

MISSION WEST PROPERTIES INC
Form 10-Q
November 09, 2010

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

Form 10-Q

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

For the quarterly period ended September 30, 2010

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

For the transition period from _____ to _____

Commission File Number 1-8383

Mission West Properties, Inc.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or
organization)

95-2635431
(I.R.S. Employer Identification No.)

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

95014
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="radio"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="radio"/>	Smaller reporting company <input type="radio"/>
		(Do not check if a smaller reporting company)	

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of November 9, 2010, there were 22,028,470 shares of common stock outstanding, par value \$.001 per share.

Mission West Properties, Inc.

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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Exhibits

Exhibit 10.16	Hartford Fixed Rate Term Loan Agreement II
Exhibit 10.16.1	Hartford Life Insurance Company Promissory Note II
Exhibit 10.16.2	Hartford Life and Accident Insurance Company Promissory Note II
Exhibit 10.16.3	Hartford-Mission West Properties, L.P. Deed of Trust, Security Agreement and Fixture Filing II
Exhibit 10.16.4	Hartford-Mission West Properties, L.P. I Deed of Trust, Security Agreement and Fixture Filing II
Exhibit 10.16.5	Hartford Carveout Indemnity Agreement II
Exhibit 10.16.6	Hartford Environmental Indemnity Agreement II

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- Exhibit 31.1 Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- Exhibit 31.2 Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- Exhibit 31.3 Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- Exhibit 32 Certification of CEO and CFO Pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002

PART I – Financial Information

Item 1. Condensed Consolidated Financial Statements

MISSION WEST PROPERTIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share and par value amounts)

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Investments in real estate:		
Land	\$ 322,828	\$ 320,911
Buildings and improvements	792,956	799,649
Real estate related intangible assets	3,240	3,240
Total investments in properties	1,119,024	1,123,800
Accumulated depreciation and amortization	(219,295)	(204,153)
Assets held for sale, net of accumulated depreciation	7,629	-
Net investments in properties	907,358	919,647
Investment in unconsolidated joint venture	3,872	3,828
Net investments in real estate	911,230	923,475
Cash and cash equivalents	15,226	986
Restricted cash	89	197
Restricted investment in marketable securities	-	12,069
Deferred rent receivables	18,422	18,711
Other assets, net	33,396	30,951
Total assets	\$ 978,363	\$ 986,389
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	\$ 349,297	\$ 318,818
Mortgage note payable (related parties)	7,860	8,261
Note payable (related parties)	-	9,325
Revolving line of credit	-	14,466
Interest payable	1,664	1,573
Security deposits	4,882	4,849
Deferred rental income	5,706	6,539
Liabilities related to assets held for sale	33	-
Dividends and distributions payable	15,793	15,791
Accounts payable and accrued expenses	17,992	9,638
Total liabilities	403,227	389,260
Commitments and contingencies (Note 9)		
Equity:		
Stockholders' equity attributable to Mission West Properties, Inc.:	-	-

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Preferred stock, \$.001 par value, 20,000,000
shares authorized,
none issued and outstanding

Common stock, \$.001 par value, 200,000,000 shares authorized, 22,013,070 and 21,870,211 shares issued and outstanding at September 30, 2010 and December 31, 2009	22	22
Additional paid-in capital	171,692	170,606
Distributions in excess of accumulated earnings	(29,384)	(25,784)
Total stockholders' equity attributable to Mission West Properties, Inc.	142,330	144,844
Noncontrolling interests in operating partnerships	432,806	452,285
Total equity	575,136	597,129
Total liabilities and equity	\$ 978,363	\$ 986,389

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

MISSION WEST PROPERTIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except share and per share amounts)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Operating revenues:				
Rental income	\$ 20,596	\$ 20,431	\$ 62,058	\$ 61,478
Tenant reimbursements	3,113	4,551	11,567	13,632
Other income	276	284	2,138	905
Total operating revenues	23,985	25,266	75,763	76,015
Operating expenses:				
Property operating, maintenance and real estate taxes	6,731	6,709	19,301	19,814
General and administrative	580	589	1,661	1,743
Depreciation and amortization	5,804	5,863	17,665	18,026
Total operating expenses	13,115	13,161	38,627	39,583
Operating income	10,870	12,105	37,136	36,432
Other income (expenses):				
Equity in earnings of unconsolidated joint venture	46	72	270	237
Interest and dividend income	1	93	51	1,158
Realized and unrealized gain from investment	-	4,464	4,067	4,140
Interest expense	(5,138)	(5,180)	(14,765)	(17,071)
Interest expense – related parties	(214)	(202)	(839)	(554)
Income from continuing operations	5,565	11,352	25,920	24,342
Discontinued operations:				
(Loss) from operations of property held for	(94)	(110)	(265)	(277)

sale				
Net income	5,471	11,242	25,655	24,065
Net income attributable to noncontrolling interests				
	(4,101)	(8,476)	(19,367)	(18,083)
Net income available to common stockholders				
	\$ 1,370	\$ 2,766	\$ 6,288	\$ 5,982
Net income per common share to common stockholders:				
Basic	\$ 0.06	\$ 0.13	\$ 0.29	\$ 0.28
Diluted	\$ 0.06	\$ 0.13	\$ 0.28	\$ 0.27
Weighted average shares of common stock outstanding (basic)				
	21,976,679	21,770,211	21,938,857	21,717,713
Weighted average shares of common stock outstanding (diluted)				
	22,109,391	21,902,387	22,095,602	21,858,067

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

MISSION WEST PROPERTIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	Nine months ended September	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 25,655	\$ 24,065
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,840	18,200
Realized and unrealized gain from restricted investment in marketable securities	(4,067)	(4,140)
Dividend income from restricted investment in marketable securities	-	(651)
Equity in earnings of unconsolidated joint venture	(270)	(237)
Distributions from unconsolidated joint venture	226	175
Interest earned on restricted cash	-	(92)
Lease termination fee related to restricted cash	10,381	10,864
Stock-based compensation expense	109	243
Other	9	-
Changes in operating assets and liabilities, net of liabilities assumed:		
Proceeds from sale of investment in marketable securities	16,211	3,646
Deferred rent receivables	289	(675)
Other assets	(2,062)	(5,157)
Interest payable	91	(26)
Security deposits	37	(246)
Deferred rental income	(833)	1,561
Accounts payable and accrued expenses	8,383	11,215
Net cash provided by operating activities	71,999	58,745
Cash flows from investing activities:		
Improvements to real estate assets	(1,699)	(156)
Restricted cash deposited into escrow	-	(500)
Restricted cash released from escrow	100	-
Purchase of real estate	(3,852)	-
Net cash used in investing activities	(5,451)	(656)
Cash flows from financing activities:		