American Assets Trust, Inc.
Form 10-Q
August 03, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

or

¨ **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: 001-35030

AMERICAN ASSETS TRUST, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland **(State of Organization)**	**27-3338708** **(IRS Employer** **Identification No.)**
11455 El Camino Real, Suite 200, **San Diego, California** **(Address of Principal Executive Offices)**	**92130** **(Zip Code)**

(858) 350-2600
(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. x Yes ¨ No

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

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-Accelerated Filer	x (Do not check if a smaller reporting company)	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 x No

The number of Registrant s common shares outstanding on August 3, 2012 was 39,293,171.

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AMERICAN ASSETS TRUST, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2012

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American Assets Trust, Inc.

Consolidated Balance Sheets

(In Thousands, Except Share Data)

	June 30, 2012 (unaudited)	December 31, 2011 (audited)
Assets		
Real estate, at cost		
Operating real estate	$ 1,691,809	$ 1,659,106
Construction in progress	27,612	3,495
Held for development	14,795	24,675
	1,734,216	1,687,276
Accumulated depreciation	(255,485)	(234,595)
Net real estate	1,478,731	1,452,681
Cash and cash equivalents	98,584	112,723
Restricted cash	10,973	9,216
Marketable securities	24,287	28,235
Accounts receivable, net	4,997	6,847
Deferred rent receivables, net	27,227	23,294
Other assets, net	68,649	76,285
Total assets	$ 1,713,448	$ 1,709,281
Liabilities and equity		
Liabilities:		
Secured notes payable	$ 964,538	$ 943,479
Accounts payable and accrued expenses	27,317	25,476
Security deposits payable	4,874	4,790
Other liabilities and deferred credits	54,316	55,808
Total liabilities	1,051,045	1,029,553
Commitments and contingencies (Note 10)		
Equity:		
American Assets Trust, Inc. stockholders equity		
Common stock $0.01 par value, 490,000,000 shares authorized, 39,285,156 and 39,283,796 shares outstanding at June 30, 2012 and December 31, 2011, respectively	393	393
Additional paid-in capital	655,087	653,645
Accumulated dividends in excess of net income	(40,699)	(28,007)
Total American Assets Trust, Inc. stockholders equity	614,781	626,031
Noncontrolling interests	47,622	53,697
Total equity	662,403	679,728
Total liabilities and equity	$ 1,713,448	$ 1,709,281

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

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American Assets Trust, Inc.

Consolidated Statements of Operations

(Unaudited)

(In Thousands, Except Shares and Per Share Data)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenue:				
Rental income	$ 54,964	$ 48,616	$ 109,284	$ 93,582
Other property income	2,845	2,484	5,563	4,401
Total revenue	57,809	51,100	114,847	97,983
Expenses:				
Rental expenses	15,952	14,322	31,195	26,533
Real estate taxes	5,944	5,452	11,388	9,410
General and administrative	3,992	3,866	7,757	7,052
Depreciation and amortization	14,671	13,934	29,924	26,089
Total operating expenses	40,559	37,574	80,264	69,084
Operating income	17,250	13,526	34,583	28,899
Interest expense	(14,476)	(14,063)	(28,832)	(27,054)
Early extinguishment of debt				(25,867)
Loan transfer and consent fees				(9,019)
Gain on acquisition				46,371
Other income (expense), net	(150)	530	(256)	(71)
Income (loss) from continuing operations	2,624	(7)	5,495	13,259
Discontinued operations				
Results from discontinued operations		462		792
Net income	2,624	455	5,495	14,051
Net income attributable to restricted shares	(131)	(132)	(263)	(218)
Net loss attributable to Predecessor s noncontrolling interests in consolidated real estate entities				2,458
Net income attributable to Predecessor s controlled owners equity				(16,995)
Net (income) loss attributable to unitholders in the Operating Partnership	(804)	(104)	(1,687)	225
Net income (loss) attributable to American Assets Trust, Inc. stockholders	$ 1,689	$ 219	$ 3,545	$ (479)
Basic net income (loss) from continuing operations attributable to common stockholders per share	$ 0.04	$	$ 0.09	$ (0.03)
Basic net income from discontinued operations attributable to common stockholders per share		0.01		0.02
Basic net income (loss) attributable to common stockholders per share	$ 0.04	$ 0.01	$ 0.09	$ (0.01)

