

MISSION WEST PROPERTIES INC

Form 8-K

October 11, 2012

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): October 10, 2012

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

Maryland  
(State or other jurisdiction  
of incorporation)

001-34000  
(Commission File  
Number)

95-2635431  
(IRS Employer  
Identification No.)

10050 Bandle 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 October 10, 2012, the Company issued a press release announcing its earnings results for the third quarter ended September 30, 2012. 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 October 10, 2012 |

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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: October 11, 2012

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

Exhibit 99.1

Press Release

For Immediate News Release  
October 10, 2012

Mission West Properties Announces Third Quarter 2012 Operating Results

Cupertino, CA – Mission West Properties, Inc. (NASDAQ: MSW) reported today that Funds From Operations (“FFO”) for the quarter ended September 30, 2012, was approximately \$14,604,000, or \$0.14 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 \$14,120,000, or \$0.13 per diluted common share, for the same period in 2011. On a sequential quarter basis, FFO for the quarter ended June 30, 2012, was approximately \$0.11 per diluted common share. For the nine months ended September 30, 2012, FFO decreased to \$40,907,000, or \$0.39 per diluted common share, from FFO of \$44,069,000, or \$0.42 per diluted common share, for the nine months ended September 30, 2011.

Net income for the quarter ended September 30, 2012, was approximately \$13,506,000 as compared to approximately \$7,436,000 for the quarter ended September 30, 2011. Net income per diluted share available to common stockholders was approximately \$0.13 for the quarter ended September 30, 2012, compared to \$0.08 for the quarter ended September 30, 2011, a per share increase of approximately 62%. The increase was primarily due to gains from sale of real estate, which accounted for approximately \$0.04 per diluted share. Net income for the nine months ended September 30, 2012, was approximately \$40,468,000 as compared to approximately \$24,741,000 for the nine months ended September 30, 2011. For the nine months ended September 30, 2012, net income per diluted share available to common stockholders was \$0.37, up from \$0.27 a year ago, a per share increase of approximately 37%.

Disposition Activity

On July 10, 2012, the Company disposed of three vacant R&D properties located at 300 Montague Expressway, 324-368 Montague Expressway and 337 Trade Zone Boulevard in Milpitas, California, consisting of approximately 149,000 rentable square feet. A total net gain of approximately \$3,389,000 was recognized and classified as discontinued operations on the total cash sales price of \$18,500,000.

On August 9, 2012, the Company disposed of the remaining 64% of the vacant R&D property at 1815-1845 McCandless Drive in Milpitas, California, consisting of approximately 76,000 rentable square feet. A total net gain of approximately \$1,387,000 was recognized and classified as discontinued operations on the total cash sales price of \$8,987,000. The other 36% of the property was sold during the first quarter of 2012.

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 101 properties totaling approximately 7.6 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,” “intend,” 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 from the Berg Group and other factors detailed in the Company's registration statements, and periodic filings with the Securities & Exchange Commission.

MISSION WEST PROPERTIES, INC.  
SELECTED FINANCIAL DATA

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

## STATEMENTS OF OPERATIONS

|  | Three<br>Months<br>Ended<br>Sept 30,<br>2012 | Three<br>Months<br>Ended<br>Sept 30,<br>2011 | Nine<br>Months<br>Ended<br>Sept 30,<br>2012 | Nine<br>Months<br>Ended<br>Sept 30,<br>2011 |     |
|--|--|--|---|---|-----|
| <b>OPERATING REVENUES:</b>   |  |  |   |   |     |
| Rental income  | \$20,471                                     | \$20,890                                     | \$60,558                                    | \$62,967                                    | (7) |
| Tenant reimbursements  | 4,047  | 4,268  | 10,962                                      | 12,996                                      |     |
| Other income   | 667  | 505  | 1,340                                       | 1,915                                       |     |
| Total operating revenues   | 25,185                                       | 25,663                                       | 72,860                                      | 77,878                                      |     |
| <b>OPERATING EXPENSES:</b>   |  |  |   |   |     |
| Operating and maintenance  | 2,654  | 3,081  | 7,907                                       | 8,053                                       |     |
| Real estate taxes  | 2,696  | 2,748  | 8,136                                       | 8,723                                       |     |
| General and administrative   | 880  | 504  | 2,442                                       | 1,547                                       |     |
| Depreciation and amortization  | 5,858  | (1) 5,857                                    | (1) 17,844                                  | 16,739                                      |     |
| Total operating expenses   | 12,088                                       | 12,190                                       | 36,329                                      | 35,062                                      |     |
| Operating income   | 13,097                                       | 13,473                                       | 36,531                                      | 42,816                                      |     |
| <b>OTHER INCOME (EXPENSES):</b>  |  |  |   |   |     |
| Equity in earnings of unconsolidated joint venture                         | 41   | 13   | 215   | 31  |     |
| Interest income  | 55   | 54   | 207   | 180   |     |
| Interest expense   | (4,698)                                      | (5,255)                                      | (14,453)                                    | (15,780)                                    |     |
| Interest expense – related parties   | (130)  | (188)  | (422)                                       | (479)                                       |     |
| Income from continuing operations  | 8,365  | 8,097  | 22,078                                      | 26,768                                      |     |
| <b>Discontinued operations:</b>  |  |  |   |   |     |
| Net gain from disposal of properties classified as discontinued operations | 5,191  | -  | 18,699                                      | -   |     |
| Net loss from properties classified as discontinued operations             | (50)   | (661)  | (309)                                       | (2,027)                                     |     |
| Income (loss) from discontinued operations                                 | 5,141  | (661)  | 18,390                                      | (2,027)                                     |     |
| Net income   | 13,506                                       | 7,436  | 40,468                                      | 24,741                                      |     |
| Net income attributable to noncontrolling interests                        | (10,587)                                     | (5,561)                                      | (31,925)                                    | (18,588)                                    |     |
| Net income available to common stockholders                                | \$2,919                                      | \$1,875                                      | \$8,543                                     | \$6,153                                     |     |
| <b>Income per share from continuing operations:</b>                        |  |  |   |   |     |
| Basic  | \$0.09                                       | \$0.09                                       | \$0.24                                      | \$0.29                                      |     |
| Diluted  | \$0.09                                       | \$0.09                                       | \$0.24                                      | \$0.29                                      |     |
| <b>Income (loss) per share from discontinued operations:</b>               |  |  |   |   |     |

