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MISSION WEST PROPERTIES INC

Form 8-K

October 15, 2009

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 14, 2009

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

| | | |
|---|-------------------------|-------------------------------------|
| Maryland | Commission File Number: | 95-2635431 |
| ----- | 1-8383 | ----- |
| (State or other jurisdiction of incorporation) | | (I.R.S. Employer Identification) |

10050 Bandley Drive, Cupertino, CA 95014
(Address of principal executive offices)

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

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 (see General Instruction A.2. below):

- 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 14, 2009, the Company issued a press release announcing its earnings
results for the third quarter ended September 30, 2009. The press release is

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attached to this Current Report as Exhibit 99.1 and is incorporated by reference in response to Item 2.02(a) of this report.

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 15, 2009

By: /s/ Wayne N. Pham

Wayne N. Pham
Vice President of Finance and Controller

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Exhibit 99.1

PRESS RELEASE

For Immediate News Release
October 14, 2009

MISSION WEST PROPERTIES ANNOUNCES THIRD QUARTER 2009 OPERATING RESULTS

Cupertino, CA - Mission West Properties, Inc. (NASDAQ: MSW) reported today that Funds From Operations ("FFO") for the quarter ended September 30, 2009 was approximately \$17,604,000, or \$0.17 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 \$14,199,000, or \$0.13 per diluted common share, for the same period in 2008. Unrealized gain from investment in marketable securities accounted for approximately \$4,464,000, or \$0.04 per diluted common share, for the quarter ended September 30, 2009. On a sequential quarter basis, FFO for the quarter ended June 30, 2009 was approximately \$0.13 per diluted common share. For the nine months ended September 30, 2009, FFO increased to \$43,863,000, or \$0.42 per diluted common share, from FFO of \$42,471,000, or \$0.40 per diluted common share, for the same period in 2008. Net termination fees accounted for approximately \$1,921,000, or \$0.02 per diluted common share, for the nine months ended September 30, 2008.

Net income for the quarter ended September 30, 2009 was approximately \$11,242,000 as compared to approximately \$7,939,000 for the quarter ended September 30, 2008. Net income per diluted share to common stockholders was approximately \$0.13 for the quarter ended September 30, 2009 compared to \$0.08 for the quarter ended September 30, 2008, a per share increase of approximately 63%. Net income for the nine months ended September 30, 2009 was approximately \$24,065,000 as compared to approximately \$23,897,000 for the nine months ended

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September 30, 2008. For the nine months ended September 30, 2009, net income per diluted share to common stockholders was approximately \$0.27, up from \$0.25 a year ago, a per share increase of approximately 8%.

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, which includes approximately 854,000 rentable square feet (or 16 buildings) that are in the process of being rezoned for residential development. 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 Ended Sept 30, 2009 | Three Months Ended Sept 30, 2008 | Nine M End Sept 30 |
|--|--|--|--------------------------|
| | ----- | ----- | ----- |
| OPERATING REVENUES: | | | |
| Rental revenue from real estate | \$20,442 | \$20,256 | \$61, |
| Tenant reimbursements | 4,566 | 4,607 | 13, |
| Lease termination and settlement income | - | - | |
| Other income | 284 | 292 | |
| | ----- | ----- | ----- |
| Total operating revenues | 25,292 | 25,155 | 76, |
| | ----- | ----- | ----- |
| OPERATING EXPENSES: | | | |
| Operating and maintenance | 3,539 | 2,951 | 10, |
| Real estate taxes | 3,248 | 2,888 | 9, |
| General and administrative | 589 | 605 | 1, |
| Depreciation and amortization of real estate | 5,921 (1) | 5,759 (1) | 18, |
| | ----- | ----- | ----- |
| Total operating expenses | 13,297 | 12,203 | 39, |
| | ----- | ----- | ----- |

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| | | | |
|--|-------------|-------------|--------|
| Operating income | 11,995 | 12,952 | 36, |
| OTHER INCOME (EXPENSES): | | | |
| Equity in earnings of unconsolidated joint venture | 72 | 126 | |
| Interest and dividend income | 93 | 193 | 1, |
| Unrealized gain from investment | 4,464 | - | 4, |
| Interest expense | (5,180) | (5,023) | (17, |
| Interest expense - related parties | (202) | (309) | (|
| Net income | 11,242 | 7,939 | 24, |
| Net income attributable to noncontrolling interests | (8,476) | (6,304) | (18, |
| Net income attributable to common stockholders | \$2,766 | \$1,635 | \$5, |
| Net income per share to common stockholders: | | | |
| Basic | \$0.13 | \$0.08 | \$0. |
| Diluted | \$0.13 | \$0.08 | \$0. |
| Weighted average shares of common stock (basic) | 21,770,211 | 19,745,141 | 21,717 |
| Weighted average shares of common stock (diluted) | 21,902,387 | 19,783,507 | 21,858 |
| Weighted average O.P. units outstanding | 83,504,965 | 85,527,739 | 83,557 |
| FUNDS FROM OPERATIONS | | | |
| Funds from operations | \$17,604 | \$14,199 | \$43 |
| Funds from operations per share ((2)) | \$0.17 | \$0.13 | \$0. |
| Outstanding common stock | 21,770,211 | 19,748,211 | 21,770 |
| Outstanding O.P. units | 83,504,965 | 85,526,965 | 83,504 |
| Weighted average O.P. units and common stock outstanding (diluted) | 105,407,352 | 105,311,246 | 105,41 |

