicle for the purpose of consummating the transactions contemplated by the Agreement with General Employment. Mr. Ronald E. Heineman, of River Falls Financial, Inc., a corporation also formed under the laws of Kentucky, with a principal place of business at Hurstbourne Place, Suite 1205, 6300 Shelbyville Road, Louisville, KY 40222 and telephone number of (502) 736-6200, was instrumental to the negotiations that led to the Tender Offer and will be appointed as Chief Executive Officer and President of General Employment upon closing.

(c) Business and Background of Natural Persons.

Mr. Stephen B. Pence, (56), is the sole member of PSQ and will also be designated as a Director and Chairman of the board of directors of General Employment upon the closing of the Tender Offer. Mr. Pence is currently a retired colonel from the United States Army Reserve, where he served as a federal military judge, and is also of counsel with Martin, Ogburn & Zipperle, in Louisville, Kentucky; assisting clients involved in human resource staffing and workers' compensation insurance. In 2001, Mr. Pence was nominated by President Bush and confirmed by the U.S. Senate to the position of United States Attorney for the Western District of Kentucky. From 2003 to 2007, Mr. Pence served as Lieutenant Governor of

Kentucky, which included roles as the Secretary of the Justice and Public Safety Cabinet and Commissioner of State Police. Mr. Pence received his bachelor's degree in business and his master's of business administration, with a concentration on economics, from Eastern Kentucky University and his juris doctorate degree from the University of Kentucky. Mr. Pence can be reached through PSQ's principal address at 9300 Hurstbourne Place, Suite 1025, Louisville, KY 40222 and telephone number of (502) 736-6200.

Mr. Ronald Heineman (51) was the former President and Chief Executive Officer of Resolve Staffing, Inc., an Ohio based human resources outsourcing services company, that had approximately 74 offices within the United States and combined revenues of $500,000,000 prior to its sale to a large California based staffing firm. He also acted as the Chief Executive Officer of ELS Inc., Human Resource Solutions, which was a professional employer organization operating in 32 states since 2000. Prior to this, Mr. Heineman was Corporate, Vice President - Human Resources for Frisch's Restaurants, Inc., a large publicly held restaurant chain operating Big Boy, Golden Corral, Roy Rogers Restaurants and several large hotels, where Mr. Heineman was responsible for attaining results in the areas of employment, training, benefits, loss prevention and government compliance. Mr. Heineman was employed with Frisch's for 23 years. He also purchased, in 1989, and operated a Snelling Personnel franchise for several years. Mr. Heineman holds a Bachelor's Degree in Business from Thomas More College and a Master's Degree in Psychology from the Athenauem of Ohio.

Messrs. Pence and Heineman are both citizens of the United States and have not been convicted in a criminal proceeding during the past five years nor were either a party to any judicial or administrative proceeding during the past five years that resulted in a judgment, decree or final order enjoining from future violations of, or prohibiting activities subject to, federal or state securities laws.

Item 4. Terms of the Transaction

(a)(1) Tender Offer. The Agreement provides for PSQ's purchase of a maximum of 2,500,000 shares of common stock, no par value, of General Employment at a purchase price of $.60 per share, net to the holder in cash, without interest thereon, for a maximum aggregate amount equal to $1,500,000, upon the terms and subject to the conditions set forth in the Offer to Purchase.

The Tender Offer will remain open until 12:00 Midnight, New York City Time, on Tuesday, June 30, 2009 unless extended. The Tender Offer may be extended upon certain conditions, which are further specified in the Agreement attached as Exhibit (a)(1)(B).

Withdrawal rights of tendered shares may be exercised throughout the period that the Tender Offer remains open. Notice of withdrawal pursuant will be deemed to be timely upon the receipt by the Depositary of a written notice of withdrawal specifying the name(s) of the tendering stockholder(s), the number or amount of the securities to be withdrawn and the name(s) in which the certificate(s) is (are) registered, if different from that of the tendering security holder(s).

In the event that the number of shares that are validly tendered on or prior to the expiration of the Tender Offer and not timely withdrawn, exceed the maximum of 2,500,000 shares, the number of shares purchased from each stockholder of General Employment will be reduced proportionately to an amount equal to the product of the number of Shares tendered by each such shareholder and a percentage amount equal to the quotient of 2,500,000 over the number of shares of common stock tendered by all shareholders in response to the Tender Offer.

The procedure for the tender of Shares is outlined in detail in the Letter of Transmittal, attached hereto as Exhibit (a)(1)(C), which is incorporated herein by reference. All shareholders should also see the Agreement, attached to this Schedule TO as Exhibit (a)(1)(B), for further details on the material terms of the Tender Offer, including accounting treatment and tax consequences.

(a)(2) Mergers or Similar Transactions. Not Applicable.

Item 5. Past Contacts, Transactions, Negotiations, and Agreements.

(a) Transactions, Significant Corporate Events, Negotiations and Background. PSQ is a newly formed limited liability company formed specifically to acquire shares of General Employment common stock, including 7,700,000 shares of newly issued shares of General Employment common stock ("New Issue Shares"), which will result in PSQ controlling the voting class of outstanding capital stock of General Employment. We are offering to purchase up to, but no more than 2,500,000 shares of the outstanding shares General Employment common stock of at a price of $.60 per share. As of the date hereof, we do not own any shares of General Employment common stock, but we have entered into a Securities Purchase and Tender Offer Agreement with General Employment dated March 30, 2009 which provides that we will purchase from General Employment 7,700,000 shares of General Employment common stock, representing approximately 58% of the outstanding shares of common stock (if no shares of common stock are tendered in the Tender Offer) and approximately 76% of the outstanding shares of common stock (if the maximum amount of shares of common stock for which the Tender Offer is made ((2,500,000 shares of common stock)) are tendered), for a price of $.25 per Share, for an aggregate purchase price of $1,925,000. Based on the review of General Employment's business and market position, we have identified General Employment as a strategic opportunity and a foundation for long-term growth.

The following represent the course of events for PSQ that led towards the Offer:

• The Offer was initiated by Mr. Furnari of MC Capital Funding Group on January 7, 2009. Mr. Furnari facilitated the introduction of Mr. Ronald E. Heineman of River Falls Financial Services, Inc. ("River Falls") and Dennis Baker of General Employment on January 16, 2009, at which time the parties discussed the possibility of a tender offer and direct cash investment into the Company. On January 27, 2009, Mr. Heineman met with Herbert F. Imhoff, Jr., Kent M. Yauch, Sheldon Brottman and Mr. Baker to discuss funding opportunities through River Falls.

• A meeting was then held on February 4, 2009 between representatives of River Falls, including Stephen Pence and Ronald E. Heineman, General Employment, and certain investment / business partners of River Falls, including Oppenheimer, Sands Brothers Asset Management and the Park Avenue Bank.

• On February 5, 2009, PSQ, a special purpose vehicle formed by Stephen Pence, submitted a draft letter of intent to General Employment, outlining a proposed share purchase and tender offer to be undertaken by PSQ.

• On February 11, 2009, PSQ and General Employment executed the non-binding letter of intent outlining certain preliminary terms of the Agreement, including proposed terms of the Offer.

• On February 17, 2009, Mr. Heineman met with Mr. Imhoff, Jr. in General Employment's corporate office. They discussed business operations and Mr. Imhoff, Jr.'s role with the Company if the proposed transactions were to take place.

• A first draft of the Agreement from PSQ was submitted on March 2, 2009.

• Between March 8 and March 12, 2009, PSQ and General Employment, as well as respective legal counsel exchanged comments to drafts of the Agreement and negotiated various terms and conditions of the Agreement and the transactions contemplated thereby.

• On March 12, 2009, Messrs. Imhoff, Jr., Yauch, Baker and Heineman, present in person at General Employment's headquarters, along with the General Employment's legal counsel and PSQ's legal counsel participating via teleconference, continued to negotiate various open issues in the terms of the Agreement.

On March 14, 2009, Mr. Baker discussed certain terms of a proposed Consulting Agreement for Mr. Imhoff, Jr. ("Consulting Agreement") with Mr. Heineman.

• On March 19, 2009, PSQ's legal counsel distributed a revised draft of the Agreement to General Employment. In turn, General Employment's legal counsel delivered a further revised draft of the Agreement to PSQ on March 20, 2009.

• On March 28 and 29, 2009, General Employment and PSQ continued to negotiate the remaining issues in the Agreement and the related ancillary documents that form a part of the Agreement.

• On March 30, 2009, General Employment and PSQ resolved the remaining issues in the various transaction documents and entered into the Agreement. Contemporaneous with approving the Agreement, General Employment and PSQ also entered into an Escrow Agreement with Park Avenue Bank, New York, New York, which has agreed to act as the escrow agent for the transaction, the Consulting Agreement between General Employment, PSQ and Mr. Imhoff, Jr., and a Registration Rights Agreement which provides to PSQ demand registration rights covering the Shares of common stock to be purchased by PSQ under the terms of the Agreement as well as piggyback registration rights for Shares of common stock that will be issued to Mr. Imhoff, Jr. under the terms of his Consulting Agreement. Thereafter, PSQ caused the agreed upon purchase price for the 7,700,000 New Issued Shares, $1,925,000, to be transferred to Park Avenue Bank as the agreed upon escrow agent and General Employment issued a press release shortly thereafter and filed a Form 8-K Current Report with the Securities and Exchange Commission announcing the execution of the Agreement and other related transaction documents.