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|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Basic   | \$0.04     | -          | \$0.13     | \$(0.01 )  |
| Diluted   | \$0.04     | -          | \$0.13     | \$(0.01 )  |
| Net income per share to common stockholders:      |            |            |            |            |
| Basic   | \$0.13     | \$0.08     | \$0.38     | \$0.27     |
| Diluted   | \$0.13     | \$0.08     | \$0.37     | \$0.27     |
| Weighted average shares of common stock (basic)   | 22,668,020 | 22,584,770 | 22,657,940 | 22,457,246 |
| Weighted average shares of common stock (diluted) | 23,075,572 | 22,878,981 | 23,099,310 | 22,685,314 |
| Weighted average O.P. units outstanding           | 82,618,015 | 82,701,265 | 82,628,095 | 82,828,789 |

|   | Three Months<br>Ended<br>Sept 30, 2012 | Three Months<br>Ended<br>Sept 30, 2011 | Nine Months<br>Ended<br>Sept 30, 2012 | Nine Months<br>Ended<br>Sept 30, 2011 |
|---|--|--|---------------------------------------|---------------------------------------|
| <b>FUNDS FROM OPERATIONS</b>  |  |  |                                       |                                       |
| Funds from operations   | \$ 14,604                              | \$ 14,120                              | \$ 40,907                             | \$ 44,069                             |
| Funds from operations per share (2)                                   | \$ 0.14                                | \$ 0.13                                | \$ 0.39                               | \$ 0.42                               |
| Outstanding common stock  | 22,668,020                             | 22,584,770                             | 22,668,020                            | 22,584,770                            |
| Outstanding O.P. units  | 82,618,015                             | 82,701,265                             | 82,618,015                            | 82,701,265                            |
| Weighted average O.P. units and common stock<br>outstanding (diluted) | 105,693,587                            | 105,580,246                            | 105,727,405                           | 105,514,103                           |

|  | Three Months<br>Ended<br>Sept 30, 2012 | Three Months<br>Ended<br>Sept 30, 2011 | Nine Months<br>Ended<br>Sept 30, 2012 | Nine Months<br>Ended<br>Sept 30, 2011 |
|--|--|--|---------------------------------------|---------------------------------------|
| <b>FUNDS FROM OPERATIONS<br/>CALCULATION</b>                     |  |  |                                       |                                       |
| Net income   | \$ 13,506                              | \$ 7,436                               | \$ 40,468                             | \$ 24,741                             |
| Add:   |  |  |                                       |                                       |
| Depreciation and amortization                                    | 6,315                                  | 6,724                                  | 19,226                                | 19,460                                |
| Depreciation and amortization in<br>unconsolidated joint venture | 60                                     | 60                                     | 179                                   | 179                                   |
| Less:  |  |  |                                       |                                       |
| Noncontrolling interests in joint ventures                       | (86 )                                  | (100 )                                 | (267 )                                | (311 )                                |
| Gain on sale of real estate                                      | (5,191 )                               | -                                      | (18,699 )                             | -                                     |
| Funds from operations  | \$ 14,604                              | \$ 14,120                              | \$ 40,907                             | \$ 44,069                             |

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 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.

