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MISSION WEST PROPERTIES INC

Form 8-K

April 15, 2004

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): April 14, 2004

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

Maryland

(State or other jurisdiction
of incorporation)

Commission File Number:
1-8383

95-2635431

(I.R.S. Employer
Identification)

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

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

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS.

(a) The following information is being furnished by the Company as required for Item 12(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 April 14, 2004, the Company issued a press release announcing its unaudited earnings results for the quarter ended March 31, 2004. The press release is attached to this Current Report as Exhibit 99.1 and is incorporated by reference in response to Item 12(a) of this report.

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 hereunto duly authorized.

MISSION WEST PROPERTIES, INC.

Date: April 14, 2004

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
April 14, 2004

MISSION WEST PROPERTIES, INC. ANNOUNCES FIRST QUARTER 2004 UNAUDITED EARNINGS RESULTS

"We build the buildings for the high tech companies that build the internet"

CUPERTINO, CA - MISSION WEST PROPERTIES, INC. (AMEX/PCX: MSW) reported today that Funds From Operations ("FFO") for the quarter ended March 31, 2004 was \$27,178,000 or \$0.26 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 \$28,655,000 or \$0.28 per diluted common share for the same period in 2003, a per share decrease of approximately 7.1%. On a sequential quarter basis, FFO per diluted common share decreased \$0.04 over the previous quarter ended December 31, 2003, which included \$0.02 per diluted share from prior tenant bankruptcy settlements.

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Net income to common stockholders per diluted share was \$0.20 for the quarter ended March 31, 2004 compared to \$0.23 for the same period in 2003, a per share decrease of approximately 13%.

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 109 properties totaling approximately 7.9 million 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 UNAUDITED

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

| | Three Months Ended Mar 31, 2004 | Three Months Ended Mar 31, 2003 |
|--|---------------------------------------|---------------------------------------|
| | ----- | ----- |
| REVENUES: | | |
| Rental revenues from real estate | \$32,048 | \$31,431 |
| Tenant reimbursements | 4,218 | 4,575 |
| Other income, including interest | 394 | 735 |
| | ----- | ----- |
| Total revenues | 36,660 | 36,741 |
| | ----- | ----- |
| EXPENSES: | | |
| Operating expenses | 1,991 | 1,519 |
| Real estate taxes | 2,994 | 3,075 |
| Depreciation & amortization of real estate | 5,852 (1) | 4,563 |
| General and administrative | 348 | 358 |
| Interest | 4,363 | 3,406 |
| Interest (related parties) | 252 | 294 |
| | ----- | ----- |
| Total expenses | 15,800 | 13,215 |
| | ----- | ----- |

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| | | |
|---|-------------|-------------|
| Income before minority interests & equity in earnings of unconsolidated joint venture | 20,860 | 23,526 |
| Equity in earnings of unconsolidated joint venture | 591 | 737 |
| Income before minority interests | 21,451 | 24,263 |
| Minority interests | 17,817 | 20,229 |
| Income from continuing operations | 3,634 | 4,034 |
| Net income to common stockholders | \$3,634 | \$4,034 |
| Net income to minority interests | \$17,817 | \$20,229 |
| Income per share from continuing operations: | | |
| Basic | \$0.20 | \$0.23 |
| Diluted | \$0.20 | \$0.23 |
| Net income per share to common stockholders: | | |
| Basic | \$0.20 | \$0.23 |
| Diluted | \$0.20 | \$0.23 |
| Weighted average shares of common stock (basic) | 17,969,416 | 17,637,260 |
| Weighted average shares of common stock (diluted) | 18,075,262 | 17,695,001 |
| Weighted average O.P. units outstanding | 86,503,459 | 86,511,686 |
| FUNDS FROM OPERATIONS | | |
| Funds from operations | \$27,178 | \$28,655 |
| Funds from operations per share (2) | \$ 0.26 | \$ 0.28 |
| Outstanding common stock | 18,014,691 | 17,653,691 |
| Outstanding O.P. units | 86,467,195 | 86,498,064 |
| Weighted average O.P. units & common stock outstanding (diluted) | 104,578,721 | 104,206,687 |