Item 6. Purposes of the Transaction and Plans or Proposals.

(a) Purposes. PSQ was formed as a special purpose vehicle to acquire a controlling interest in General Employment and thereafter, through General Employment as its operating subsidiary, to become a recognized leader in the providing of professional staffing and related human resource outsourcing services; with specialization on information technology, engineering, and accounting professionals. Based on the review of General Employment's business and market position, PSQ has identified General Employment as a strategic opportunity and a foundation for long-term growth.

(c)(1) Any Extraordinary Transaction, such as a Merger, Reorganization or Liquidation, involving the Subject Company or any of its Subsidiaries. Not Applicable.

(c)(2) Any Purchase, Sale or Transfer of a Material Amount of Assets of the Subject Company or any of its Subsidiaries. Not Applicable.

(c)(3) Any Material Change in the Present Dividend Rate or Policy, or Indebtedness or Capitalization of the Subject Company. In conjunction with the Agreement, PSQ will purchase (the "Share Purchase") 7,700,000 newly issued shares of common stock from the Company for a purchase price of $1,925,000, or $.025 per share, in a private placement transaction in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act of 1933, as amended, and/or Rule 506 promulgated there under. If consummated, PSQ will own a majority stake in General Employment, consisting of between approximately 58% of the outstanding shares of common stock (if no shares of common stock are tendered in the Tender Offer) and approximately 76% of the outstanding shares of common stock if the maximum amount of shares of common stock for which the Tender Offer is made ((2,500,000 shares of common stock)) are tendered.)

(c)(4) Any Change in the Present Board or Directors or Management of the Company, Including, but not Limited to, any Plans or Proposals to Change the Number or Term of Directors or to Fill any Existing Vacancies on the Board or to Change any Material Term of the Employment Contract of any Executive Officer.

Pursuant to the Agreement and as requested by PSQ, upon the occurrence of the closing, Stephen Pence, Charles (Chuck) W.B. Wardell III and Jerry Lancaster ("Replacement Directors") will be appointed by the

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board of directors to fill the vacancies on the board of directors that will result from the resignations of the resigning directors. After their appointments are effected, the size of the board of directors will be reduced to five members, and will consist of two current members of the board of directors of the Company and the three directors appointed at the request of PSQ.

The board of directors will determine which committees Messrs. Pence, Wardell and Lancaster will serve on at their first scheduled meeting after the closing occurs. If the closing occurs and Messrs. Pence, Wardell and Lancaster become members of the board of directors of the Company, they will receive compensation as directors in line with the Company's current non-employee director compensation arrangement, which will entitle each of them to a monthly retainer fee of $2,000. Directors do not receive any additional compensation for attendance at meetings of the board of directors or its committees, except that the Chairman of the Audit Committee receives an additional monthly fee of $500.

The following biographical information sets forth, with respect to each individual proposed director that has agreed to serve in such capacity upon the closing of the transactions described in the Agreement, their full name, the age of the individual as of April 15, 2009, their current principal occupation and employment history during the past five years. Each designee described below has agreed to serve if appointed to fill the vacancies created by the resignation of certain existing directors of the Company as described in the Agreement.

STEPHEN B. PENCE, 55, is currently a retired colonel from the United States Army Reserve, where he served as a federal military judge, and is also of counsel with Martin, Ogburn & Zipperle, in Louisville, Kentucky, assisting clients involved in human resource staffing and workers' compensation insurance. In 2001, Mr. Pence was nominated by President Bush and confirmed by the U.S. Senate to the position of United States Attorney for the Western District of Kentucky. From 2003 to 2007, Mr. Pence served as Lieutenant Governor of Kentucky, which included roles as the Secretary of the Justice and Public Safety Cabinet and Commissioner of State Police. Mr. Pence received his bachelor's degree in business and his masters of business administration, with a concentration on economics, from Eastern Kentucky University, and his juris doctorate degree from the University of Kentucky.

CHARLES W.B. WARDELL III, 56, served as Senior Advisor to the Chief Executive Officer of Korn/Ferry International, a multi-national executive recruitment service with currently more than 90 offices in 40 countries, from 1992 through 2007. Between 1990 and 1992, Mr. Wardell operated as President of Nordeman Grimm, a New York based boutique executive placement firm with specialization on placement with marketing and financial services companies. In 1978, he joined American Express as Special Assistant to the Chief Executive Officer, although he also held roles, between 1978 and 1990, of Regional Vice President and General Manager of American Express Company Middle East and Senior Vice President and Chief Operating Officer of Global Private Banking at American Express International Banking Corporation. His experience also encompasses Senior Vice President, both at Travelers and Mastercard International, as well as Executive Vice President of Diners Club at Citicorp. Mr. Wardell graduated cum laude from Harvard College with an A.B. degree.

JERRY LANCASTER, 74, has been employed with Imperial Casualty and Indemnity Company since 1997, where he is currently the Chairman and the Director of Marketing. He has worked in a variety of capacities involving workers' compensation programs and holds General Lines Agent and Managing General Agent licenses from the State of Texas. Mr. Lancaster graduated from Southern Methodist University with a degree in mathematics.

In addition, Herbert F. Imhoff, Jr., who currently serves as the Chairman of the board of directors and Chief Executive Officer and President of the Company, has agreed to resign from those positions with the Company if the Agreement is consummated, although he will remain as a member of the board of directors. Subject to the Agreement being consummated, after the closing, Mr. Imhoff, Jr. will become a consultant to the board of directors under the provisions of a Consulting Agreement approved by the Company, PSQ and Mr. Imhoff, Jr. on March 30, 2009. In connection with Mr. Imhoff, Jr.'s agreement to resign as Chief Executive Officer and President of the Company if the closing occurs, PSQ has requested, and the board of directors of the Company has approved, the appointment of Ronald E. Heineman to serve as Chief Executive Officer and President of the Company effective upon Mr. Imhoff, Jr.'s resignation.

Mr. Heineman has agreed to an initial annual salary of $1 and a grant of 150,000 stock options on the date of the closing pursuant to and in accordance with the Company's Amended and Restated 1997 Stock Option Plan, with such options to be fully vested on the date of issuance. The grant of such options was made subject to the approval of the Company's shareholders of an increase in the number of authorized shares of common stock available for issuance under the plan to accommodate such stock option issuance, which shareholder approval will be sought at the Company's 2010 Annual Meeting of Shareholders or at such earlier special meeting of shareholders as may be called in accordance with the Company's By-laws, provided that such meeting will not be called for prior to the date of the closing of this Tender Offer.

There are no family relationships among Mr. Heineman and any directors or other executive officers of the Company, including the persons that would become directors of the Company if the closing occurs. Other than the transactions described in this Schedule TO/A and referenced exhibits, including the provisions of the Agreement providing for Mr. Heineman to be appointed as Chief Executive Officer and President of the Company upon the occurrence of the closing, PSQ is not aware of any transaction in which Mr. Heineman has an interest requiring disclosure under Item 404(a) of Regulation S-K.

(c)(5) Any Other Material Change in the Subject Company's Corporate Structure or Business, Including, if the Subject Company is a Registered Closed-End Investment Company, any Plans or Proposals to make any Changes in its Investment Policy for Which a Vote Would be Required by Section 13 of the Investment Company Act of 1940 (15 U.S.C. 80a-13). Not Applicable.

(c)(6) Any Class of Securities of the Subject Company to be Delisted from a National Securities Exchange or Cease to be Authorized to be Quoted in an Automated Quotations System Operated by a National Securities Association. Not Applicable.

(c)(7) Any Class of Equity Securities of the Subject Company Becoming Eligible for Termination of Registration Under Section 12(g)(4) of the Act (15 U.S.C. 78 l). Not Applicable.

Item 7. Source and Amount of Funds or Other Consideration.

(a) Source of Funds. PSQ will need approximately $1,750,000 to purchase the maximum number of shares pursuant to the Tender Offer and to pay related fees and expenses and an additional $1,925,000 to purchase the 7,700,000 of the newly issued shares to be acquired by PSQ pursuant to the Agreement. Under the terms of the Agreement, on March 30, 2009, PSQ deposited into escrow the sum of $1,925,000 to be held by the escrow agent under the terms of an Escrow Agreement pending the closing. PSQ intends to deploy its own proprietary cash under management for funding the purchase of shares in the Tender Offer and for the purchase of the newly issued shares, without the use of third party funding. PSQ is also required in the Agreement to establish, to General Employment's satisfaction, that it has available the maximum aggregate Tender Offer purchase amount of $1,500,000, no later than three business days prior to the closing of the Tender Offer. PSQ has sufficient cash resources to pay related fees and expenses of the Tender Offer.

