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MISSION WEST PROPERTIES INC

Form 8-K

July 20, 2006

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): July 19, 2006

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

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

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On July 19, 2006, the Company issued a press release announcing its earnings results for the second quarter ended June 30, 2006. 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.

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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: July 19, 2006

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

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PRESS RELEASE

For Immediate News Release  
July 19, 2006

MISSION WEST PROPERTIES ANNOUNCES SECOND QUARTER 2006 OPERATING 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 June 30, 2006 was \$16,954,000 or \$0.16 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 \$21,141,000 or \$0.20 per diluted common share for the same period in 2005. On a sequential quarter basis, excluding termination fees and security deposit forfeitures from lease terminations, FFO for the quarter ended March 31, 2006 was \$0.18 per diluted common share. Termination fees and security deposit forfeitures relating to lease terminations accounted for approximately \$16,056,000, or \$0.15 per diluted common share for the period ended March 31, 2006. For the six months ended June 30, 2006, FFO increased to \$51,480,000 or \$0.49 per diluted share from FFO of \$41,449,000 or \$0.40 per diluted share for the same period in 2005.

Net income to common stockholders per diluted share was \$0.11 for the quarter ended June 30, 2006 compared to \$0.15 for the quarter ended June 30, 2005, a per share decrease of approximately 26.7%. For the six months ended June 30, 2006, net income to common stockholders per diluted share was \$0.39, up from \$0.28 one year ago, a per share increase of approximately 39.3%. Excluding termination fees and security deposit forfeitures relating to lease terminations, net income

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to common stockholders per diluted share for the six months ended June 30, 2006 was \$0.23 per diluted share.

### ACQUISITION ACTIVITY

In April 2006, the Company acquired a fully leased office/R&D building with approximately 42,100 rentable square feet located at 1875 Charleston Road in Mountain View, California by purchasing Mission West Charleston, LLC, an entity controlled by Carl E. Berg. The acquisition was completed in accordance with the Berg Land Holdings Option Agreement. The total acquisition price for this entity was approximately \$2,615,000, which is subject to a ground lease with an unrelated party running through June 2057 for the land. The first year cash return for this acquisition is 17%.

### 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 110 properties totaling approximately 7.9 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", "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<br>Ended<br>June 30, 2006 | Three Months<br>Ended<br>June 30, 2005 | Six Mon<br>Ended<br>June 30, |
|--|--|--|------------------------------|
|  | -----                                  | -----                                  | -----                        |
| <b>REVENUES:</b>   |  |  |                              |
| Rental revenue from real estate                            | \$22,327 (1)                           | \$25,104 (1)                           | \$46,64                      |
| Tenant reimbursements                                      | 3,066                                  | 3,594                                  | 6,37                         |
| Other income, including lease terminations<br>and interest | 1,101                                  | 2,289                                  | 17,88                        |
|  | -----                                  | -----                                  | -----                        |
| Total revenues   | 26,494                                 | 30,987                                 | 70,90                        |
|  | -----                                  | -----                                  | -----                        |
| <b>EXPENSES:</b>   |  |  |                              |
| Operating expenses   | 2,037                                  | 2,049                                  | 4,09                         |
| Real estate taxes  | 2,274                                  | 2,080                                  | 4,90                         |

