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MISSION WEST PROPERTIES INC

Form 8-K

July 16, 2008

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 16, 2008

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 July 16, 2008, the Company issued a press release announcing its earnings results for the second quarter ended June 30, 2008. 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.

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 16, 2008

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
July 16, 2008

MISSION WEST PROPERTIES ANNOUNCES SECOND QUARTER 2008 OPERATING RESULTS

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

Cupertino, CA - Mission West Properties, Inc. (NASDAQ: MSW) reported today that Funds From Operations ("FFO") for the quarter ended June 30, 2008 was approximately \$13,049,000, or \$0.12 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 \$15,954,000, or \$0.15 per diluted common share, for the same period in 2007. On a sequential quarter basis, FFO for the quarter ended March 31, 2008 was approximately \$0.14 per diluted common share. For the six months ended June 30, 2008, FFO decreased to \$28,272,000, or \$0.27 per diluted common share, from FFO of \$39,859,000, or \$0.38 per diluted common share, for the same period in 2007. Termination fees and security deposit forfeitures income relating to lease terminations accounted for approximately \$1,921,000, or \$0.02 per diluted common share, and \$10,475,000 (including \$198,000 of security deposit forfeitures), or \$0.10 per diluted common share, for the six months ended June 30, 2008 and 2007, respectively. Write-off of an above market lease intangible asset against income relating to one lease termination accounted for approximately \$3,619,000, or (\$0.03) per diluted common share, for the six months ended June 30, 2007.

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Net income per diluted share to common stockholders was \$0.07 for the quarter ended June 30, 2008 compared to \$0.10 for the quarter ended June 30, 2007, a per share decrease of approximately 30%. For the six months ended June 30, 2008, net income per diluted share to common stockholders was \$0.16, down from \$0.27 a year ago, a per share decrease of approximately 40.7%. Termination fees and security deposit forfeitures income relating to lease terminations accounted for approximately \$0.02 and \$0.10 per diluted common share for the six months ended June 30, 2008 and 2007, respectively. Write-off of in-place lease intangible assets against income relating to two lease terminations accounted for approximately (\$0.04) per diluted common share for the six months ended June 30, 2007.

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 Jun 30, 2008 | Three Months Ended Jun 30, 2007 | Six Mo End Jun 30, |
|--|---------------------------------------|---------------------------------------|--------------------------|
| | ----- | ----- | ----- |
| REVENUES: | | | |
| Rental revenue from real estate | \$19,359 | \$21,148 | \$38, |
| Above market lease intangible asset amortization | - | - | |
| Tenant reimbursements | 3,710 | 3,240 | 7, |
| Lease termination income | - | 168 | 1, |
| Other income, including interest | 464 | 958 | 1, |
| | ----- | ----- | ----- |
| Total revenues | 23,533 | 25,514 | 48, |
| | ----- | ----- | ----- |

EXPENSES:

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| | | | |
|---|-------------|-------------|--------|
| Operating expenses | 2,566 | 1,819 | 5, |
| Real estate taxes | 2,945 | 2,739 | 5, |
| Interest | 4,956 | 5,045 | 9, |
| Interest (related parties) | 280 | 182 | |
| General and administrative | 674 | 673 | 1, |
| Depreciation and amortization of real estate | 5,682 (2) | 5,398 (2) | 11, |
| | ----- | ----- | ----- |
| Total expenses | 17,103 | 15,856 | 33, |
| | ----- | ----- | ----- |
| Income before equity in earnings of unconsolidated joint venture and minority interests | 6,430 | 9,658 | 15, |
| Equity in earnings of unconsolidated joint venture | 407 | 350 | |
| Minority interests | (5,478) | (8,007) | (12, |
| | ----- | ----- | ----- |
| Income from continuing operations | 1,359 | 2,001 | 3, |
| | ----- | ----- | ----- |
| Discontinued operations, net of minority interests: | | | |
| Income attributable to discontinued operations | - | 3 | |
| | ----- | ----- | ----- |
| Income from discontinued operations | - | 3 | |
| | ----- | ----- | ----- |
| Net income to common stockholders | \$1,359 | \$2,004 | \$ 3, |
| | ===== | ===== | ===== |
| Net income to minority interests | \$5,478 | \$8,039 | \$12, |
| | ===== | ===== | ===== |
| Income per share from continuing operations: | | | |
| Basic | \$0.07 | \$0.10 | \$0.1 |
| | ===== | ===== | ===== |
| Diluted | \$0.07 | \$0.10 | \$0.1 |
| | ===== | ===== | ===== |
| Income per share from discontinued operations: | | | |
| Basic | - | - | - |
| | ===== | ===== | ===== |
| Diluted | - | - | - |
| | ===== | ===== | ===== |
| Net income per share to common stockholders: | | | |
| Basic | \$0.07 | \$0.10 | \$0. |
| | ===== | ===== | ===== |
| Diluted | \$0.07 | \$0.10 | \$0. |
| | ===== | ===== | ===== |
| Weighted average shares of common stock (basic) | 19,695,988 | 19,639,928 | 19,681 |
| | ===== | ===== | ===== |
| Weighted average shares of common stock (diluted) | 19,902,304 | 20,020,596 | 19,766 |
| | ===== | ===== | ===== |
| Weighted average O.P. units outstanding | 85,528,215 | 85,009,858 | 85,529 |
| | ===== | ===== | ===== |
| FUNDS FROM OPERATIONS | | | |
| Funds from operations | \$13,049 | \$15,954 | \$28 |
| | ===== | ===== | ===== |
| Funds from operations per share (3) | \$0.12 | \$0.15 | \$0. |
| | ===== | ===== | ===== |
| Outstanding common stock | 19,743,557 | 19,640,087 | 19,74 |
| | ===== | ===== | ===== |
| Outstanding O.P. units | 85,528,215 | 85,009,699 | 85,52 |
| | ===== | ===== | ===== |
| Weighted average O.P. units and common stock outstanding (diluted) | 105,430,519 | 105,030,454 | 105,29 |
| | ===== | ===== | ===== |