(b) Conditions. The Tender Offer has been approved by the member-manager of PSQ, and is not contingent on receipt of financing by PSQ nor upon any condition regarding any minimum number of shares being validly tendered in the Tender Offer. The Tender Offer however is subject to certain closing conditions, as set forth in the attached Offer to Purchase as Exhibit (a)(1)(A), including receipt of approval from General Employment's shareholders for the sale to PSQ of the New Issue Shares.

(d) Borrowed Funds. Not applicable.

Item 8. Interest in Securities of the Subject Company.

(a) Securities Ownership. Not Applicable.

Securities Transactions. Not Applicable.

Item 9. Persons / Assets, Retained, Employed, Compensated or Used.

(a) Solicitations or Recommendations.

Morrow and Co., LLC, 470 West Avenue, Stamford, CT 06902, as the Information Agent on behalf of PSQ. Under the terms of the agreement entered into between PSQ and the Information Agent, reasonable and customary compensation is to be paid to the Information Agent for their services during the course of the Tender Offer and until consummation thereof.

Item 10. Financial Statements.

Financial statements will not be provided as PSQ's financial condition is not material to a security holder's decision whether to sell, tender or hold the Common Stock, which is the subject of the Offer to Purchase, as the consideration offered consists solely of cash.

Item 11. Additional Information.

(a) Agreements. Not Applicable.

(b) Other Material Information. Not Applicable.

Item 12. Exhibits.

Exhibit No.	Description
(a)(1)(A)	Offer to Purchase, dated April 15, 2009, as amended.
(a)(1)(B)	Securities Purchase and Tender Offer Agreement dated March 30, 2009.
(a)(1)(C)	Letter of Transmittal.
(a)(1)(D)	Notice of Guaranteed Delivery.
(a)(1)(E)	Letter to clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
(a)(1)(G)	Press Release, dated March 30, 2009, issued by General Employment (incorporated herein by reference to Exhibit 99.1 of Form 8-K, filed by General Employment on March 31, 2009).

Interest income	58	57	151	126
Interest expense	(4,833)	(5,246)	(9,755)	(10,525)
Interest expense – related parties	(146)	(144)	(292)	(291)
Income from continuing operations	5,801	8,062	13,691	18,457
Discontinued operations:				
Gain from disposal of discontinued operations	7,989	-	13,508	-
Loss attributable to discontinued operations	(81)	(692)	(237)	(1,152)
Net income (loss) from discontinued operations	7,908	(692)	13,271	(1,152)
Net income	13,709	7,370	26,962	17,305
Net income attributable to noncontrolling interests	(10,929)	(5,491)	(21,338)	(13,027)
Net income available to common stockholders	$2,780	$1,879	$5,624	$4,278
Net income per common share from continuing operations:				
Basic	$0.06	$0.09	$0.15	$0.20
Diluted	$0.06	$0.09	$0.15	$0.20
Net income per common share from discontinued operations:				

Basic				
	$0.06	$(0.01)	$0.10	$(0.01)
Diluted				
	$0.06	$(0.01)	$0.09	$(0.01)
Net income per common share to common stockholders:				
Basic				
	$0.12	$0.08	$0.25	$0.19
Diluted				
	$0.12	$0.08	$0.24	$0.19
Weighted average shares of common stock outstanding (basic)				
	22,668,020	22,495,605	22,652,844	22,392,427
Weighted average shares of common stock outstanding (diluted)				
	23,079,739	22,756,006	23,110,364	22,583,358

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

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MISSION WEST PROPERTIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	Six months ended June 30, 2012	2011
Cash flows from operating activities:		
Net income	$26,962	$17,305
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,985	11,671
Gain from disposal of properties classified as discontinued operations	(13,508)	-
Equity in (earnings) loss of unconsolidated joint venture	(174)	(18)
Distributions from unconsolidated joint venture	191	150
Lease termination fee related to restricted cash	-	10,865
Stock-based compensation expense	2	29
Changes in operating assets and liabilities, net of liabilities assumed:		
Deferred rent	226	375
Other assets	4,284	(1,214)
Interest payable	(63)	(45)
Security deposits	16	(220)
Prepaid rent and deferred revenue	(311)	(2,124)
Accounts payable and accrued expenses	(3,275)	2,253
Net cash provided by operating activities	26,335	39,027
Cash flows from investing activities:		
Improvements to real estate assets	-	(1,539)
Decrease in restricted cash	-	6,803
Net proceeds from sale of real estate	35,489	-
Purchase of real estate	(11,479)	-
Proceeds received from note receivable	1,743	-
Net cash provided by investing activities	25,753	5,264
Cash flows from financing activities:		
Principal payments on mortgage notes payable	(7,616)	(7,204)
Principal payments on mortgage note payable (related parties)	(308)	(285)
Proceeds from note payable (related parties)	26,337	-
Payments on note payable (related parties)	(26,337)	-
Payments on note payable	-	(10,776)
Net repayments on revolving line of credit	(3,305)	-
Distributions paid to noncontrolling interests	(29,822)	(23,785)
Dividends paid to common stockholders	(7,923)	(6,229)
Net cash used in financing activities	(48,974)	(48,279)
Net increase (decrease) in cash and cash equivalents	3,114	(3,988)
Cash and cash equivalents, beginning of period	-	3,988
Cash and cash equivalents, end of period	$3,114	-
Supplemental information:		

Cash paid for interest	$9,869	$10,677
Supplemental schedule of non-cash investing and financing activities:		
Debt incurred in connection with property acquisitions	$11,479	-
Note receivable received from sale of real estate	$18,780	-
Issuance of common stock upon conversion of O.P. units	$821	$3,266

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

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MISSION WEST PROPERTIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except par value and per share amounts)
(unaudited)

1. Organization and Formation of the Company

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

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

In late December 2011, the Company formed two additional operating partnerships and transferred certain R&D properties from two current operating partnerships into the two new operating partnerships through two separate partnership division transactions. The two transactions changed the nominal ownership of title to certain properties but did not modify the economic interests or rights of the Company or the limited partners in the operating partnerships. The Company is the sole general partner of the two new operating partnerships. There was no issuance of common shares associated with these transactions, and the number of O.P. units issued in each of the new operating partnerships was fully offset by the cancellation of the same number O.P. units of each respective predecessor operating partnership.

As of June 30, 2012, the Company owned a controlling general partnership interest of 25.88%, 21.86%, 16.32%, 12.53%, 21.86% and 16.32% in Mission West Properties, L.P., Mission West Properties, L.P. I, Mission West Properties, L.P. II, Mission West Properties, L.P. III, Mission West Properties, L.P. IV and Mission West Properties, L.P. V, respectively, which represents a 21.52% general partnership interest in the operating partnerships, taken as a whole, on a consolidated weighted average basis. The ownership interests which the Company does not own in the operating partnerships are accounted for as noncontrolling interests. Through the operating partnerships, the Company owns interests in 104 R&D/office properties, all of which are located in the Silicon Valley.

The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") under the Internal Revenue Code of 1986, as amended. Accordingly, no provision has been made for income taxes for the three and six months ended June 30, 2012 and 2011.

Business Segment Information
The Company's primary business is the ownership and management of R&D/office real estate with a geographic concentration in the Silicon Valley of the San Francisco Bay Area. Accordingly, the Company has concluded it currently has a single reportable segment for the Segment Reporting Topic of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 280 purposes.

2. Basis of Presentation

Principles of Consolidation and Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission ("SEC") and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of the Company, however, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's consolidated financial position as of June 30, 2012, their consolidated results of operations for the three and six months ended June 30, 2012 and 2011, and their cash flows for the six months ended June 30, 2012 and 2011. All significant inter-company balances have been eliminated in consolidation. The condensed consolidated financial statements as of June 30, 2012, and for the three and six months ended June 30, 2012 and 2011, and related footnote disclosures are unaudited. The results of operations for the three and six months ended June 30, 2012, are not necessarily indicative of the results to be expected for the entire year.

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The December 31, 2011, condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The Company evaluates all joint venture arrangements for consolidation. The percentage interest in the joint venture, evaluation of control and whether a variable interest entity ("VIE") exists are all considered in determining if the arrangement qualifies for consolidation in accordance with the Consolidation Topic of the FASB ASC 810. As of June 30, 2012, the Company had no VIE to consolidate.

Stock-Based Option Compensation Accounting
The Compensation-Stock Compensation Topic of the FASB ASC 718 addresses the accounting for stock options. It requires that the cost of all employee, director and consultant stock options, as well as other equity-based compensation arrangements, be reflected in the financial statements based on the estimated fair value of the awards. It is applicable to any award that is settled or measured in stock, including stock options, restricted stock, stock appreciation rights, stock units, and employee stock purchase plans. At June 30, 2012, the Company had one stock-based compensation plan.