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| | Three Months Ended Mar 31, 2004 | Three Months Ended Mar 31, 2003 |
|--|------------------------------------|------------------------------------|
| FUNDS FROM OPERATIONS CALCULATION | | |
| Net income | \$3,634 | \$4,034 |
| Add: | | |
| Minority interests (3) | 17,692 | 20,057 |
| Depreciation and amortization of real estate | 5,852 | 4,564 |

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| | | |
|-----------------------|----------|----------|
| Funds from operations | \$27,178 | \$28,655 |
| | ===== | ===== |

Funds From Operations ("FFO") is a non-GAAP financial measurement used by real estate investment trusts to measure and compare operating performance. As defined by NAREIT, FFO represents net income (loss) before minority interest of unit holders (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, amortization of commission and depreciation of non-real estate assets) and after adjustments for unconsolidated partnerships and joint ventures. Management considers FFO an appropriate measure of performance of an equity REIT because, along with cash flows from operating activities, financing activities and investing activities, it provides investors with an understanding of our ability to incur and service debt, and make capital expenditures. FFO should not be considered as an alternative for net income as a measure of profitability or 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 Mar 31, 2004 | Three Months Ended Mar 31, 2003 |
|--|---------------------------------------|---------------------------------------|
| | ----- | ----- |
| Total properties, end of period | 109 | 101 |
| Total square feet, end of period | 7,917,262 | 7,163,930 |
| Average monthly rental revenue per square foot (4) | \$1.78 | \$1.74 |
| Average occupancy | 75.8% | 83.2% |
| Actual occupancy | 75.3% | 82.8% |
| Straight-line rent | (\$ 68) | \$244 |
| Capital expenditures | \$1,076 | \$653 |

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BALANCE SHEET (UNAUDITED)

| | March 31, 2004 | December 31, 2003 |
|---------------------------------------|----------------|-------------------|
| | ----- | ----- |
| Assets: | | |
| Land | \$ 279,163 | \$ 279,163 |
| Buildings and improvements | 785,812 | 785,660 |
| Real estate related intangible assets | 18,284 | 18,284 |
| | ----- | ----- |
| Total investments in properties | 1,083,259 | 1,083,107 |
| Less accumulated depreciation | (93,968) | (88,116) |
| | ----- | ----- |
| Net investments in properties | 989,291 | 994,991 |

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| | | |
|---|-------------|-------------|
| Investments in unconsolidated joint venture | 2,377 | 2,285 |
| | | |
| Net investments in real estate assets | 991,668 | 997,276 |
| Cash | 3,094 | 4,129 |
| Deferred rent | 18,903 | 18,970 |
| Other assets | 14,547 | 16,025 |
| | | |
| Total assets | \$1,028,212 | \$1,036,400 |
| | | |
| | | |
| Liabilities: | | |
| Line of credit - related parties | \$ 2,957 | \$ 6,320 |
| Revolving line of credit | 20,810 | 23,965 |
| Mortgage notes payable | 298,564 | 299,858 |
| Mortgage notes payable - related parties | 10,679 | 10,762 |
| Interest payable | 332 | 332 |
| Security deposits | 9,696 | 10,248 |
| Prepaid rental income | 13,315 | 12,723 |
| Dividend/distribution payable | 25,076 | 25,031 |
| Accounts payable and accrued expenses | 8,297 | 5,085 |
| | | |
| Total liabilities | 389,726 | 394,324 |
| Minority interests | 523,693 | 528,062 |
| Stockholders' equity: | | |
| Common stock, \$.001 par value | 18 | 18 |
| Paid in capital | 133,604 | 132,136 |
| Accumulated deficit | (18,829) | (18,140) |
| | | |
| Total stockholders' equity | 114,793 | 114,014 |
| | | |
| Total liabilities and stockholders' equity | \$1,028,212 | \$1,036,400 |
| | | |
| | | |

- (1) Includes approximately \$912 in amortization expense for the three months ended March 31, 2004 for the amortization of the origination value and fair market value of acquired leases of the San Tomas Technology Park acquisition pursuant to Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations."
- (2) Calculated on a fully diluted basis. Assumes conversion of O.P. units outstanding into the Company's common stock.
- (3) The minority interest for third parties has been deducted from total minority interest in calculating FFO.
- (4) 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.