Weighted average shares of common stock outstanding - basic	38,659,155	38,655,084	38,658,162	34,810,932
Diluted net income (loss) from continuing operations attributable to common stockholders per share	$ 0.04	$	$ 0.09	$ (0.03)
Diluted net income from discontinued operations attributable to common stockholders per share		0.01		0.02
Diluted net income (loss) attributable to common stockholders per share	$ 0.04	$ 0.01	$ 0.09	$ (0.01)
Weighted average shares of common stock outstanding - diluted	57,055,244	57,051,173	57,054,509	34,810,932
Dividends declared per common share	$ 0.21	$ 0.21	$ 0.42	$ 0.38

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

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American Assets Trust, Inc.

Consolidated Statement of Equity

(Unaudited)

(In Thousands, Except Share Data)

	American Assets Trust, Inc. Stockholders Equity					
	Common Shares					
	Shares	Amount	Additional Paid-in Capital	Accumulated dividends in excess of net income	Noncontrolling Interests - Unitholders in the Operating Partnership	Total
Balance at December 31, 2011	39,283,796	$ 393	$ 653,645	$ (28,007)	$ 53,697	$ 679,728
Net income				3,808	1,687	5,495
Conversion of operating partnership units	1,613		36		(36)	
Issuance of restricted stock	2,000					
Forfeiture of restricted stock	(2,253)					
Dividends declared and paid				(16,500)	(7,726)	(24,226)
Stock-based compensation			1,406			1,406
Balance at June 30, 2012	39,285,156	$ 393	$ 655,087	$ (40,699)	$ 47,622	$ 662,403

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

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American Assets Trust, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

(In Thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
OPERATING ACTIVITIES		
Net income	$ 5,495	$ 14,051
Results from discontinued operations		(792)
Income from continuing operations	5,495	13,259
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	(3,282)	(604)
Depreciation and amortization	29,924	26,089
Amortization of debt issuance costs and debt fair value adjustments	1,979	1,895
Early extinguishment of debt		25,867
Loan transfer and consent fees		9,019
Gain on acquisition of controlling interests		(46,371)
Stock-based compensation expense	1,406	1,190
Loss from real estate joint ventures		
Other, net	745	1,116
Changes in operating assets and liabilities		
Change in restricted cash	(1,262)	(306)
Change in accounts receivable	1,723	(1,509)
Change in other assets	255	102
Change in accounts payable and accrued expenses	(1,459)	(1,343)
Change in security deposits and other liabilities	(182)	(972)
Net cash provided by operating activities of continuing operations	35,342	27,432
Net cash provided by operating activities of discontinued operations		1,275
Net cash provided by operating activities	35,342	28,707
INVESTING ACTIVITIES		
Acquisition of real estate, net of cash acquired	(32,918)	(128,877)
Capital expenditures	(12,101)	(2,456)
Change in restricted cash	(495)	(1,511)
Cash acquired from acquisition of controlling interests in real estate joint ventures		15,223
Leasing commissions	(1,365)	(870)
Purchase of marketable securities		(33,103)
Maturity of marketable securities	3,324	1,710
Deposit on property acquisition		(91,600)
Net cash used in investing activities of continuing operations	(43,555)	(241,484)
Net cash used in investing activities of discontinued operations		(208)
Net cash used in investing activities	(43,555)	(241,692)
FINANCING ACTIVITIES		

Issuance of secured notes payable	21,900	84,500
Repayment of secured notes payable	(2,315)	(262,003)
Defeasance costs on repayment of secured notes payable		(24,345)
Loan transfer and consent fees paid		(8,350)
Repayment of unsecured notes payable		(38,013)
Repayment of notes payable to affiliates		(19,279)
Debt issuance costs	(924)	(2,961)
Proceeds from issuance of common stock, net		596,541
Proceeds from private placement of common units		5,410
Dividends paid to common stock and unitholders	(24,226)	(21,898)
Deferred offering costs	(361)	
Payments to nonaccredited investors		(6,075)
Distributions to Predecessor s controlling and noncontrolling interests		(39,960)
Net cash (used in) provided by financing activities	(5,926)	263,567
Net (decrease) increase in cash and cash equivalents	(14,139)	50,582
Cash and cash equivalents, beginning of period	112,723	41,953
Cash and cash equivalents, end of period	$ 98,584	$ 92,535