The following table shows the activity and detail for the 2004 Equity Incentive Plan during the six months ended June 30, 2012.

	Options Outstanding	Weighted Average Option Price Per Share
Balance, December 31, 2011	2,827,641	$ 8.54
Options granted	-	-
Options exercised	-	-
Options expired	-	-
Balance, June 30, 2012	2,827,641	$ 8.54

The Company measures compensation cost for its stock options at fair value on the date of grant and recognizes compensation expense relating to the remaining unvested portion of outstanding stock options at the time of adoption ratably over the vesting period, generally four years. The fair value of the Company's stock options is determined using the Black-Scholes option pricing model. Compensation expense related to the Company's share-based awards is included in general and administrative expenses in the Company's accompanying condensed consolidated statements of operations. Under the Compensation-Stock Compensation Topic of the FASB ASC 718, the Company recorded approximately $1 and $14 of expense for share-based compensation relating to grants of stock options for the three months ended June 30, 2012 and 2011, respectively, and approximately $2 and $29 of expense for the six months ended June 30, 2012 and 2011, respectively.

Noncontrolling Interests
The noncontrolling interest provisions of the Consolidation Topic of the FASB ASC 810 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in a consolidated entity, which should be reported as equity in the parent's consolidated financial statements. It requires disclosure, on the face of the consolidated statement of operations, of those amounts of consolidated net income and other comprehensive other income attributable to

controlling and noncontrolling interests, eliminating the past practice of reporting amounts of income attributable to noncontrolling interests as an adjustment in arriving at consolidated net income.

The following table presents a reconciliation of the December 31, 2011 and June 30, 2012, carrying amounts for equity and the related amounts of equity attributable to stockholders' equity and noncontrolling interests:

	Common Stock	Additional Paid-in Capital	Equity Distributions in Excess of Accumulated Earnings	Noncontrolling Interests	Total
			(dollars in thousands)		
Balance, December 31, 2011	$ 23	$ 175,900	$ (32,962)	$ 410,126	$ 553,087
Net income	-	-	5,624	21,338	26,962
Amortization of previously granted share awards	-	2	-	-	2
Conversions of operating partnership units	-	821	-	(821)	-
Dividends and distributions	-	-	(7,933)	(29,814)	(37,747)
Balance, June 30, 2012	$ 23	$ 176,723	$ (35,271)	$ 400,829	$ 542,304

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Noncontrolling interests represent the aggregate partnership interest in the operating partnership held by the operating partnership limited partner unit holders. Income allocated to noncontrolling interests is based on the unit holders' ownership percentage of the operating partnership. Because an O.P. unit is generally redeemable for cash or a share of common stock at the option of the Company, it is deemed to be equivalent to a share of common stock. Therefore, such transactions are treated as capital transactions and result in an allocation between stockholders' equity and noncontrolling interests in the accompanying condensed consolidated balance sheets to account for the change in the ownership of the underlying equity in the operating partnerships. The Company's noncontrolling interests represent the separate private ownership of the operating partnerships by the Berg Group (defined as Carl E. Berg, his brother Clyde J. Berg, members of their respective immediate families, and certain entities they control) and other non-affiliate interests. As of June 30, 2012, these interests accounted for approximately 78.48% of the ownership interests in the real estate operations of the Company on a consolidated weighted average basis.

The amount of noncontrolling interests in net income is calculated by taking the net income of the operating partnerships (on a stand-alone basis) multiplied by the respective weighted average noncontrolling interests' ownership percentage.

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

Reclassifications
Certain reclassifications have been made to the previously reported 2011 condensed consolidated financial statements in order to conform to the 2012 presentation.

The following notes highlight significant changes to the notes to the Company's December 31, 2011, audited consolidated financial statements and should be read together with the consolidated financial statements and notes thereto included in the Company's 2011 Annual Report on Form 10-K filed on March 15, 2012.

Subsequent Events
The Company has evaluated subsequent events through the date the consolidated financial statements were issued.

3. Real Estate

Property Disposition
On April 30, 2012, the Company completed the sale of four vacant R&D buildings consisting of approximately 145,000 rentable square feet located at 1490-1520 McCandless Drive, 1525-1555 McCandless Drive, 1575-1595 McCandless Drive and 1600 McCandless Drive in Milpitas, California. On the total cash sales price of $19,350, the Company recognized a gain of approximately $7,989 and classified it as a gain from disposal of discontinued operations.

4. Stock Transactions

During the six months ended June 30, 2012, two limited partners exchanged a total of 82,000 O.P. units for 82,000 shares of the Company's common stock under the terms of the Exchange Rights Agreement among the Company and all limited partners of the operating partnerships resulting in a reclassification of approximately $821 from noncontrolling interests to stockholders' equity. Neither the Company nor the operating partnerships received any proceeds from the issuance of the common stock in exchange for O.P. units. Under the limited partnership agreements, each exchange is treated as the purchase of additional O.P. units of the general partner interest by the Company in exchange for stock, and the contribution of additional capital to the partnership by the Company equal in amount to the value of the stock issued in exchange for the limited partnership interests.

5. Net Income Per Share

Basic net income available to common stockholders per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Net income available to common stockholders is calculated by taking total net income and deducting the net income attributable to noncontrolling interests in each of the underlining operating partnerships. Diluted net income available to common stockholders per share is computed by dividing net income available to common stockholders by the sum of the weighted-average number of common shares outstanding for the period plus the assumed exercise of all dilutive securities using the treasury stock method.

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The computation for weighted average shares is detailed below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Weighted average shares outstanding (basic)	22,668,020	22,495,605	22,652,844	22,392,427
Incremental shares from assumed option exercise	411,719	260,401	457,520	190,931
Weighted average shares outstanding (diluted)	23,079,739	22,756,006	23,110,364	22,583,358

At June 30, 2012, outstanding options to purchase 1,462,500 and shares of common stock were excluded from the computation of diluted net income available to common stockholders per share under the treasury stock method for the three and six months ended June 30, 2012, because the option exercise price was greater than the weighted average closing price of the Company's common stock during the period. The outstanding O.P. units which are exchangeable at the unit holder's option, subject to certain restrictions on conversions, for shares of common stock on a one-for-one basis have been excluded from the diluted net income per share calculation. The total number of O.P. units outstanding at June 30, 2012 and 2011, was 82,618,015 and 82,701,265, respectively.

6. Related Party Transactions

As of June 30, 2012, the Berg Group owned 75,769,684 O.P. units. The Berg Group's combined ownership of O.P. units and shares of common stock as of June 30, 2012, represented approximately 74% of the total equity interests, assuming conversion of all O.P. units outstanding into the Company's common stock.

As of June 30, 2012, debt in the amount of approximately $6,831 was due the Berg Group under a mortgage note established May 15, 2000, in connection with the acquisition of a 50% interest in Hellyer Avenue Limited Partnership, the obligor under the mortgage note. The mortgage note bears interest at 7.65% and principal payments are amortized over 20 years. Interest expense incurred in connection with the mortgage note was approximately $133 and $144 for the three months ended June 30, 2012 and 2011, respectively, and $268 and $291 for the six months ended June 30, 2012 and 2011, respectively.

During the second quarter of 2012, the Company issued one short-term note payable to the Berg Group in connection with the quarterly dividend distributions. The interest rate on the note was LIBOR plus 1.75%. The aggregate loan amount totaled approximately $12,867 and was repaid in full as of June 30, 2012. The Company repaid approximately $12,880 to the Berg Group, which included accrued interest. For the three months ended June 30, 2012, interest expense incurred in connection with that short-term note payable was approximately $13.

During the first six months of 2012 and 2011, Carl E. Berg or entities controlled by him held financial interests in several companies that lease space from the operating partnerships, which include companies where Mr. Berg has a greater than 10% ownership interest. These related tenants contributed approximately $424 and $409 in rental income for the three months ended June 30, 2012 and 2011, respectively, and $847 and $666 for the six months ended June 30, 2012 and 2011.

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

The Company currently leases office space owned by Berg & Berg Enterprises for the Company's headquarters. Rental amounts and overhead reimbursements paid to Berg & Berg Enterprises were $30 for each of the three months ended June 30, 2012 and 2011, and $60 for each of the six months ended June 30, 2012 and 2011.

7. Commitments and Contingencies

From time to time, the Company is engaged in legal proceedings arising in the ordinary course of business. The Company does not expect any of such proceedings to have a material adverse effect on its cash flows, financial condition or results of operations.

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Guarantees and Indemnities
Under its articles of incorporation and bylaws, the Company has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officer's or director's serving in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company believes the estimated fair value of its obligations under these indemnification agreements is minimal and has recorded no liabilities for these agreements as of June 30, 2012.

The Company also enters into agreements with other companies in the ordinary course of business, typically lenders, joint venture partners, contractors, and tenants that contain indemnification provisions. Under these provisions the Company typically agrees to indemnify and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of certain kinds of activities or inactions of the Company. These indemnification provisions generally survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. To date, the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has recorded no liabilities for these agreements as of June 30, 2012.