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| | Three Months Ended Sept 30, 2009 | Three Months Ended Sept 30, 2008 | Nine M End Sept 30 |
|---|--|--|--------------------------|
| FUNDS FROM OPERATIONS CALCULATION | | | |
| Net income | \$11,242 | \$ 7,939 | \$24 |
| Add: | | | |
| Depreciation and amortization of real estate | 6,385 | 6,204 | 19 |
| Depreciation and amortization of real estate held in unconsolidated joint venture | 60 | 189 | |

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Less:

| | | | |
|--|----------|----------|------|
| Noncontrolling interests in joint ventures | (83) | (133) | |
| Funds from operations | \$17,604 | \$14,199 | \$43 |

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.

| PROPERTY AND OTHER DATA: | Three Months Ended Sept 30, 2009 | Three Months Ended Sept 30, 2008 | Nine Months Ended Sept 30, 2008 |
|--|----------------------------------|----------------------------------|---------------------------------|
| Total properties, end of period | 111 | 111 | 111 |
| Total square feet, end of period | 8,047,569 | 8,047,569 | 8,047,569 |
| Average monthly rental revenue per square foot (3) | \$1.30 | \$1.25 | \$1.25 |
| Occupancy for leased properties | 65.7% | 66.7% | 65.7% |
| Straight-line rent | \$115 | \$ 857 | \$ 6 |
| Leasing commissions | \$973 | \$ 606 | \$1,2 |
| Capital expenditures | \$156 | \$3,827 | \$ 1 |

LEASE ROLLOVER SCHEDULE:

| Year | # of Leases | Rentable Square Feet | 2009 Base Rent (5) |
|------|-------------|----------------------|--------------------|
| 2009 | 8 | 90,082 (4) | \$ 1,811,171 |
| 2010 | 8 | 342,099 | 5,838,534 |
| 2011 | 16 | 838,692 | 12,333,272 |
| 2012 | 14 | 1,010,825 | 13,538,262 |
| 2013 | 6 | 397,215 | 5,081,754 |
| 2014 | 17 | 1,492,430 | 24,794,530 |
| 2015 | 6 | 485,036 | 8,784,081 |
| 2016 | 3 | 165,976 | 3,105,544 |
| 2017 | 5 | 349,949 | 3,510,351 |

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| | | | |
|------------|-------|-----------|--------------|
| Thereafter | 1 | 119,756 | 2,608,286 |
| | ----- | ----- | ----- |
| Total | 84 | 5,292,060 | \$81,405,785 |
| | ===== | ===== | ===== |

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BALANCE SHEETS

| | September 30, 2009 | December 31, 2008 |
|--|--------------------|-------------------|
| | ----- | ----- |
| Assets | | |
| Investments in real estate: | | |
| Land | \$320,911 | \$ 320,911 |
| Buildings and improvements | 799,627 | 799,471 |
| Real estate related intangible assets | 3,240 | 3,240 |
| | ----- | ----- |
| Total investments in properties | 1,123,778 | 1,123,622 |
| Accumulated depreciation and amortization | (198,243) | (180,043) |
| | ----- | ----- |
| Net investments in properties | 925,535 | 943,579 |
| Investment in unconsolidated joint venture | 3,830 | 3,768 |
| | ----- | ----- |
| Net investments in real estate | 929,365 | 947,347 |
| Cash and cash equivalents | 576 | - |
| Restricted cash | 7,597 | 39,478 |
| Restricted investment in marketable securities | 11,124 | - |
| Investment in marketable securities | - | 3,368 |
| Deferred rent receivables | 18,516 | 17,841 |
| Other assets, net | 31,408 | 26,251 |
| | ----- | ----- |
| Total assets | \$998,586 | \$1,034,285 |
| | ===== | ===== |

Liabilities and Equity

| | | |
|---|-----------|------------|
| Liabilities: | | |
| Mortgage notes payable | \$321,907 | \$ 330,908 |
| Mortgage note payable - related parties | 8,389 | 8,761 |
| Note payable - related parties | 5,057 | - |
| Revolving line of credit | 3,573 | 13,079 |
| Interest payable | 1,530 | 1,596 |
| Security deposits | 5,026 | 5,272 |
| Deferred rental income | 5,525 | 3,964 |
| Dividends and distributions payable | 15,791 | 21,055 |
| Accounts payable and accrued expenses | 29,283 | 17,747 |
| | ----- | ----- |
| Total liabilities | 396,081 | 402,382 |
| | ----- | ----- |

Commitments and contingencies.

Equity: (6)
Stockholders' equity:

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| | | |
|---|-----------|-------------|
| Common stock, \$.001 par value | 22 | 20 |
| Additional paid-in capital | 169,790 | 154,412 |
| Distributions in excess of accumulated earnings | (24,912) | (20,014) |
| | ----- | ----- |
| Total stockholders' equity | 144,900 | 134,418 |
| Noncontrolling interests | 457,605 | 497,485 |
| | ----- | ----- |
| Total equity | 602,505 | 631,903 |
| | ----- | ----- |
| Total liabilities and equity | \$998,586 | \$1,034,285 |
| | ===== | ===== |

- (1) Includes approximately \$159 in amortization expense for the three months ended September 30, 2009 and 2008, and \$478 and \$441 in amortization expense for the nine months ended September 30, 2009 and 2008, 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) Seven leases for approximately 90,000 rentable square feet are month to month leases.
- (5) Base rent reflects cash rent.
- (6) Reflects adoption of the Consolidation Topic of the FASB ASC.