

MISSION WEST PROPERTIES INC

Form 8-K

February 03, 2011

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 2, 2010

MISSION WEST PROPERTIES, INC.  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction  
of incorporation)

1-8383  
(Commission File  
Number)

95-2635431  
(IRS Employer  
Identification No.)

10050 Bandlely Drive, Cupertino, CA 95014  
(Address of principal executive offices, zip code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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ITEM 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

(a) The following information is being furnished by the Company as required for Item 2.02(a) of this report and shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934:

On February 2, 2011, the Company issued a press release announcing its earnings results for the fourth quarter and full year ended December 31, 2010. The press release is attached to this Current Report as Exhibit 99.1 and is incorporated by reference in response to Item 2.02(a) of this report.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(d) Exhibits.

| Exhibit No. | Description  |
|-------------|--|
| 99.1        | Mission West Properties, Inc. Press Release dated February 2, 2011 |

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SIGNATURE

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 hereunto duly authorized.

MISSION WEST PROPERTIES, INC.

Date: February 3, 2011

By: /s/ Wayne N. Pham  
Wayne N. Pham  
Vice President of Finance

Exhibit 99.1

[Missing Graphic Reference]

Press Release

For Immediate News Release  
February 2, 2011

### Mission West Properties Announces Fourth Quarter and Full Year 2011 Operating Results

Cupertino, CA – Mission West Properties, Inc. (NASDAQ: MSW) reported today that Funds From Operations (“FFO”) for the quarter ended December 31, 2010 was approximately \$11,182,000, or \$0.11 per diluted common share, (considering the potential effect of all O.P. units being exchanged for shares of the Company’s common stock) as compared to approximately \$16,604,000, or \$0.16 per diluted common share, for the same period in 2009. For the quarter ended December 31, 2009, a forfeited deposit of \$2,000,000 under a contract for the sale of a McCandless property accounted for approximately \$0.02 per diluted common share and unrealized gain from investment in marketable securities accounted for approximately \$871,000, or less than \$0.01 per diluted common share. On a sequential quarter basis, FFO for the quarter ended September 30, 2010 was approximately \$0.11 per diluted common share. For the year ended December 31, 2010, FFO decreased to approximately \$56,018,000, or \$0.53 per diluted common share, from FFO of \$60,467,000, or \$0.57 per diluted common share, for the year ended December 31, 2009. For the year ended December 31, 2010, realized gain from investment in marketable securities and litigation proceeds accounted for approximately \$0.05 per diluted common share. For the year ended December 31, 2009, unrealized gain from investment in marketable securities and a forfeited deposit accounted for approximately \$0.07 per diluted common share.

Net income for the quarter ended December 31, 2010 was approximately \$10,839,000 as compared to approximately \$10,384,000 for the quarter ended December 31, 2009. Net income per diluted share available to common stockholders was approximately \$0.10 for the quarter ended December 31, 2010 compared to \$0.11 for the quarter ended December 31, 2009, a per share decrease of approximately 9%. For the quarter ended December 31, 2010, gain from the sale of an R&D property accounted for approximately \$0.05 per diluted common share. For the quarter ended December 31, 2009, a forfeited deposit under a contract for the sale of a McCandless property accounted for approximately \$0.02 per diluted common share. Net income for the year ended December 31, 2010 was approximately \$36,495,000 as compared to approximately \$34,449,000 for the year ended December 31, 2009. For each of the year ended December 31, 2010 and 2009, net income per diluted share available to common stockholders was approximately \$0.38. For the year ended December 31, 2010, realized gain from investment in marketable securities and litigation proceeds accounted for approximately \$0.05 per diluted common share. For the year ended December 31, 2009, unrealized gain from investment in marketable securities and a forfeited deposit accounted for approximately \$0.07 per diluted common share.

#### Disposition Activity

On October 28, 2010, the Company disposed of one R&D property located at 1325-1375 McCandless Drive in Milpitas, California consisting of approximately 78,000 rentable square feet. A total net gain of approximately \$6,199,000 was recognized and classified as discontinued operations on the total sales price of \$14,123,000. The buyer issued a promissory note to the Company in the amount of \$7,123,000 with an interest rate of 3.00% per annum. The principal amount of the note, together with accrued interest, will be due and payable on October 30, 2011.