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

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

8. Real Estate Assets Held for Sale/Discontinued Operations

The real estate sales provisions of the Property, Plant, and Equipment Topic of the FASB ASC 360 address financial accounting and reporting for the impairment and disposal of long lived assets. In general, income or loss attributable to the operations and sale of property and the operations related to property held for sale is classified as discontinued operations in the condensed consolidated statements of operations. Prior period condensed consolidated statements of operations presented in this report have been reclassified to reflect the income or loss related to properties that were sold and properties that were under contract to be sold and presented as discontinued operations in 2012. All periods presented in this report will likely require further reclassification in future periods if there are properties held for sale or if property sales occur.

As of June 30, 2012, there were four vacant properties under contract to be sold or otherwise disposed of which would qualify as assets held for sale and presented as discontinued operations. In addition, the Company sold ten vacant properties in the first six months of 2012, which had previously been recorded as assets held for sale and qualified as discontinued operations. In the fourth quarter of 2011, the Company sold one vacant property which qualified as discontinued operations. Condensed results of operations for these properties for the three and six months ended June 30, 2012 and 2011, are as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(dollars in thousands) (unaudited)		(dollars in thousands) (unaudited)	
Operating revenues:				
Rental income	$ 7	-	$ 14	-
Other income	2	$ 53	5	$ 152
Total operating revenues	9	53	19	152
Operating expenses:				
Property operating, maintenance and real estate taxes	90	410	256	633
Depreciation and amortization	-	335	-	671
Total operating expenses	90	745	256	1,304
Net loss attributable to discontinued operations	(81)	(692)	(237)	(1,152)
Net gain from disposal of discontinued operations	7,989	-	13,508	-
Income (loss) from discontinued operations	$ 7,908	$ (692)	$ 13,271	$ (1,152)

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9. Subsequent Events

On June 18, 2012, the Company declared dividends for the second quarter 2012. On July 5, 2012, the Company paid dividends of $0.13 per share of common stock to all common stockholders of record as of June 29, 2012. On the same date, the operating partnerships paid a distribution of $0.13 per O.P. unit to all O.P. unit holders. Aggregate dividends and distributions amounted to approximately $13,687.

On July 10, 2012, the Company completed the sale of three vacant R&D properties consisting of approximately 149,000 rentable square feet located at 300 Montague Expressway, 324-368 Montague Expressway and 337 Trade Zone Boulevard in Milpitas, California. On the total cash sales price of $18,500, the Company will recognize a gain of approximately $3,389 in the third quarter of fiscal year 2012 and classify it as a gain from disposal of discontinued operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying condensed consolidated financial statements and notes thereto under Part I, Item 1 of this Report and our audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K as of and for the year ended December 31, 2011. The results for the three months ended June 30, 2012, are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2012.

Forward-Looking Information

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

Factors that could have a material adverse effect on our operations and future prospects or would cause actual results in the future to differ materially from any of our forward-looking statements include, but are not limited to, the following:

the current turmoil in the credit markets could limit the demands for R&D space and affect the overall availability and cost of credit,

economic conditions generally and the real estate market specifically,

the occupancy rates of the properties,

rental rates on new and renewed leases,

legislative or regulatory provisions (including changes to laws governing the taxation of REITs),

availability of capital,

interest rates,

competition,

supply of and demand for R&D, office and industrial properties in our current and proposed market areas,

tenant defaults and bankruptcies,

lease term expirations and renewals,

changes in general accounting principles, policies and guidelines applicable to REITs, and

ability to timely refinance maturing debt obligations and the terms of any such refinancing.

These risks and uncertainties, together with the other risks described under Part I, Item 1A - "Risk Factors" of our 2011 Annual Report on Form 10-K and from time to time in our other reports and documents filed with the Securities and Exchange Commission ("SEC"), should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Overview

We acquire, market, lease, and manage R&D/office properties, primarily located in the Silicon Valley portion of the San Francisco Bay Area. As of June 30, 2012, we owned and managed 104 properties totaling approximately 7.8 million rentable square feet through six limited partnerships, or operating partnerships, for which we are the sole general partner. This class of property is designed for research and development and office uses and, in some cases, includes space for light manufacturing operations with loading docks. We believe that we have one of the largest portfolios of R&D/office properties in the Silicon Valley. As of June 30, 2012, two tenants individually leased in excess of 300,000 rentable square feet from us: Microsoft Corporation and Apple, Inc.

The Microsoft lease expires in August 2014 with two separate options to extend the lease for two successive additional periods of five years commencing on the expiration of the initial lease term upon the same terms and conditions of the initial lease term except that base rent for each option shall be determined at 95% of the fair market rent for the option term with annual increases in base rent.

We have five leases with Apple for multiple properties: two leases expiring in 2014, one lease expiring in 2018, and two leases expiring in 2022. The two leases that expire in 2022 have annual termination rights with 12 months advance written notice after May 1, 2019 and July 31, 2019. These leases have a range of one to three separate options to extend the lease for successive additional periods of three to five years commencing on the expiration of the initial lease term upon the same terms and conditions of the initial lease term except that base rent for each option shall be determined at 95% of the fair market rent for the option term with annual increases in base rent.

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

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

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

Company Sale Status

In late December 2011, we reported that we were exploring strategic alternatives for the possible sale of the Company and that our board of directors had authorized management to initiate a process to identify potential qualified buyers and determine an appropriate structure for the sale of the Company taking into account the potential value of the transaction to stockholders and operating unit holders. We conducted a broad-based marketing effort and currently are still reviewing proposals from potential qualified buyers. At this time, however, we are not engaged in any transaction, and our board of directors has not made a decision to recommend or authorize a sale of the Company.

Current Economic Environment

All of our properties are located in the Northern California area known as the Silicon Valley, which generally consists of portions of Santa Clara County, Southwestern Alameda County, Southeastern San Mateo County and Eastern Santa Cruz County. Historically, the Silicon Valley R&D property market has fluctuated with the local economy. The Silicon Valley economy and business activity slowed markedly from 2001 through 2006 and grew slowly until the second half of 2008. Since September 2008, the impact of the worldwide recession has adversely affected the local economy, but less so than other regions of California. Data suggests that the Silicon Valley economy in particular has improved this year. While this is generally beneficial, we do not expect a significant positive effect on our leasing activities. According to a recent report by Cassidy Turley Real Estate (the "CT Report"), which we consider to be a useful publicly available source of relevant market data, the vacancy rate for Silicon Valley R&D property was approximately 15.8% in late 2011 and 14.5% at the end of the second quarter of 2012. Total direct vacant R&D square footage in the Silicon Valley at the end of the second quarter of 2012 amounted to approximately 22.4 million square feet and sublet vacant was approximately 2.0 million square feet. According to the CT Report, total positive net absorption (which is the computation of gross square footage leased less gross new square footage vacated for the period presented) in 2011 amounted to approximately 4.0 million square feet, and in the first six months of 2012 there was total positive net absorption of approximately 1.5 million square feet. Also according to the CT Report, the average asking market rent per square foot at the end of the second quarter of 2012 was $1.23 per month compared with $1.15 per month in late 2011. 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. 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. Notwithstanding the improving local economic conditions, due to the substantial overhang of vacant R&D properties throughout the Silicon Valley, we believe that we are unlikely to see a sustainable recovery in the leasing market for our properties prior to 2013.

Our occupancy rate at June 30, 2012, was 70.3% compared with 66.5% at June 30, 2011. Most of the occupancy improvement was attributable to vacant property dispositions and vacant properties classified as assets held for sale which were not included in the vacancy statistic. We believe that our occupancy rate could decline if key tenants seek the protection of bankruptcy laws, consolidate operations or discontinue operations. In addition, excluding approximately 80,000 rentable square feet of properties subject to a month-to-month lease, leases with respect to approximately 104,000 rentable square feet are scheduled to expire during the remainder of 2012 and approximately

377,000 rentable square feet are scheduled to expire in 2013. The properties subject to these leases may take anywhere from 24 to 40 months or longer to re-lease. If we fail to re-lease a substantial portion of this square footage, our operating results and cash flows are likely to be affected adversely. We believe that the average 2012 renewal rental rates for our properties will be approximately equal to, greater than, or perhaps, below current market rents, but we cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current quoted market rates. At this time, we estimate that none of the rentable square feet scheduled to expire in the remainder of 2012 and 75% of the rentable square feet scheduled to expire in 2013 will be renewed, however, we cannot give any assurances that we will renew the expiring leases at that rate.

In the second quarter 2012, we signed six lease renewals for approximately 440,000 rentable square feet with a weighted average effective rent of $2.15 per square foot. We also signed two new leases for approximately 24,000 rentable square feet with a weighted average effective rent of $1.09 per square foot. Total tenant improvement costs and leasing commissions related to these leases are estimated to be approximately $1.4 million. We did not renew approximately 76,000 rentable square feet due to three expired leases in the second quarter 2012.