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

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements

June 30, 2012

(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

American Assets Trust, Inc. (which may be referred to in these financial statements as the Company, we, us, or our) is a Maryland corporation formed on July 16, 2010 that did not have any operating activity until the consummation of our initial public offering (the Offering) and the related acquisition of certain assets of our Predecessor (as defined below) on January 19, 2011. The Company is the sole general partner of American Assets Trust, L.P., a Maryland limited partnership formed on July 16, 2010 (the Operating Partnership). The Company s operations are carried on through our Operating Partnership and its subsidiaries, including our taxable REIT subsidiary. Since the formation of our Operating Partnership, the Company has controlled our Operating Partnership as its general partner and has consolidated its assets, liabilities and results of operations.

In connection with the Offering, on January 19, 2011 the following transactions were completed:

- We issued a total of 31,625,000 shares of our common stock at $20.50 per share.

- We acquired, through a series of merger and contribution transactions (the Formation Transactions, as more fully described below), certain assets of our Predecessor and certain other entities. In exchange for such assets, the prior investors in such assets that were accredited investors were issued a total of 7,030,084 shares of our common stock and 18,145,039 common units of limited partnership interests in our Operating Partnership (common units), with an aggregate value of approximately $516.1 million, and non-accredited prior investors were paid a total of approximately $6.1 million in cash from the net proceeds of the Offering.

- We entered into a $250.0 million revolving credit facility (the credit facility) with an accordion feature to increase availability to $400.0 million under specified circumstances.

- We repaid $342.0 million of indebtedness (including $24.3 million of defeasance costs) and paid $10.8 million, net of $0.7 million prepaid by our Predecessor, for loan transfer and consent fees and credit facility origination fees from the net proceeds of the Offering.

The net proceeds from the Offering were approximately $594.6 million, net of $1.9 million of offering costs prepaid by our Predecessor, including the underwriters overallotment option which was exercised in full (after deducting the underwriting discount and commissions and expenses of the Offering and Formation Transactions). We contributed the net proceeds of the Offering to our Operating Partnership in exchange for common units.

Our Predecessor is not a legal entity but rather a combination of entities whose assets included entities owned and/or controlled by Ernest S. Rady and his affiliates, including the Ernest Rady Trust U/D/T March 13, 1983 (the Rady Trust), which in turn owned (1) controlling interests in entities owning 17 properties and the property management business of American Assets, Inc. (AAI) (the controlled entities), and (2) noncontrolling interests in entities owning four properties (the noncontrolled entities) (the assets described at (1) and (2) are the Acquired Assets, and do not include our Predecessor s noncontrolling 25% ownership interest in Novato FF Venture, LLC, the entity that owns the Fireman s Fund Headquarters in Novato, California). The Formation Transactions included the acquisition by our Operating Partnership of the (a) Acquired Assets, (b) the entities that own Waikiki Beach Walk (a mixed-use property consisting of a retail portion and a hotel portion) (the Waikiki Beach Walk entities) and (c) the entities that own Solana Beach Towne Centre and Solana Beach Corporate Centre (the Solana Beach Centre entities) (including our Predecessor s ownership interest in these entities).

The Formation Transactions enabled us to (1) consolidate the ownership of our property portfolio under our Operating Partnership, (2) succeed to the property management business of AAI, (3) facilitate the Offering, and (4) qualify as a real estate investment trust (a REIT) for U.S. federal income tax purposes commencing with the taxable year ending December 31, 2011. As a result of the Formation Transactions, we are a vertically integrated and self-administered REIT with approximately 130 employees providing substantial in-house expertise in asset management, property management, property development, leasing, tenant improvement construction, acquisitions, repositioning, redevelopment and financing.

We determined that our Predecessor was the acquirer for accounting purposes, and therefore the contribution or acquisition by merger of interests in the controlled entities was considered a transaction between entities under common control since our Executive Chairman, Ernest S. Rady or his affiliates, including the Rady Trust, owned the controlling interest in each of the entities comprising our Predecessor, which, in turn, owned a controlling interest in each of the controlled entities. As a

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

result, the acquisition of interests in each of the controlled entities was recorded at our historical cost. The contribution or acquisition by merger of interests in certain of the noncontrolled entities, which include the Waikiki Beach Walk entities and the Solana Beach Centre entities (including our Predecessor s ownership interest in these noncontrolled entities), was accounted for as an acquisition under the acquisition method of accounting and recognized at the estimated fair value of acquired assets and assumed liabilities on the date of such contribution or acquisition.