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| FUNDS FROM OPERATIONS CALCULATION | Three Months Ended Jun 30, 2008 | Three Months Ended Jun 30, 2007 | Six Mo End Jun 30, |
|--|---------------------------------------|---------------------------------------|--------------------------|
| | ----- | ----- | ----- |
| Net income | \$ 1,359 | \$ 2,004 | \$ 3 |
| Add: | | | |
| Minority interests (4) | 5,415 | 7,922 | 12 |
| Depreciation and amortization of real estate from continuing operations | 6,086 | 5,783 | 12 |
| Depreciation and amortization of real estate from discontinued operations | - | 56 | |
| Depreciation & amortization of real estate held in unconsolidated joint venture | 189 | 189 | |
| | ----- | ----- | ----- |
| Funds from operations | \$13,049 | \$15,954 | \$28 |
| | ===== | ===== | ===== |

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 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 Jun 30, 2008 | Three Months Ended Jun 30, 2007 | Six M End Jun 30 |
|--|---------------------------------------|---------------------------------------|------------------------|
| | ----- | ----- | ----- |
| Total properties, end of period | 111 | 110 | 11 |
| Total square feet, end of period | 8,047,569 | 7,849,993 | 8,047 |
| Average monthly rental revenue per square foot (5) | \$1.24 | \$1.40 | \$1. |
| Occupancy for leased properties | 64.9% | 67.8% | 64. |
| Straight-line rent | \$ 882 | (\$ 106) | \$1, |
| Leasing commissions | \$ 318 | \$1,444 | \$ |
| Capital expenditures | \$2,116 | \$1,546 | \$2, |

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| BALANCE SHEET | June 30, 2008 | December 31, 2007 |
|---|---------------|-------------------|
| Assets | | |
| Real estate: | | |
| Land | \$ 320,911 | \$ 312,152 |
| Buildings and improvements | 792,886 | 764,665 |
| Real estate related intangible assets | 3,240 | 2,119 |
| | ----- | ----- |
| Total investments in real estate, net | 1,117,037 | 1,078,936 |
| Less accumulated depreciation and amortization | (168,124) | (156,819) |
| | ----- | ----- |
| Net investments in properties | 948,913 | 922,117 |
| Cash and cash equivalents | 769 | 23,691 |
| Restricted cash | 45,535 | 65,509 |
| Deferred rent receivable, net | 16,420 | 14,833 |
| Investment in unconsolidated joint venture | 2,625 | 2,735 |
| Other assets, net | 25,588 | 25,000 |
| | ----- | ----- |
| Total assets | \$1,039,850 | \$1,053,885 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Mortgage notes payable | \$ 332,001 | \$ 337,520 |
| Note payable - related parties | 1,923 | - |
| Mortgage note payable - related parties | 8,997 | 9,224 |
| Revolving line of credit | 8,244 | - |
| Interest payable | 1,360 | 1,331 |
| Security deposits | 4,977 | 4,754 |
| Deferred rental income | 5,383 | 3,302 |
| Dividends and distributions payable | 21,054 | 16,832 |
| Accounts payable and accrued expenses | 16,174 | 15,618 |
| | ----- | ----- |
| Total liabilities | 400,113 | 388,581 |
| | ----- | ----- |
| Minority interests | 504,668 | 526,626 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Common stock, \$.001 par value | 20 | 20 |
| Additional paid-in capital | 154,056 | 153,024 |
| Distributions in excess of accumulated earnings | (19,007) | (14,366) |
| | ----- | ----- |
| Total stockholders' equity | 135,069 | 138,678 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$1,039,850 | \$1,053,885 |
| | ===== | ===== |

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- (1) Amortization of an above-market lease intangible asset pursuant to Statement of Financial Accounting Standard No. 141, "Business Combinations."
- (2) Includes approximately \$159 and \$347 in amortization expense for the three months ended June 30, 2008 and 2007, respectively, and \$281 and \$1,540 in amortization expense for the six months ended June 30, 2008 and 2007, 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.