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

If we are unable to lease a significant portion of any vacant space or space subject to expiring leases; if we experience significant tenant defaults as a result of the current economic downturn; if we are not able to lease space at or above current market rates; if we restructure existing leases and lower existing rents in order to retain tenants for an extended term; or if we increase our lease costs and operating expenses substantially to accommodate multiple tenants in our R&D properties, our results of operations and cash flows will be affected adversely. Furthermore, in this event it is probable that our board of directors will reduce the quarterly dividend on the outstanding common stock and the O.P. units. Our operating results and ability to pay dividends at current levels remain subject to a number of material risks, as indicated under the caption “Forward-Looking Information” above and in the section entitled “Risk Factors” in our most recent annual report on Form 10-K.

Critical Accounting Policies and Estimates

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

Critical accounting policies are defined as those that require management to make estimates, judgments and assumptions, giving due consideration to materiality, in certain circumstances that affect amounts reported in the condensed consolidated financial statements, and potentially result in materially different results under different conditions and assumptions. We based these estimates and assumptions on historical experience and evaluate them on an on-going basis to help ensure they remain reasonable under current conditions. Actual results could differ from those estimates. During the six months ended June 30, 2012, there were no significant changes to the critical accounting policies and estimates discussed in the Company’s 2011 annual report on Form 10-K.

Results of Operations

Comparison of the three and six months ended June 30, 2012 with the three and six months ended June 30, 2011

As of June 30, 2012, through our controlling interests in the operating partnerships, we owned 104 properties totaling approximately 7.8 million rentable square feet compared with 111 properties totaling approximately 8.0 million rentable square feet owned by us as of June 30, 2011.

Comparison of rental income from real estate for the three and six months ended June 30, 2012 and 2011 is as follows:

	Three Months Ended June 30,			
	2012	2011	$ Change	% Change by Property Group
		(dollars in thousands)		

Same Property (1)	$	19,837	$	20,354	$	(517	)	(2.5	%)
2011 Acquisitions		238		-		238		100.0	%
2012 Acquisitions		-		-		-		-	
Total	$	20,075	$	20,354	$	(279	)	(1.4	%)

	Six Months Ended June 30,								
		2012		2011		$ Change		% Change by Property Group	
				(dollars in thousands)					
Same Property (1)	$	39,613	$	42,077	$	(2,464	)	(5.9	%)
2011 Acquisitions		474		-		474		100.0	%
2012 Acquisitions		-		-		-		-	
Total	$	40,087	$	42,077	$	(1,990	)	(4.7	%)

(1) “Same Property” is defined as properties owned by us prior to 2011 that we still owned as of June 30, 2012. There were 100 properties classified as “same property” as of June 30, 2012.

Rental Income from Real Estate Operations

For the quarter ended June 30, 2012, rental income from real estate decreased by approximately ($0.3) million, or (1.4%), from $20.4 million for the three months ended June 30, 2011, to $20.1 million for the three months ended June 30, 2012. The decrease resulted primarily from leases that expired and did not renew since June 30, 2011. Our occupancy rate at June 30, 2012, was approximately 70.3%, compared with 66.5% at June 30, 2011. Most of the occupancy improvement was attributable to vacant property dispositions and vacant properties classified as assets held for sale which were not included in the vacancy statistic.

Other Income

Other income of approximately $0.4 million for the three months ended June 30, 2012, included approximately $0.3 million from management fees and $0.1 million from miscellaneous income. Other income of approximately $0.4 million for the three months ended June 30, 2011, included approximately $0.2 million from management fees and $0.2 million from miscellaneous income. For the six months ended June 30, 2012, other income of approximately $0.7 million included approximately $0.5 million from management fees and $0.2 million from miscellaneous income. For the six months ended June 30, 2011, other income of approximately $1.4 million included approximately $0.7 million from an incentive to lessee adjustment, $0.5 million from management fees and $0.2 million from miscellaneous income.

Operating Expenses and Tenant Reimbursements

Property operating expenses, maintenance and real estate taxes for the three months ended June 30, 2012 increased by approximately $0.4 million, or 7.2%, to $5.9 million from $5.5 million for the three months ended June 30, 2011. This increase was due in part to an increase in HVAC repairs and maintenance expenses. Tenant reimbursements decreased by approximately ($1.1) million, or (28.0%), from $4.1 million for the three months ended June 30, 2011 to $3.0 million for the three months ended June 30, 2012. There were approximately $1.3 million refunds to tenants relating to annual common area charges reconciliation in 2012. The level of tenant reimbursements is affected by vacancies because certain recurring expenses such as property insurance, real estate taxes, and other fixed operating expenses are not recoverable from vacant properties. For the six months ended June 30, 2012, property operating, maintenance and property taxes decreased by approximately ($0.3) million, or (3.0%), from $11.0 million for the six months ended June 30, 2011, to $10.7 million for the six months ended June 30, 2012. Tenant reimbursements decreased by approximately ($1.8) million, or (20.8%), from $8.7 million for the six months ended June 30, 2011, to $6.9 million for the six months ended June 30, 2012.

General and administrative expenses increased by approximately $0.4 million, or 74.5%, from $0.5 million to $0.9 million for the three months ended June 30, 2011 and 2012, respectively. For the six months ended June 30, 2011 and 2012, general and administrative expenses increased by approximately $0.5 million, or 49.8%, from $1.0 million to $1.5 million, respectively. For both periods, the increase in general and administrative expenses was primarily a result of expenses related to the evaluation of strategic alternatives for the possible sale of the Company.

Real estate depreciation and amortization expense increased by approximately $0.5 million, or 8.8%, from $5.5 million to $6.0 million for the three months ended June 30, 2011 and 2012, respectively. The increase was primarily the result of recognizing the amortization expense of in-place leases in connection with a property acquisition in the third quarter 2011 pursuant to FASB ASC 805, Business Combinations, and three property acquisitions in the first quarter 2012. Real estate depreciation and amortization expense increased by approximately $1.0 million, or 9.0%, from $11.0 million to $12.0 million for the six months ended June 30, 2011 and 2012, respectively.

Equity in Earnings from Unconsolidated Joint Venture

As of June 30, 2012, we held an investment in one R&D building totaling approximately 155,500 rentable square feet through an unconsolidated joint venture, TBI-MWP, 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 three months ended June 30, 2012, we recorded equity in earnings from the unconsolidated joint venture of approximately $0.06 million compared with $0.03 million for the same period in 2011. For the six-month periods ended June 30, 2012 and 2011, equity in earnings from the unconsolidated joint venture was approximately $0.17 million and $0.02 million, respectively. The occupancy rate for the property owned by this joint venture at June 30, 2012 and 2011, was 100%.

Interest Income

Interest income for both the three months ended June 30, 2012 and 2011, was $0.06 million. Interest income for the six months ended June 30, 2012 and 2011, was $0.15 million and $0.13 million, respectively.

Interest Expense

Interest expense decreased by approximately ($0.4) million, or (7.9%), from $5.2 million for the three months ended June 30, 2011, to $4.8 million for the three months ended June 30, 2012. Based upon the lower average of outstanding debt, interest expense (related parties) remained relatively the same at approximately $0.14 million for the three months ended June 30, 2012 and 2011. Interest expense decreased by approximately ($0.8) million, or (7.3%), from $10.5 million for the six months ended June 30, 2011, to $9.7 million for the six months ended June 30, 2012. Interest expense (related parties) was approximately $0.3 million for both periods for the six months ended June 30, 2012 and 2011. Total debt outstanding, including debt due related parties, decreased by approximately ($15.6) million, or (4.5%), from $346.0 million as of June 30, 2011, to $330.4 million as of June 30, 2012, because of recurring scheduled debt payments.

Income (Loss) from Discontinued Operations
In accordance with the provisions of the Property, Plant, and Equipment Topic of the FASB ASC 360, in the second quarter of 2012 four vacant R&D properties were classified as assets held for sale and discontinued operations because they will be sold within one year. Also in the second quarter of 2012, we sold four vacant R&D properties and classified them as discontinued operations. The income (loss) attributable to discontinued operations from these properties for the three months ended June 30, 2012 and 2011, was approximately $7.9 million and ($0.7) million, respectively. The total income (loss) attributable to discontinued operations from these properties and properties sold during the first quarter of 2012 for the six months ended June 30, 2012 and 2011, was approximately $13.3 million and ($1.2) million, respectively.

Net Income Available to Common Stockholders and Net Income Attributable to Noncontrolling Interests
Net income available to common stockholders increased by approximately $0.9 million, or 48.0%, from $1.9 million for the three months ended June 30, 2011, to $2.8 million for the three months ended June 30, 2012. Net income attributable to noncontrolling interests increased by approximately $5.4 million, or 99.0%, from $5.5 million for the three months ended June 30, 2011, to $10.9 million for the three months ended June 30, 2012. For the six months ended June 30, 2012 and 2011, net income available to common stockholders was approximately $5.6 million and $4.3 million, respectively, and net income attributable to noncontrolling interests was approximately $21.3 million and $13.0 million, respectively.