Since these transactions occurred on January 19, 2011, the financial condition and results of operations for the entities acquired by us in connection with the Offering and related Formation Transactions are not included in certain historical financial statements. Our results of operations for the six months ended June 30, 2011 reflect the financial condition and results of operation for our Predecessor together with the entities we acquired at the time of the Offering, namely, the Waikiki Beach Walk entities and the Solana Beach Centre entities, as well as entities acquired subsequent to the Offering. We have included the results of operations for the acquired entities in our consolidated statements of operations from the date of acquisition.

As of June 30, 2012, we owned or had a controlling interest in 22 office, retail, multifamily and mixed-use operating properties, the operations of which we consolidate. Additionally, as of June 30, 2012, we owned land at five of our properties that we classify as held for development and/or construction in progress. A summary of the properties owned by us is as follows:

Retail

Carmel Country Plaza

Carmel Mountain Plaza

South Bay Marketplace

Rancho Carmel Plaza

Lomas Santa Fe Plaza

Solana Beach Towne Centre

Del Monte Center

The Shops at Kalakaua

Waikele Center

Alamo Quarry Market

Office

Torrey Reserve Campus

Solana Beach Corporate Centre

160 King Street

The Landmark at One Market

One Beach Street

First & Main

Lloyd District Portfolio

Multifamily

Loma Palisades

Imperial Beach Gardens

Mariner s Point

Santa Fe Park RV Resort

Mixed-Use

Waikiki Beach Walk Retail and Embassy Suites™ Hotel

Held for Development and Construction in Progress

Solana Beach Corporate Centre Land

Solana Beach Highway 101 Land

Sorrento Pointe Land

Torrey Reserve Land

Lloyd District Portfolio Land

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

Basis of Presentation

Our consolidated financial statements include the accounts of the Company, our Operating Partnership and our subsidiaries. The equity interests of other investors in our Operating Partnership are reflected as noncontrolling interests.

All significant intercompany transactions and balances are eliminated in consolidation.

In August 2011, we sold Valencia Corporate Center. We have reclassified our financial statements for all periods prior to the sale to reflect Valencia Corporate Center as discontinued operations. Unless noted otherwise, discussions in these notes pertain to our continuing operations.

The accompanying consolidated financial statements of the Company have been prepared in accordance with the rules applicable to Form 10-Q and include all information and footnotes required for interim financial statement presentation, but do not include all disclosures required under accounting principles generally accepted in the United States (GAAP) for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments, except as otherwise noted) considered necessary for a fair presentation have been included.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that in certain circumstances affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using management s best judgment, after considering past, current and expected events and economic conditions. Actual results could differ from these estimates.

Consolidated Statements of Cash Flows Supplemental Disclosures

The following table provides supplemental disclosures related to the Consolidated Statements of Cash Flows (in thousands):

	Six Months Ended June 30, 2012	2011
Supplemental cash flow information		
Total interest costs incurred	$ 29,039	$ 27,054
Interest capitalized	$ 207	$
Interest expense	$ 28,832	$ 27,054
Cash paid for interest, net of amounts capitalized	$ 27,113	$ 25,747
Cash paid for income taxes	$ 954	$ 55
Supplemental schedule of noncash investing and financing activities		
Accounts payable and accrued liabilities for construction in progress	$ 3,203	$ 711
Assumption of debt upon acquisition	$	$ 268,008

Assumption of notes to affiliates upon acquisition	$	$ 14,824
Acquisition of working capital deficit, net of cash	$	$ (3,036)
Distribution of investment in joint venture not acquired	$	$ 11,480
Issuance of common shares and units for acquisition of properties	$	$ 33,854
Notes receivable from affiliate settled in common units	$	$ 21,797
Notes payable to affiliates settled in common units	$	$ 828
Reduction to capital for prepaid Offering costs	$	$ 1,974
Transfer taxes accrued at time of Offering	$	$ 6,556

Significant Accounting Policies

We describe our significant accounting policies in Note 1 to the consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2011. There have been no changes to our significant accounting policies during the six months ended June 30, 2012.