## Company Profile

Mission West Properties, Inc. operates as a self-managed, self-administered and fully integrated REIT engaged in the management, leasing, marketing, development and acquisition of commercial R&D properties, primarily located in the Silicon Valley portion of the San Francisco Bay Area. Currently, the Company manages 111 properties totaling approximately 8.0 million rentable square feet. For additional information, please contact Investor Relations at 408-725-0700.

The matters described herein contain forward-looking statements. Such statements can be identified by the use of forward-looking terminology such as “will,” “anticipate,” “estimate,” “expect,” “intends,” or similar words. Forward-looking statements involve a number of risks, uncertainties or other factors beyond the Company’s control, which may cause material differences in actual results, performance or other expectations. These factors include, but are not limited to, the ability to complete acquisitions under the Berg Land Holdings Option Agreement with the Berg Group and other factors detailed in the Company’s registration statements, and periodic filings with the Securities & Exchange Commission.

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MISSION WEST PROPERTIES, INC.  
SELECTED FINANCIAL DATA

(In thousands, except share, per share and property data amounts)

|  | Three Months<br>Ended<br>Dec 31, 2010 | Three Months<br>Ended<br>Dec 31, 2009 | Twelve<br>Months<br>Ended<br>Dec 31, 2010 | Twelve<br>Months<br>Ended<br>Dec 31, 2009 |
|--|---------------------------------------|---------------------------------------|---|---|
| <b>OPERATING REVENUES:</b>                         |                                       |                                       |   |   |
| Rental income                                      | \$ 19,657                             | \$ 20,988                             | \$ 81,715                                 | \$ 82,466                                 |
| Tenant reimbursements                              | 3,527                                 | 5,036                                 | 15,094                                    | 18,668                                    |
| Other income                                       | 480                                   | 2,850                                 | 2,619                                     | 3,756                                     |
| Total operating revenues                           | 23,664                                | 28,874                                | 99,428                                    | 104,890                                   |
| <b>OPERATING EXPENSES:</b>                         |                                       |                                       |   |   |
| Operating and maintenance                          | 4,066                                 | 4,321                                 | 13,620                                    | 14,193                                    |
| Real estate taxes                                  | 3,077                                 | 3,447                                 | 12,780                                    | 13,339                                    |
| General and administrative                         | 558                                   | 593                                   | 2,219                                     | 2,336                                     |
| Depreciation and amortization                      | 5,869                                 | (1) 5,829                             | (1) 23,466                                | (1) 23,786                                |
| Total operating expenses                           | 13,570                                | 14,190                                | 52,085                                    | 53,654                                    |
| Operating income                                   | 10,094                                | 14,684                                | 47,343                                    | 51,236                                    |
| <b>OTHER INCOME (EXPENSES):</b>                    |                                       |                                       |   |   |
| Equity in earnings of unconsolidated joint venture | 33                                    | 72                                    | 303                                       | 309                                       |
| Interest and dividend income                       | 51                                    | 151                                   | 102                                       | 1,309                                     |
| Realized gain from investment                      | -                                     | -                                     | 8,800                                     | -   |
| Unrealized gain (loss) from investment             | -                                     | 871                                   | (4,733 )                                  | 5,011                                     |
| Interest expense                                   | (5,304 )                              | (5,046 )                              | (20,069 )                                 | (22,117 )                                 |
| Interest expense – related parties                 | (149 )                                | (211 )                                | (988 )                                    | (765 )                                    |
| Net income from continuing operations              | 4,725                                 | 10,521                                | 30,758                                    | 34,983                                    |

Discontinued  
operations:

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Gain from disposal of discontinued operations  | 6,199  | -      | 6,199  | -      |
| Loss attributable to discontinued operations   | (85 )  | (137 ) | (462 ) | (534 ) |
| Net income (loss) from discontinued operations | 6,114  | (137 ) | 5,737  | (534 ) |
| Net income                                     | 10,839 | 10,384 | 36,495 | 34,449 |

|   |          |          |           |           |
|---|----------|----------|-----------|-----------|
| Net income attributable to noncontrolling interests | (8,654 ) | (7,975 ) | (28,022 ) | (26,058 ) |
| Net income available to common stockholders         | \$ 2,185 | \$ 2,409 | \$ 8,473  | \$ 8,391  |

Income per share from  
continuing operations:

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | \$ 0.05 | \$ 0.11 | \$ 0.34 | \$ 0.39 |
| Diluted | \$ 0.05 | \$ 0.11 | \$ 0.34 | \$ 0.39 |