The amount of net income attributable to noncontrolling interests has been calculated by multiplying the net income of the operating partnerships (on a stand-alone basis) by the respective noncontrolling interests ownership percentage. Noncontrolling interests represent the ownership interest of all limited partners in the operating partnerships taken as a whole, which was approximately 78% and 79% as of June 30, 2012 and 2011, respectively. The increase in net income attributable to noncontrolling interests in the first three and six months of 2012 occurred solely as a result of the increases in our net income for the periods.

Changes in Financial Condition

The most significant changes in our financial condition during the six months ended June 30, 2012, resulted from R&D property transactions. We acquired three vacant R&D buildings consisting of approximately 202,500 rentable square feet and approximately 19 acres of raw land located in the Silicon Valley for approximately $28.2 million. We disposed of ten vacant R&D buildings consisting of approximately 422,000 rentable square feet for approximately $54.7 million.

Total stockholders’ equity, net, decreased by approximately ($1.5) million from December 31, 2011. We obtained additional capital from the issuance of 82,000 shares of our common stock for the exchange of O.P. units, which increased additional paid-in capital by approximately $0.8 million. Distributions to common stockholders in excess of accumulated earnings increased during the most recent quarter by approximately ($2.3) million.

Liquidity and Capital Resources

In 2012, we anticipate operating cash flows from our operating property portfolio to decrease compared with 2011 because we continue to experience weak demand for our R&D properties in certain areas of the Silicon Valley. If we are unable to lease a significant portion of the approximately 104,000 rentable square feet scheduled to expire during the remainder of 2012, 377,000 rentable square feet scheduled to expire in 2013 or an equivalent amount of our currently available space of approximately 2.3 million rentable square feet, our operating cash flows after year 2012 may 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 that could result in reduced cash flow from operations instead. Cash proceeds from lease terminations are non-recurring. To maintain or increase cash flows in the future we must lease our vacant properties and renew upcoming expiring leases.

Our principal sources of liquidity for distributions to stockholders and O.P. unit holders (noncontrolling interests), debt service, leasing costs, capital expenditures and tenant improvements are to come from net cash flow provided by operations, borrowings from our credit facility, borrowings from related parties, 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 for the remainder of 2012 and all of 2013. However, there can be no assurance that these sources of liquidity will continue to be available. The unavailability of capital could adversely affect our ability to pay cash dividends to our shareholders. 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, long-term secured and unsecured indebtedness, and the issuance of additional equity securities.

As of June 30, 2012, we had approximately $3.1 million cash on hand and $19 million of credit available under the Heritage Bank of Commerce (“HBC”) credit facility.

Distributions

On July 5, 2012, we paid dividends of $0.13 per share of common stock to all common stockholders of record as of June 29, 2012. On the same date, the operating partnerships paid a distribution of $0.13 per O.P. unit to all holders of O.P. units. The aggregate dividends and distributions amounted to approximately $13.7 million.

Distributions are declared at the discretion of our Board of Directors and are subject to actual cash available for distribution, our financial condition, capital requirements and such other factors, as our Board of Directors deems relevant.

Debt

At June 30, 2012, we had total indebtedness of approximately $330.4 million, including $323.6 million of fixed rate mortgage debt and $6.8 million debt under the Berg Group mortgage note (related parties), as detailed in the table below. The Northwestern, Allianz, Hartford and HBC loans contain certain financial loan and reporting covenants as defined in the loan agreements. As of June 30, 2012, we were in compliance with these loan covenants.

The following table and notes set forth information regarding debt outstanding as of June 30, 2012:

Debt Description	Collateral Properties	Balance (dollars in thousands)	Maturity Date	Interest Rate
Line of Credit:				
Heritage Bank of Commerce	1600 Memorex Drive, Santa Clara, CA 1688 Richard Drive, Santa Clara, CA 1700 Richard Drive, Santa Clara, CA	-	Sept 2013	(1)
Mortgage Note Payable (related parties) (2) :	5300 & 5350 Hellyer Avenue, San Jose, CA	$6,831	Jun 2013	7.65%
Mortgage Notes Payable (2):				
Hartford Life Insurance Company Hartford Life and Accident Insurance Company Hartford Life and Annuity Insurance Company (collectively known as the "Hartford Loan I") (3)	5981 Optical Court, San Jose, CA 5500 Hellyer Avenue, San Jose, CA 5550 Hellyer Avenue, San Jose, CA 4050 Starboard Drive, Fremont, CA 45738 Northport Loop, Fremont, CA 233 South Hillview Drive, Milpitas, CA 10300 Bubb Road, Cupertino, CA 1230 E. Arques, Sunnyvale, CA 1250-1280 E. Arques, Sunnyvale, CA 1212 Bordeaux Lane, Sunnyvale, CA 2904 Orchard Parkway, San Jose, CA 3236 Scott Blvd, Santa Clara, CA 6311 San Ignacio Avenue, San Jose, CA 6321-6325 San Ignacio Avenue, San Jose, CA 6331 San Ignacio Avenue, San Jose, CA 6341-6351 San Ignacio Avenue, San Jose, CA 3540-3580 Bassett Street, Santa Clara, CA	103,039	Oct 2018	6.21%

Hartford Life Insurance Company Hartford Life and Accident Insurance Company (collectively known as the "Hartford Loan II") (4)	5830-5870 Hellyer Avenue, San Jose, CA 5750 Hellyer Avenue, San Jose, CA 255 Caspian Drive, Sunnyvale, CA 5970 Optical Court, San Jose, CA 3301 Olcott Street, Santa Clara, CA	38,099	Sept 2030	6.05%
Northwestern Mutual Life Insurance Company (5)	1750 Automation Parkway, San Jose, CA 1756 Automation Parkway, San Jose, CA 1762 Automation Parkway, San Jose, CA 6320 San Ignacio Avenue, San Jose, CA 6540-6541 Via Del Oro, San Jose, CA 6385-6387 San Ignacio Avenue, San Jose, CA 20605-20705 Valley Green Drive, Cupertino, CA 2001 Walsh Avenue, Santa Clara, CA 2220 Central Expressway, Santa Clara, CA 2300 Central Expressway, Santa Clara, CA 2330 Central Expressway, Santa Clara, CA	66,781	Feb 2013	5.64%
Allianz Life Insurance Company (Allianz Loan I) (6)	5900 Optical Court, San Jose, CA	19,766	Aug 2025	5.56%
Allianz Life Insurance Company (Allianz Loan II) (6)	5325-5345 Hellyer Avenue, San Jose, CA 1768 Automation Parkway, San Jose, CA 2880 Scott Boulevard, Santa Clara, CA 2890 Scott Boulevard, Santa Clara, CA 2800 Scott Boulevard, Santa Clara, CA 10450-10460 Bubb Road, Cupertino, CA 6800-6810 Santa Teresa Blvd., San Jose, CA	95,865	Aug 2025	5.22%

	6850 Santa Teresa Blvd., San Jose, CA 4750 Patrick Henry Drive, Santa Clara, CA	
		323,550
TOTAL		$330,381

(1) The interest rate on the revolving line of credit is the greater of LIBOR plus 1.75% or 4.00% per annum. The interest rate for the HBC line of credit at June 30, 2012, was 4.00%. Costs and fees incurred with obtaining this loan aggregated approximately $64, which were deferred and amortized over the loan period. The HBC line of credit contains certain financial loan and reporting covenants as defined in the loan agreement, including minimum tangible net worth and debt service coverage ratio. As of June 30, 2012, we were in compliance with these loan covenants.

(2) Mortgage notes payable and mortgage note payable (related parties) generally require monthly installments of principal and interest ranging from approximately $96 to $840 over various terms extending through the year 2030. The weighted average interest rate of the mortgage notes payable and mortgage note payable (related parties) was 5.78% at June 30, 2012.

(3) The Hartford loan I is payable in monthly installments of approximately $838, which includes principal (based upon a 20-year amortization) and interest. Costs and fees incurred with obtaining this loan aggregated approximately $1,058, which were deferred and amortized over the loan period. The Hartford loan I contains certain customary covenants as defined in the loan agreement. As of June 30, 2012, we were in compliance with these loan covenants.

(4) The Hartford loan II is payable in monthly installments of approximately $288, which includes principal (based upon a 20-year amortization) and interest. Costs and fees incurred with obtaining this loan aggregated approximately $457, which were deferred and amortized over the loan period. The Hartford loan II contains certain customary covenants as defined in the loan agreement. As of June 30, 2012, we were in compliance with these loan covenants.

(5) The Northwestern loan is payable in monthly installments of approximately $696, which includes principal (based upon a 20-year amortization) and interest. Costs and fees incurred with obtaining this loan aggregated approximately $675, which were deferred and amortized over the loan period. The Northwestern loan contains certain customary covenants as defined in the loan agreement. As of June 30, 2012, we were in compliance with these loan covenants.