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

Segment Information

Segment information is prepared on the same basis that our management reviews information for operational decision-making purposes. We operate in four business segments: the acquisition, redevelopment, ownership and management of retail real estate, office real estate, multifamily real estate and mixed-use real estate. The products for our retail segment primarily include rental of retail space and other tenant services, including tenant reimbursements, parking and storage space rental. The products for our office segment primarily include rental of office space and other tenant services, including tenant reimbursements, parking and storage space rental. The products for our multifamily segment include rental of apartments and other tenant services. The products of our mixed-use segment include rental of retail space and other tenant services, including tenant reimbursements, parking and storage space rental and operation of a 369-room all-suite hotel.

Reclassifications

Certain items in the consolidated financial statements for prior periods have been reclassified to conform to current classifications.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04), which amended ASC Topic 820, *Fair Value Measurement.* ASU 2011-04 clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 is effective for annual and interim reporting periods beginning on or after December 15, 2011. The new guidance is to be adopted prospectively and early adoption is not permitted. The adoption of ASU 2011-04 did not have a significant impact on our financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05), which amended ASC Topic 220, *Comprehensive Income.* ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in equity and requires that all non owner changes in equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 requires retrospective application and will be effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of ASU 2011-05 did not have significant impact on our disclosures of comprehensive income, since we do not have other comprehensive income.

NOTE 2. REAL ESTATE

Acquisitions

On January 24, 2012, we completed the acquisition of One Beach Street, consisting of approximately 97,000 rentable square feet in a 3-story fully renovated historic office building located along the Embarcadero in San Francisco s North Waterfront District. The purchase price was approximately $36.5 million, excluding closing costs of approximately $0.02 million, which was paid with cash on hand.

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

The fair values assigned to identifiable intangible assets acquired were based on estimates and assumptions determined by management. Using information available at the time the acquisition closed, we allocated the total consideration to tangible assets and liabilities and identified intangible assets and liabilities. The identified intangible assets and liabilities are being amortized over a weighted average life of 7.0 years. We may adjust the preliminary purchase price allocation after obtaining more information about asset valuations and liabilities assumed. The allocation of the purchase price for One Beach Street is as follows (in thousands):

Land	$ 15,332
Building	16,764
Land improvements	30
Tenant improvements	1,223
Total real estate	33,349
Lease intangibles	4,141
Prepaid expenses and other assets	1
Total assets	$ 37,491
Accounts payable and accrued expenses	$ 94
Security deposits payable	75
Lease intangibles	1,382
Other liabilities and deferred credits	22
Total liabilities	$ 1,573

We have included the results of operations for One Beach Street in our consolidated statements of operations from the date of acquisition. For the period of acquisition through June 30, 2012, One Beach Street contributed $1.9 million to total revenue, $1.2 million to operating expenses, $0.7 million to operating income and $0.4 million to net income.

Pro Forma Financial Information

The unaudited financial information in the table below summarizes the combined results of operations of One Beach Street with the historical results of operations of the Company, as though the entity had been acquired on January 1, 2011. The pro forma financial information for the six months ended June 30, 2011 also includes the pro forma results of operations of the Waikiki Beach Walk entities, Solana Beach Centre entities, First & Main, Lloyd District Portfolio and Solana Beach-Highway 101 which were acquired at various times during 2011. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place on January 1, 2011. The pro forma financial information includes adjustments to depreciation expense for acquired property and equipment, adjustments to amortization charges for acquired intangible assets and liabilities, adjustments to straight-line rent revenue and the removal of the gain on acquisition of the controlling interests of the Solana Beach Centre entities and Waikiki Beach Walk entities for the six months ended June 30, 2011.

The following table summarizes the unaudited pro forma financial information (in thousands):

	Six Months Ended June 30, 2012		Six Months Ended June 30, 2011	
	As Reported	Pro Forma	As Reported	Pro Forma
Total revenue	$ 114,847	$ 115,093	$ 97,983	$ 111,571
Total operating expenses	80,264	80,438	69,084	80,938
Operating income	34,583	34,655	28,899	30,633
Net income (loss)	$ 5,495	$ 5,582	$ 14,051	$ (31,980)(1)

(1) The net loss for the six months ended June 30, 2011 includes one-time expenses for the early extinguishment of debt and loan transfer and consent fees but excludes the gain on acquisition of the controlling interests in the Solana Beach Centre entities and the Waikiki Beach Walk entities.