Income per share from  
discontinued operations:

|         |         |   |         |   |
|---------|---------|---|---------|---|
| Basic   | \$ 0.05 | - | \$ 0.04 | - |
| Diluted | \$ 0.05 | - | \$ 0.04 | - |

Net income per share to  
common stockholders:

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | \$ 0.10 | \$ 0.11 | \$ 0.39 | \$ 0.39 |
| Diluted | \$ 0.10 | \$ 0.11 | \$ 0.38 | \$ 0.38 |

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Weighted average shares of common stock (basic) | 22,076,694 | 21,793,037 | 21,973,599 | 21,736,699 |
|---|------------|------------|------------|------------|

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Weighted average shares of common stock (diluted) | 22,198,946 | 21,979,442 | 22,121,724 | 21,923,104 |
|---|------------|------------|------------|------------|

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Weighted average O.P. units outstanding | 83,209,341 | 83,482,139 | 83,310,364 | 83,538,477 |
|---|------------|------------|------------|------------|

## FUNDS FROM OPERATIONS

|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| Funds from operations  | \$ 11,182   | \$ 16,604   | \$ 56,018   | \$ 60,467   |
| Funds from operations per share (2)                                | \$ 0.11     | \$ 0.16     | \$ 0.53     | \$ 0.57     |
| Outstanding common stock   | 22,135,770  | 21,870,211  | 22,135,770  | 21,870,211  |
| Outstanding O.P. units   | 83,150,265  | 83,404,965  | 83,150,265  | 83,404,965  |
| Weighted average O.P. units and common stock outstanding (diluted) | 105,408,287 | 105,461,581 | 105,432,088 | 105,461,581 |

| FUNDS FROM OPERATIONS CALCULATION                             | Three Months Ended Dec 31, 2010 | Three Months Ended Dec 31, 2009 | Twelve Months Ended Dec 31, 2010 | Twelve Months Ended Dec 31, 2009 |
|---|---------------------------------|---------------------------------|----------------------------------|----------------------------------|
| Net income  | \$ 10,839                       | \$ 10,384                       | \$ 36,495                        | \$ 34,449                        |
| Add:  |                                 |                                 |                                  |                                  |
| Depreciation and amortization                                 | 6,526                           | 6,391                           | 25,840                           | 26,187                           |
| Depreciation and amortization in unconsolidated joint venture | 60                              | 60                              | 238                              | 238                              |
| Less:   |                                 |                                 |                                  |                                  |
| Noncontrolling interests in joint ventures                    | (44 )                           | (231 )                          | (356 )                           | (407 )                           |
| Gain on sale of real estate                                   | (6,199 )                        | -                               | (6,199 )                         | -                                |
| Funds from operations   | \$ 11,182                       | \$ 16,604                       | \$ 56,018                        | \$ 60,467                        |

Funds From Operations (“FFO”) is a non-GAAP financial measurement used by real estate investment trusts (“REITs”) to measure and compare operating performance. As defined by NAREIT, FFO represents net income (loss) (computed in accordance with GAAP, accounting principles generally accepted in the United States of America), excluding gains (or losses) from debt restructuring and sales of property, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets) and after adjustments for unconsolidated partnerships and joint ventures. Management considers FFO

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to be an appropriate supplemental measure of the Company's 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 the Company's financial performance when compared to other REITs since FFO is generally recognized as the industry standard for reporting the operations of REITs. 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. FFO is not comparable to similarly entitled items reported by other REITs that do not define them exactly as we define FFO.

| PROPERTY AND OTHER DATA:                           | Three Months Ended Dec 31, 2010 | Three Months Ended Dec 31, 2009 | Twelve Months Ended Dec 31, 2010 | Twelve Months Ended Dec 31, 2009 |
|--|---------------------------------|---------------------------------|----------------------------------|----------------------------------|
| Total properties, end of period                    | 111                             | 111                             | 111                              | 111                              |
| Total square feet, end of period                   | 8,011,026                       | 8,047,569                       | 8,011,026                        | 8,047,569                        |
| Average monthly rental revenue per square foot (3) | \$ 1.25                         | \$ 1.33                         | \$ 1.30                          | \$ 1.30                          |
| Occupancy for leased properties                    | 69.9 %                          | 65.5 %                          | 69.9 %                           | 65.5 %                           |
| Straight-line rent                                 | \$ (481 )                       | \$ 195                          | \$ (770 )                        | \$ 870                           |
| Leasing commissions                                | \$ 812                          | \$ 328                          | \$ 1,753                         | \$ 1,621                         |
| Non-recurring capital expenditures                 | \$ 1,142                        | \$ 22                           | \$ 2,841                         | \$ 178                           |