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|   |             |             |             |
|---|-------------|-------------|-------------|
| Interest  | 5,193       | 5,905       | 10,400      |
| Interest (related parties)  | 190         | 243         | 38          |
| General and administrative  | 637         | 443         | 1,277       |
| Depreciation and amortization of real estate  | 5,425 (2)   | 5,369 (2)   | 10,900      |
|   | -----       | -----       | -----       |
| Total expenses  | 15,756      | 16,089      | 31,950      |
|   | -----       | -----       | -----       |
| Income before equity in earnings of unconsolidated joint venture and minority interests | 10,738      | 14,898      | 38,950      |
| Equity in earnings of unconsolidated joint venture                                      | 351         | 393         | 68          |
| Minority interests  | (8,968)     | (12,594)    | (32,350)    |
|   | -----       | -----       | -----       |
| Income from continuing operations   | 2,121       | 2,697       | 7,270       |
|   | -----       | -----       | -----       |
| Discontinued operations, net of minority interests:                                     |             |             |             |
| Gain from disposal of discontinued operations   | -           | -           |             |
| Loss from discontinued operations   | -           | (2)         |             |
|   | -----       | -----       | -----       |
| (Loss)/income from discontinued operations  | -           | (2)         |             |
|   | -----       | -----       | -----       |
| Net income to common stockholders   | \$2,121     | \$2,695     | \$7,270     |
|   | =====       | =====       | =====       |
| Net income to minority interests  | \$8,968     | \$12,587    | \$32,350    |
|   | =====       | =====       | =====       |
| Income per share from continuing operations:  |             |             |             |
| Basic   | \$0.11      | \$0.15      | \$0.30      |
| Diluted   | \$0.11      | \$0.15      | \$0.30      |
| Income per share from discontinued operations:  |             |             |             |
| Basic   | -           | -           |             |
| Diluted   | -           | -           |             |
|   | -----       | -----       | -----       |
| Net income per share to common stockholders:  |             |             |             |
| Basic   | \$0.11      | \$0.15      | \$0.30      |
|   | =====       | =====       | =====       |
| Diluted   | \$0.11      | \$0.15      | \$0.30      |
|   | =====       | =====       | =====       |
| Weighted average shares of common stock (basic)   | 19,028,240  | 18,257,982  | 18,743,000  |
|   | =====       | =====       | =====       |
| Weighted average shares of common stock (diluted)                                       | 19,123,945  | 18,283,058  | 18,824,000  |
|   | =====       | =====       | =====       |
| Weighted average O.P. units outstanding   | 85,522,039  | 86,225,222  | 85,800,000  |
|   | =====       | =====       | =====       |
| FUNDS FROM OPERATIONS   |             |             |             |
| Funds from operations   | \$16,954    | \$21,141    | \$51,480    |
|   | =====       | =====       | =====       |
| Funds from operations per share (3)   | \$ 0.16     | \$ 0.20     | \$ 0.40     |
|   | =====       | =====       | =====       |
| Outstanding common stock  | 19,342,187  | 18,352,691  | 19,342,000  |
|   | =====       | =====       | =====       |
| Outstanding O.P. units  | 85,235,999  | 86,169,195  | 85,235,000  |
|   | =====       | =====       | =====       |
| Weighted average O.P. units and common stock outstanding (diluted)                      | 104,645,984 | 104,508,281 | 104,625,000 |
|   | =====       | =====       | =====       |

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| FUNDS FROM OPERATIONS CALCULATION  | Three Months<br>Ended<br>June 30, 2006 | Three Months<br>Ended<br>June 30, 2005 | Six Months<br>Ended<br>June 30, |
|--|--|--|---------------------------------|
| Net income   | \$2,121                                | \$2,695                                | \$7,274                         |
| Add:   |  |  |                                 |
| Minority interests (4)   | 8,855                                  | 12,453                                 | 32,110                          |
| Depreciation and amortization of real estate<br>from continuing operations         | 5,767                                  | 5,783                                  | 11,674                          |
| Depreciation and amortization of real estate<br>from discontinued operations       | -                                      | -                                      | -                               |
| Depreciation & amortization of real estate<br>held in unconsolidated joint venture | 211                                    | 210                                    | 422                             |
| Less:  |  |  |                                 |
| Gain on sale of real estate  | -                                      | -                                      | -                               |
| Funds from operations  | <u>\$16,954</u>                        | <u>\$21,141</u>                        | <u>\$51,480</u>                 |

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) 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 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 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.