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

NOTE 3. ACQUIRED IN-PLACE LEASES AND ABOVE/BELOW MARKET LEASES

The following summarizes our acquired lease intangibles and leasing costs, which are included in other assets and other liabilities and deferred credits, as of June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012	December 31, 2011
In-place leases	$ 61,431	$ 59,812
Accumulated amortization	(34,447)	(30,924)
Above market leases	33,053	42,428
Accumulated amortization	(18,905)	(25,657)
Acquired lease intangible assets, net	$ 41,132	$ 45,659
Below market leases	$ 71,530	$ 70,332
Accumulated accretion	(23,987)	(21,715)
Acquired lease intangible liabilities, net	$ 47,543	$ 48,617

NOTE 4. MARKETABLE SECURITIES

Our portfolio of marketable securities is comprised of debt securities that are classified as trading securities. At June 30, 2012, our marketable securities consisted of investments in mortgage-backed securities issued by the Government National Mortgage Association (GNMA securities). We report our trading securities at fair value, using prices provided by independent market participants that are based on observable inputs using market-based valuation techniques (Level 2 of the fair value hierarchy-see Note 5). Gains and losses resulting from the mark-to-market of these securities are recognized as unrealized gains or losses in income. For the six months ended June 30, 2012 and 2011, unrealized (losses) and gains in our statement of operations, which are included in other income (expense), were ($0.6) million and $0.1 million, respectfully. Cumulative unrealized losses were $0.5 million as of June 30, 2012.

NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

A fair value measurement is based on the assumptions that market participants would use in pricing an asset or liability. The hierarchy for inputs used in measuring fair value is as follows:

1. Level 1 Inputs quoted prices in active markets for identical assets or liabilities

2. Level 2 Inputs observable inputs other than quoted prices in active markets for identical assets and liabilities

3. Level 3 Inputs unobservable inputs

Except as disclosed below, the carrying amounts of our financial instruments approximate their fair value. Financial assets and liabilities whose fair values we measure on a recurring basis using Level 2 inputs consist of GNMA securities and our deferred compensation liability. We measure the fair values of these assets and liability based on prices provided by independent market participants that are based on observable inputs using market-based valuation techniques.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

The fair value of our secured notes payable is sensitive to fluctuations in interest rates. Discounted cash flow analysis (Level 2) is generally used to estimate the fair value of our secured notes payable, using rates ranging from 3.9% to 8.4%.

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

Considerable judgment is necessary to estimate the fair value of financial instruments. The estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. A summary of the carrying amount and fair value of our financial instruments, all of which are based on Level 2 inputs, is as follows (in thousands):

	June 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Marketable securities	$ 24,287	$ 24,287	$ 28,235	$ 28,235
Secured notes payable	964,538	987,944	943,479	974,273
Deferred compensation liability	$ 571	$ 571	$ 520	$ 520

NOTE 6. OTHER ASSETS

Other assets consist of the following (in thousands):

	June 30, 2012	December 31, 2011
Leasing commissions, net of accumulated amortization of $16,002 and $14,722, respectively	$ 18,006	$ 18,207
Acquired above market leases, net	14,148	16,771
Acquired in-place leases, net	26,984	28,888
Lease incentives, net of accumulated amortization of $2,035 and $1,850, respectively	1,665	1,850
Other intangible assets, net of accumulated amortization of $4,134 and $3,885, respectively	740	987
Debt issuance costs, net of accumulated amortization of $2,220 and $2,509, respectively	3,809	3,392
Purchase deposit		3,000
Prepaid expenses, deposits, and other	3,297	3,190
Total other assets	$ 68,649	$ 76,285

Lease incentives are amortized over the term of the related lease and included as a reduction of rental income in the statement of operations. The purchase deposit at December 31, 2011 relates to the acquisition of One Beach Street in San Francisco, California. Such acquisition was completed on January 24, 2012 (Note 2).

NOTE 7. OTHER LIABILITIES AND DEFERRED CREDITS

Other liabilities and deferred credits consist of the following (in thousands):

	June 30, 2012	December 31, 2011

Acquired below market leases, net	$ 47,543	$ 48,617
Prepaid rent and deferred revenue	4,852	5,008
Deferred rent expense and lease intangible	1,075	1,122
Deferred compensation	571	520
Straight-line rent liability	232	433
Other liabilities	43	108
Total other liabilities and deferred credits	$ 54,316	$ 55,808

Straight-line rent liability relates to leases which have rental payments that decrease over time or one-time upfront payments for which the rental revenue is deferred and recognized on a straight-line basis.

