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MISSION WEST PROPERTIES INC

Form 8-K

January 28, 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): January 27, 2004

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

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

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

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

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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 January 27, 2004, the Company issued a press release announcing its earnings results for the quarter and year ended December 31, 2003. 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.

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MISSION WEST PROPERTIES, INC.

Date: January 27, 2004

By: /s/ Wayne N. Pham

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Wayne N. Pham  
Vice President of Finance and  
Controller

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Exhibit 99.1

PRESS RELEASE

For Immediate News Release  
January 27, 2004

Mission West Properties, Inc. Announces Fourth Quarter 2003 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 December 31, 2003 was \$30,948,000 or \$0.30 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 \$29,676,000 or \$0.28 per diluted common share for the same period in 2002, a per share increase of approximately 7.1%. Settlements received from prior bankrupted tenants accounted for approximately \$0.02 per diluted share in the fourth quarter 2003. On a sequential quarter basis, FFO per diluted common share increased \$0.02 over the previous quarter ended September 30, 2003. For the year ended December 31, 2003, FFO increased to \$117,769,000 or \$1.13 per diluted share from FFO of \$117,360,000 or \$1.13 per diluted share for the same period in 2002.

Net income to common stockholders per diluted share was \$0.24 for the quarter ended December 31, 2003 compared to \$0.21 for the same period in 2002, a per share increase of 14.3%. For the twelve months ended December 31, 2003, net income to common stockholders per diluted share was \$0.92, down from \$0.98 per diluted share from one year ago, which included \$0.06 from the sale of real estate included in discontinued operations, a per share decrease of 6.1%. Fourth quarter and full year 2003 net income per diluted share included \$0.02 per share from bankrupted tenant settlements.

## INVESTMENT ACTIVITY

On December 15, 2003, the Company acquired one R&D property consisting of approximately 129,000 rentable square feet located at 5970 Optical Court in San Jose, CA from the Berg Group under the Berg Land Holdings Option Agreement for an acquisition cost of approximately \$11.2 million. The first year anticipated unleveraged cash return for this property is approximately 11.5%.

## 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

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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<br>Ended<br>Dec 31, 2003 | Three Months<br>Ended<br>Dec 31, 2002 | Twelve Mo<br>Ended<br>Dec 31, |
|---|---------------------------------------|---------------------------------------|-------------------------------|
|   | -----                                 | -----                                 | -----                         |
| <b>REVENUES:</b>  |                                       |                                       |                               |
| Rental revenues from real estate  | \$33,747                              | \$32,378                              | \$132,15                      |
| Tenant reimbursements   | 4,511                                 | 4,677                                 | 18,87                         |
| Other income, including interest  | 2,656 (2)                             | 2,989 (3)                             | 4,52                          |
|   | -----                                 | -----                                 | -----                         |
| Total revenues  | 40,914                                | 40,044                                | 155,55                        |
|   | -----                                 | -----                                 | -----                         |
| <b>EXPENSES:</b>  |                                       |                                       |                               |
| Operating expenses  | 2,410                                 | 3,611                                 | 8,37                          |
| Real estate taxes   | 3,087                                 | 3,083                                 | 12,47                         |
| Depreciation & amortization of real estate  | 5,798 (4)                             | 4,565                                 | 21,55                         |
| General and administrative  | 285                                   | 298                                   | 1,32                          |
| Interest  | 4,350                                 | 2,542                                 | 16,44                         |
| Interest (related parties)  | 234                                   | 652                                   | 1,06                          |
|   | -----                                 | -----                                 | -----                         |
| Total expenses  | 16,164                                | 14,751                                | 61,24                         |
|   | -----                                 | -----                                 | -----                         |
| Income before minority interests & equity in earnings of unconsolidated joint venture | 24,750                                | 25,293                                | 94,30                         |
| Equity in earnings of unconsolidated joint venture                                    | 526                                   | -                                     | 3,88                          |
|   | -----                                 | -----                                 | -----                         |
| Income before minority interests  | 25,276                                | 25,293                                | 98,19                         |
| Minority interests  | 21,007                                | 21,623                                | 81,79                         |
|   | -----                                 | -----                                 | -----                         |
| Income from continuing operations   | 4,269                                 | 3,670                                 | 16,40                         |
|   | -----                                 | -----                                 | -----                         |
| Discontinued operations, net of minority interests:                                   |                                       |                                       |                               |
| Gain from disposal of discontinued operations   | -                                     | -                                     |                               |

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|  |             |             |             |
|--|-------------|-------------|-------------|
| Income attributable to discontinued operations                   | -           | -           |             |
| Income from discontinued operations                              | -           | -           |             |
| Net income to common stockholders                                | \$4,269     | \$3,670     | \$16,400    |
| Net income to minority interests                                 | \$21,007    | \$21,623    | \$81,790    |
| Income per share from continuing operations:                     |             |             |             |
| Basic  | \$0.24      | \$0.21      | \$0.90      |
| Diluted  | \$0.24      | \$0.21      | \$0.90      |
| Income per share from discontinued operations:                   |             |             |             |
| Basic  | -           | -           |             |
| Diluted  | -           | -           |             |
| Net income per share to common stockholders:                     |             |             |             |
| Basic  | \$0.24      | \$0.21      | \$0.90      |
| Diluted  | \$0.24      | \$0.21      | \$0.90      |
| Weighted average shares of common stock (basic)                  | 17,869,252  | 17,485,590  | 17,739,000  |
| Weighted average shares of common stock (diluted)                | 17,972,706  | 17,800,971  | 17,802,000  |
| Weighted average O.P. units outstanding                          | 86,398,064  | 86,475,771  | 86,476,000  |
| FUNDS FROM OPERATIONS  |             |             |             |
| Funds from operations  | \$30,948    | \$29,676    | \$117,760   |
| Funds from operations per share (5)                              | \$ 0.30     | \$ 0.28     | \$ 1.10     |
| Outstanding common stock   | 17,894,691  | 17,487,329  | 17,894,000  |
| Outstanding O.P. units   | 86,398,064  | 86,474,032  | 86,398,000  |
| Weighted average O.P. units & common stock outstanding (diluted) | 104,370,770 | 104,276,742 | 104,279,000 |