|  | Three Months<br>Ended<br>June 30, 2006 | Three Months<br>Ended<br>June 30, 2005 | Six Months<br>Ended<br>June 30, |
|--|--|--|---------------------------------|
| Total properties, end of period                    | 110                                    | 108                                    | 110                             |
| Total square feet, end of period                   | 7,936,481                              | 8,019,082                              | 7,936,481                       |
| Average monthly rental revenue per square foot (5) | \$1.60                                 | \$1.59                                 | \$1.60                          |
| Occupancy for leased properties                    | 63.0%                                  | 65.7%                                  | 63.0%                           |
| Straight-line rent                                 | (\$152)                                | \$275                                  | (\$830)                         |
| Leasing commissions                                | \$ 46                                  | \$369                                  | \$ 311                          |
| Capital expenditures                               | \$ 85                                  | \$352                                  | \$ 166                          |

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BALANCE SHEET

|  | June 30, 2006 | December 31, 2005 |
|--|---------------|-------------------|
|  | -----         | -----             |
| Assets:  |               |                   |
| Land   | \$ 277,269    | \$ 273,933        |
| Buildings and improvements                     | 777,192       | 766,457           |
| Real estate related intangible assets          | 19,529        | 17,410            |
|  | -----         | -----             |
| Total investments in properties                | 1,073,990     | 1,057,800         |
| Less accumulated depreciation and amortization | (142,268)     | (130,419)         |
|  | -----         | -----             |
| Net investments in properties                  | 931,722       | 927,381           |
| Cash and cash equivalents                      | 39,470        | 31,441            |
| Restricted cash                                | 10,626        | 16,712            |
| Deferred rent receivable                       | 18,388        | 19,218            |
| Investment in unconsolidated joint venture     | 3,435         | 3,263             |
| Other assets, net                              | 25,028        | 25,362            |
|  | -----         | -----             |
| Total assets                                   | \$1,028,669   | \$1,023,377       |
|  | =====         | =====             |
| Liabilities:                                   |               |                   |
| Mortgage notes payable                         | \$ 352,515    | \$ 357,481        |
| Mortgage notes payable - related parties       | 9,856         | 10,051            |
| Interest payable                               | 321           | 321               |
| Security deposits                              | 6,681         | 8,047             |
| Deferred rental income                         | 9,846         | 6,103             |
| Dividend/distribution payable                  | 16,733        | 16,725            |
| Accounts payable and accrued expenses          | 10,747        | 8,952             |
|  | -----         | -----             |
| Total liabilities                              | 406,699       | 407,680           |
|  | -----         | -----             |
| Minority interests                             | 495,318       | 500,682           |
|  | -----         | -----             |
| Stockholders' equity:                          |               |                   |
| Common stock, \$.001 par value                 | 19            | 18                |
| Paid-in capital                                | 148,457       | 138,038           |
| Accumulated deficit                            | (21,824)      | (23,041)          |
|  | -----         | -----             |
| Total stockholders' equity                     | 126,652       | 115,015           |
|  | -----         | -----             |
| Total liabilities and stockholders' equity     | \$1,028,669   | \$1,023,377       |
|  | =====         | =====             |

(1) Includes approximately \$472 in amortization expense for the three months ended June 30, 2006 and 2005 and \$944 in amortization expense for the six months ended June 30, 2006 and 2005 for the amortization of an above-market

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lease intangible asset pursuant to Statement of Financial Accounting Standard No. 141, "Business Combinations."

- (2) Includes approximately \$425 and \$361 in amortization expense for the three months ended June 30, 2006 and 2005, respectively, and \$764 and \$801 in amortization expense for the six months ended June 30, 2006 and 2005, respectively, for the amortization of in-place lease value intangible asset pursuant to Statement of Financial Accounting Standard No. 141, "Business Combinations."
- (3) Calculated on a fully diluted basis. Assumes conversion of O.P. units outstanding into the Company's common stock.
- (4) The minority interest for third parties has been deducted from total minority interest in calculating FFO.
- (5) 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.