|   | Three Months<br>Ended<br>Sept 30, 2012 | Three Months<br>Ended<br>Sept 30, 2011 | Nine Months<br>Ended<br>Sept 30, 2012 | Nine Months<br>Ended<br>Sept 30, 2011 |
|---|--|--|---------------------------------------|---------------------------------------|
| <b>PROPERTY AND OTHER DATA:</b>                       |  |  |                                       |                                       |
| Total properties, end of period                       | 101                                    | 112                                    | 101                                   | 112                                   |
| Total square feet, end of period                      | 7,615,915                              | 8,078,526                              | 7,615,915                             | 8,078,526                             |
| Average monthly rental revenue per square foot<br>(3) | \$ 1.26                                | \$ 1.33                                | \$ 1.26                               | \$ 1.33                               |

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|                                     |       |   |       |   |       |   |         |   |
|-------------------------------------|-------|---|-------|---|-------|---|---------|---|
| Occupancy for leased properties (6) | 70.6  | % | 66.7  | % | 70.6  | % | 66.7    | % |
| Straight-line rent                  | \$329 |   | \$(39 | ) | \$103 |   | \$(414  | ) |
| Leasing commissions                 | \$351 |   | \$85  |   | \$377 |   | \$407   |   |
| Non-recurring capital expenditures  | \$718 |   | \$233 |   | \$717 |   | \$1,772 |   |

LEASE ROLLOVER SCHEDULE:

| Year       | # of Leases | Rentable Square Feet | 2012 Base Rent (5) |
|------------|-------------|----------------------|--------------------|
| 2012 (4)   | 1           | 40,527               | \$1,003            |
| 2013       | 9           | 376,683              | 5,436              |
| 2014       | 21          | 1,800,895            | 29,172             |
| 2015       | 8           | 442,347              | 5,243              |
| 2016       | 8           | 396,206              | 4,553              |
| 2017       | 12          | 727,552              | 9,817              |
| 2018       | 9           | 542,244              | 6,142              |
| 2019       | 2           | 232,480              | 3,731              |
| 2020       | 3           | 208,768              | 4,471              |
| Thereafter | 3           | 476,000              | 11,023             |
| Total      | 76          | 5,243,702            | \$80,591           |



## BALANCE SHEETS

|  | September 30,<br>2012 | December 31,<br>2011 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Investments in real estate:                        |                       |                      |
| Land   | \$ 321,235            | \$ 306,474           |
| Buildings and improvements                         | 748,740               | 745,962              |
| Real estate related intangible assets              | 3,561                 | 3,561                |
| Total investments in properties                    | 1,073,536             | 1,055,997            |
| Accumulated depreciation and amortization          | (243,747 )            | (229,211 )           |
| Assets held for sale, net                          | 8,064                 | 54,361               |
| Net investments in properties                      | 837,853               | 881,147              |
| Investment in unconsolidated joint venture         | 3,487                 | 3,557                |
| Net investments in real estate                     | 841,340               | 884,704              |
| Cash and cash equivalents                          | 26,905                | -                    |
| Deferred rent                                      | 16,753                | 16,650               |
| Other assets, net                                  | 30,138                | 35,133               |
| Total assets                                       | \$ 915,136            | \$ 936,487           |
| Liabilities and Equity                             |                       |                      |
| Liabilities:                                       |                       |                      |
| Mortgage notes payable                             | \$ 319,665            | \$ 331,166           |
| Mortgage note payable – related parties            | 6,672                 | 7,139                |
| Revolving line of credit                           | -                     | 3,305                |
| Interest payable                                   | 1,524                 | 1,606                |
| Security deposits                                  | 3,865                 | 4,317                |
| Prepaid rent and deferred revenue                  | 10,285                | 5,836                |
| Dividends and distributions payable                | 13,687                | 13,687               |
| Accounts payable and accrued expenses              | 17,681                | 16,344               |
| Total liabilities                                  | 373,379               | 383,400              |
| Commitments and contingencies.                     |                       |                      |
| Equity:  |                       |                      |
| Stockholders' equity:                              |                       |                      |
| Common stock, \$.001 par value                     | 23                    | 23                   |
| Additional paid-in capital                         | 176,723               | 175,900              |
| Distributions in excess of accumulated earnings    | (35,299 )             | (32,962 )            |
| Total stockholders' equity                         | 141,447               | 142,961              |
| Noncontrolling interests in operating partnerships | 400,310               | 410,126              |
| Total equity                                       | 541,757               | 553,087              |
| Total liabilities and equity                       | \$ 915,136            | \$ 936,487           |

- (1) Includes approximately \$301 and \$395 in amortization expense for the three months ended September 30, 2012 and 2011, respectively, and \$1,114 and \$575 in amortization expense for the nine months ended September 30, 2012 and 2011, 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.
- (2) Calculated on a fully diluted basis. Assumes conversion of all 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. Properties classified as assets held for sale were excluded from the 2012 calculation.
- (4) Excludes four month-to-month leases for approximately 71,000 rentable square feet and approximately \$176 in cash rent.
  - (5) Base rent reflects cash rent.
- (6) The occupancy rate at September 30, 2012, excludes properties classified as assets held for sale.
  - (7) Includes a one-time rent adjustment of approximately \$1,638 from a tenant dispute resolution.