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|  | Three Months Ended<br>Dec 31, 2003 | Three Months Ended<br>Dec 31, 2002 | Twelve Months Ended<br>Dec 31, 2002 |
|--|------------------------------------|------------------------------------|-------------------------------------|
| FUNDS FROM OPERATIONS CALCULATION            |                                    |                                    |                                     |
| Net income                                   | \$ 4,269                           | \$ 3,670                           | \$16,400                            |
| Add:   |                                    |                                    |                                     |
| Minority interests (6)                       | 20,881                             | 21,441                             | 81,210                              |
| Depreciation and amortization of real estate | 5,798                              | 4,565                              | 21,550                              |
| Less:  |                                    |                                    |                                     |
| Gain on sale of JV assets / assets           | -                                  | -                                  | 1,400                               |
| Funds from operations                        | \$30,948                           | \$29,676                           | \$117,760                           |

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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<br>Ended<br>Dec 31, 2003 | Three Months<br>Ended<br>Dec 31, 2002 | Twelve Mo<br>Ended<br>Dec 31, |
|---|---------------------------------------|---------------------------------------|-------------------------------|
|   | -----                                 | -----                                 | -----                         |
| Total properties, end of period                       | 109                                   | 101                                   | 10                            |
| Total square feet, end of period                      | 7,917,262                             | 7,163,930                             | 7,917,26                      |
| Average monthly rental revenue per square foot<br>(7) | \$1.80                                | \$1.75                                | \$1.7                         |
| Average occupancy                                     | 77.9%                                 | 85.2%                                 | 80.5                          |
| Actual occupancy                                      | 77.3%                                 | 83.8%                                 | 77.3                          |
| Straight-line rent                                    | \$924                                 | \$1,166                               | \$1,97                        |
| Capital expenditures                                  | \$277                                 | \$ 218                                | \$2,17                        |

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### BALANCE SHEET (UNAUDITED)

|   | December 31, 2003 | December 31, 2002 |
|---|-------------------|-------------------|
|   | -----             | -----             |
| <b>Assets:</b>                              |                   |                   |
| Land  | \$ 279,163        | \$234,707         |
| Buildings and improvements                  | 785,660           | 726,581           |
| Real estate related intangible assets       | 18,284 (8)        | -                 |
|   | -----             | -----             |
| Total investments in properties             | 1,083,107         | 961,288           |
| Less accumulated depreciation               | (88,116)          | (66,560)          |
|   | -----             | -----             |
| Net investments in properties               | 994,991           | 894,728           |
| Investments in unconsolidated joint venture | 2,285             | -                 |
|   | -----             | -----             |
| Net investments in real estate assets       | 997,276           | 894,728           |
| Cash  | 4,129             | 4,479             |
| Deferred rent                               | 18,970            | 17,001            |
| Other assets                                | 16,025            | 13,198            |

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|  |             |           |
|--|-------------|-----------|
| Total assets                               | \$1,036,400 | \$929,406 |
| Liabilities:                               |             |           |
| Line of credit - related parties           | \$ 6,320    | \$ 58,792 |
| Revolving line of credit                   | 23,965      | 23,839    |
| Loan payable                               | -           | 20,000    |
| Mortgage notes payable                     | 299,858     | 125,062   |
| Mortgage notes payable - related parties   | 10,762      | 11,078    |
| Interest payable                           | 332         | 337       |
| Security deposits                          | 10,248      | 11,184    |
| Prepaid rental income                      | 12,723      | 9,876     |
| Dividend/distribution payable              | 25,031      | 24,951    |
| Accounts payable and accrued expenses      | 5,085       | 4,698     |
| Total liabilities                          | 394,324     | 289,817   |
| Minority interests                         | 528,062     | 528,768   |
| Stockholders' equity:                      |             |           |
| Common stock, \$.001 par value             | 18          | 17        |
| Paid in capital                            | 132,136     | 128,295   |
| Accumulated deficit                        | (18,140)    | (17,491)  |
| Total stockholders' equity                 | 114,014     | 110,821   |
| Total liabilities and stockholders' equity | \$1,036,400 | \$929,406 |

- (1) The Company recorded an adjustment of \$1.4 million to establish a reserve relating to the recapture of straight-line revenues and other tenant related items for the quarter ended March 31, 2002.
- (2) Includes approximately \$2.2 million received from bankrupted tenant settlements.
- (3) Includes approximately \$2.4 million in termination fees, net of straight line rent adjustment and write-off of unamortized leasing commissions.
- (4) Includes approximately \$912 and \$2,297 in amortization expense for the three and twelve months ended December 31, 2003, respectively, 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."
- (5) Calculated on a fully diluted basis. Assumes conversion of O.P. units outstanding into the Company's common stock.
- (6) The minority interest for third parties has been deducted from total minority interest in calculating FFO.
- (7) 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.
- (8) The Company applied the provisions of SFAS No. 141 to the San Tomas Technology Park acquisition. The amount allocated to intangible assets pursuant to SFAS No. 141 was approximately \$18.3 million, which will be

amortized over the remaining lease terms.

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