(6) The Allianz loans are payable in monthly aggregate installments of approximately $1,017, which includes principal (based upon a 20-year amortization) and interest. Costs and fees incurred with obtaining these loans aggregated approximately $1,089, which were deferred and amortized over the loan periods. The Allianz loans contain certain customary covenants as defined in the loan agreements. As of June 30, 2012, we were in compliance with these loan covenants.

At June 30, 2012, 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 $8.62 per share on June 29, 2012) on a fully diluted basis, including the conversion of all O.P. units into common stock, was approximately 26.6%. On June 29, 2012, the last trading day in the quarter, total market capitalization, including total debt outstanding, was approximately $1.24 billion.

At June 30, 2012, the outstanding balance remaining under certain notes that we owed to the operating partnerships was approximately $2.7 million. The due date of these notes has been extended to September 30, 2013. The principal amount of these notes, along with the interest expense, which is interest income to the operating partnerships, is eliminated in consolidation and is not included in the corresponding line items within the condensed consolidated financial statements. However, the interest income earned by the operating partnerships, which is interest expense to us, in connection with this debt, is included in the calculation of noncontrolling interests as reported on the condensed consolidated statement of operations, thereby reducing our net income by this same amount. At present, our only means for repayment of this debt is through distributions that we receive from the operating partnerships that are in excess of the amount of dividends to be paid to our stockholders or by raising additional equity capital.

Historical Cash Flows

Comparison of the six months ended June 30, 2012 with the six months ended June 30, 2011

Net cash provided by operating activities for the six months ended June 30, 2012, was approximately $26.3 million compared with $39.0 million for the same period in 2011. Cash flow decreased primarily because in 2011 we received approximately $10.9 million from M&M Real Estate Control & Restructuring, LLC, a variable interest entity, as the final release of restricted cash from our August 2007 lease assignment and assumption transaction with this variable interest entity. In 2012, cash flow attributable to base rent declined compared to 2011.

Net cash provided by investing activities was approximately $25.8 million and $5.3 million for the six months ended June 30, 2012 and 2011, respectively. Cash provided by investing activities during the six months ended June 30, 2012, related to the sales of real estate of approximately $54.7 million, offset with the acquisitions of three R&D buildings and 19 acres of raw land from the Berg group for approximately $28.2 million. We received cash of approximately $35.9 million and a note receivable in the amount of approximately $18.8 million for the properties we sold. As of June 30, 2012, approximately $1.7 million of the note receivable has been repaid. The three R&D buildings and 19 acres of raw land were acquired by offsetting the Berg Group's $16.7 million obligation to the Company towards the purchase price and issuing an unsecured short-term note payable for approximately $11.5 million. As of June 30, 2012, the note payable had been fully repaid. Cash provided by investing activities during the six months ended June 30, 2011, related to the transfer of approximately $6.8 million from restricted cash held in escrow into our operating checking account, offset with approximately ($1.5) million in real estate improvements.

Net cash used in financing activities was approximately $49.0 million for the six months ended June 30, 2012, compared with approximately $48.3 million for the six months ended June 30, 2011. During the first six months of 2012, we financed approximately $26.3 million in short-term debt from the Berg Group, paid approximately $3.3 million under our line of credit, paid approximately $34.3 million towards outstanding debt, paid approximately $29.8 million of distributions to noncontrolling interests and paid approximately $7.9 million of dividends to common stockholders. During the same period in 2011, we paid approximately $18.3 million towards outstanding debt, paid approximately $23.8 million of distributions to noncontrolling interests and paid approximately $6.2 million of dividends to common stockholders.

Funds From Operations ("FFO")

FFO is a non-GAAP financial measurement used by real estate investment trusts to measure and compare operating performance. As defined by the National Association of Real Estate Investment Trusts, FFO represents net income (loss), computed in accordance with GAAP, plus non-recurring events other than "extraordinary items" under GAAP, excluding gains and losses from sales of 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 joint ventures and unconsolidated partnerships. FFO does include impairment losses for properties held for sale and held for use. 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 with other REITs because FFO is generally recognized as the industry standard for reporting the operations of REITs. In addition to the disclosure of operating earnings per share, we will continue to use FFO as a measure of our performance. FFO should neither be considered as an alternative for net income as a measure of profitability nor is it comparable to cash flows provided by operating activities determined in accordance with GAAP, nor is FFO necessarily indicative of funds available to meet our cash needs, including the need to make cash distributions to satisfy REIT requirements. For example, FFO is not adjusted for payments of debt principal required under our debt service obligations.

Our definition of FFO also assumes conversion at the beginning of the period of all convertible securities, including noncontrolling interests represented by O.P. units that might be exchanged for common stock. 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.

FFO for the three and six months ended June 30, 2012 and 2011, as reconciled to net income, are summarized in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(dollars in thousands)		(dollars in thousands)	
Net income	$13,709	$7,370	$26,962	$17,305
Add:				
Depreciation and amortization (1)	6,505	6,444	13,030	12,855
Less:				
Noncontrolling interests in joint ventures	(72)	(106)	(181)	(210)
Gain on sale of real estate	(7,989)	-	(13,508)	-
FFO	$12,153	$13,708	$26,303	$29,950

(1) Includes depreciation and amortization of real estate from discontinued operations totaling approximately $335 for the three months ended June 30, 2011, and approximately $671 for the six months ended June 30, 2011. Includes our portion of depreciation and amortization of real estate and leasing commissions from our unconsolidated joint venture totaling approximately $60 for the three months ended June 30, 2012 and 2011 and $119 for the six months ended June 30, 2012 and 2011. Also includes our amortization of leasing commissions of approximately $453 and $541 for the three months ended June 30, 2012 and 2011, respectively, and $925 and $1,066 for the six months ended June 30, 2012 and 2011, respectively. Amortization of leasing commissions is included in the property operating and maintenance line item in the condensed consolidated statements of operations.

Dividend and Distribution Policy

Our board of directors determines the amount and timing of dividends and distributions to our stockholders and O.P. unit holders. The board of directors will consider many factors prior to making any dividends and distributions, including the following:

- the amount of cash available for dividends and distributions;
- our ability to refinance maturing debt obligations;
- 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 existing agreements with the Berg Group;
- the amount of our annual debt service requirements;
- prospects of tenant renewals and re-leases of properties subject to expiring leases;
- cash required for re-leasing activities;
- the annual dividend and distribution requirements under the REIT provisions of the federal income tax laws; and
- such other factors as the board of directors deems relevant.

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

Item 3. 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 future debt obligations. We are vulnerable to significant fluctuations of interest rates on our floating rate debt and pricing on our future 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 effect 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 June 30, 2012. The current terms of this debt are described in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources." 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 June 30, 2012, will be paid according to scheduled principal payments and that we will not prepay any of the outstanding principal balance.

	Six Months Remaining	Year Ending December 31,						
	2012	2013	2014	2015	2016	Thereafter	Total	Fair Value
				(dollars in thousands)				
Fixed Rate Debt:								
Secured and unsecured debt	$8,156	$82,485	$12,183	$12,893	$13,644	$ 201,020	$330,381	$347,678
Weighted average interest rate	5.78 %	5.78 %	5.78 %	5.78 %	5.78 %	5.78 %		

The primary market risks we face are interest rate fluctuations. As a result, we pay lower rates of interest in periods of decreasing interest rates and higher rates of interest in periods of increasing interest rates. We did not have any derivative instruments or variable debt as of June 30, 2012. All of our debt is denominated in United States dollars.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We strive to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b) we conducted an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, President and Vice President of Finance, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer, President and Vice President of Finance concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e)) were effective as of June 30, 2012.

Changes in Internal Control over Financial Reporting

There was no material change in our internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - Other Information

ITEM 1. Legal Proceedings

The discussion of legal proceedings is incorporated herein by reference from Part I "Item 1. – Notes to Condensed Consolidated Financial Statements – Note 7 – Commitments and Contingencies."

ITEM 1A. Risk Factors

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. In addition to the other information contained in this report, you should carefully review the factors discussed under Item 1A of our annual report on Form 10-K for the year ended December 31, 2011, which describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, and future prospects. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

ITEM 6. Exhibits

31.1	Section 1350 Certificate of CEO
31.2	Section 1350 Certificate of President & COO
31.3	Section 1350 Certificate of Principal Financial Officer
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	XBRL (eXtensive Business Reporting Language). The following financial materials from Mission West Properties, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2012, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements. *

* As provided in Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

Mission West Properties, Inc.
(Registrant)

Date: August 8, 2012

By:/s/ Carl E. Berg
Carl E. Berg
Chief Executive Officer

Date: August 8, 2012

By:/s/ Wayne N. Pham
Wayne N. Pham
Vice President of Finance
(Principal Accounting Officer and Duly Authorized Officer)