LEASE ROLLOVER SCHEDULE:

| Year       | # of Leases | Rentable Square Feet | 2010 Base Rent (5) |
|------------|-------------|----------------------|--------------------|
| 2010       | -           | -                    | \$3,104,873        |
| 2011 (4)   | 13          | 691,304              | 10,301,766         |
| 2012       | 13          | 791,223              | 12,870,081         |
| 2013       | 7           | 401,645              | 5,626,016          |
| 2014       | 20          | 1,625,113            | 24,498,533         |
| 2015       | 8           | 587,437              | 9,309,659          |
| 2016       | 4           | 196,279              | 3,434,208          |
| 2017       | 9           | 543,035              | 6,771,073          |
| 2018       | 3           | 265,612              | 539,323            |
| 2019       | 1           | 165,000              | 2,862,504          |
| Thereafter | 3           | 208,768              | 3,203,912          |
| Total      | 81          | 5,475,416            | \$82,521,948       |





## BALANCE SHEETS

|  | December 31,<br>2010 | December 31,<br>2009 |
|--|----------------------|----------------------|
| Assets   |                      |                      |
| Investments in real estate:                    |                      |                      |
| Land   | \$ 322,076           | \$ 320,911           |
| Buildings and improvements                     | 790,424              | 799,649              |
| Real estate related intangible assets          | 3,240                | 3,240                |
| Total investments in properties                | 1,115,740            | 1,123,800            |
| Accumulated depreciation and amortization      | (224,027 )           | (204,153 )           |
| Assets held for sale, net                      | 3,267                | -                    |
| Net investments in properties                  | 894,980              | 919,647              |
| Investment in unconsolidated joint venture     | 3,830                | 3,828                |
| Net investments in real estate                 | 898,810              | 923,475              |
| Cash and cash equivalents                      | 3,988                | 986                  |
| Restricted cash                                | 6,892                | 197                  |
| Restricted investment in marketable securities | -                    | 12,069               |
| Deferred rent receivables                      | 17,941               | 18,711               |
| Other assets, net                              | 40,653               | 30,951               |
| Total assets                                   | \$ 968,284           | \$ 986,389           |
| Liabilities and Equity                         |                      |                      |
| Liabilities:                                   |                      |                      |
| Mortgage notes payable                         | \$ 345,770           | \$ 318,818           |
| Mortgage note payable – related parties        | 7,721                | 8,261                |
| Note payable – related parties                 | -                    | 9,325                |
| Revolving line of credit                       | -                    | 14,466               |
| Interest payable                               | 1,659                | 1,573                |
| Security deposits                              | 4,605                | 4,849                |
| Deferred rental income                         | 6,526                | 6,539                |
| Dividends and distributions payable            | 15,793               | 15,791               |
|  | 16,239               | 9,638                |

Accounts payable and  
accrued expenses

|                   |         |         |
|-------------------|---------|---------|
| Total liabilities | 398,313 | 389,260 |
|-------------------|---------|---------|

Commitments and  
contingencies.

Equity:

Stockholders' equity:

|   |            |            |
|---|------------|------------|
| Common stock, \$.001<br>par value                     | 22         | 22         |
| Additional paid-in capital                            | 172,568    | 170,606    |
| Distributions in excess of<br>accumulated earnings    | (30,520 )  | (25,784 )  |
| Total stockholders'<br>equity                         | 142,070    | 144,844    |
| Noncontrolling interests in<br>operating partnerships | 427,901    | 452,285    |
| Total equity  | 569,971    | 597,129    |
| Total liabilities and<br>equity                       | \$ 968,284 | \$ 986,389 |

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- (1) Includes approximately \$124 and \$159 in amortization expense for the three months ended December 31, 2010 and 2009, respectively, and \$708 and \$637 in amortization expense for the twelve months ended December 31, 2010 and 2009, respectively, for the amortization of in-place lease value intangible asset pursuant to the Business Combinations Topic of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC").
- (2) Calculated on a fully diluted basis. Assumes conversion of O.P. units outstanding into the Company's common stock.
- (3) Average monthly rental revenue per square foot has been determined by taking the cash base rent for the period divided by the number of months in the period, and then divided by the average occupied square feet in the period.
- (4) Excludes six month-to-month leases for approximately 63,000 rentable square feet and \$270 cash rent.
- (5) Base rent reflects cash rent.
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