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

NOTE 8. DEBT

The following is a summary of our total debt outstanding as of June 30, 2012 and December 31, 2011 (in thousands):

	Principal Balance as of		Stated Interest	
Description of Debt	**June 30, 2012**	**December 31, 2011**	**Rate as of June 30, 2012**	**Stated Maturity Date**
Alamo Quarry Market (1)(2)	$ 94,999	$ 96,027	5.67%	January 8, 2014
160 King Street (3)	30,619	31,412	5.68%	May 1, 2014
Waikele Center (4)	140,700	140,700	5.15%	November 1, 2014
The Shops at Kalakaua (4)	19,000	19,000	5.45%	May 1, 2015
The Landmark at One Market (2)(4)	133,000	133,000	5.61%	July 5, 2015
Del Monte Center (4)	82,300	82,300	4.93%	July 8, 2015
First & Main (4)	84,500	84,500	3.97%	July 1, 2016
Imperial Beach Gardens (4)	20,000	20,000	6.16%	September 1, 2016
Mariner s Point (4)	7,700	7,700	6.09%	September 1, 2016
South Bay Marketplace (4)	23,000	23,000	5.48%	February 10, 2017
Waikiki Beach Walk Retail (4)	130,310	130,310	5.39%	July 1, 2017
Solana Beach Corporate Centre III-IV (5)	37,330	37,330	6.39%	August 1, 2017
Loma Palisades (4)	73,744	73,744	6.09%	July 1, 2018
One Beach Street (4)	21,900		3.94%	April 1, 2019
Torrey Reserve North Court (1)	21,793	21,921	7.22%	June 1, 2019
Torrey Reserve VCI, VCII, VCIII (1)	7,337	7,380	6.36%	June 1, 2020
Solana Beach Corporate Centre I-II (1)	11,714	11,788	5.91%	June 1, 2020
Solana Beach Towne Centre (1)	39,045	39,293	5.91%	June 1, 2020
	978,991	959,405		
Unamortized fair value adjustment	(14,453)	(15,926)		
Total Debt Outstanding	$ 964,538	$ 943,479		

(1) Principal payments based on a 30-year amortization schedule.
(2) Maturity Date is the earlier of the loan maturity date under the loan agreement, or the Anticipated Repayment Date as specifically defined in the loan agreement, which is the date after which substantial economic penalties apply if the loan has not been paid off.
(3) Principal payments based on a 20-year amortization schedule.

(4) Interest only.

(5) Loan is interest only through August 2012. Beginning in September 2012, principal payments are based on a 30-year amortization schedule.

On March 29, 2012, we entered into a seven-year non-recourse mortgage loan with PNC Bank, National Association with an original principal amount of $21.9 million. The loan is secured by a first-priority deed of trust on One Beach Street and an assignment of all leases, rents and security deposits relating to One Beach Street. The loan has a maturity date of April 1, 2019, bears interest at a fixed rate per annum of 3.94% and is interest only.

Certain loans require us to comply with various financial covenants. As of June 30, 2012, we were in compliance with all loan covenants.

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June 30, 2012

(Unaudited)

Credit Facility

On January 19, 2011, in connection with the Offering, we entered into a credit facility pursuant to which a group of lenders provided commitments for a revolving credit facility allowing borrowings of up to $250.0 million. At June 30, 2012, our maximum allowable borrowing amount was $213.8 million. The credit facility has an accordion feature that may allow us to increase the availability thereunder up to a maximum of $400.0 million, subject to meeting specified requirements and obtaining additional commitments from lenders. No amounts have been borrowed on the credit facility to date. The credit facility bears interest at the rate of either LIBOR or a base rate, in each case plus a margin that will vary depending on our leverage ratio. The amount available for us to borrow under the credit facility is subject to the net operating income of our properties that form the borrowing base of the facility and a minimum implied debt yield of such properties.

On March 7, 2011, the credit facility was amended to allow us or our Operating Partnership to purchase GNMA securities with maturities of up to 30 years. On January 10, 2012, the credit facility was amended a second time to (1) extend the maturity date to January 10, 2016 (with a one-year extension option), (2) decrease the applicable interest rates and (3) modify certain financial covenants contained therein.

The credit facility includes a number of customary financial covenants, including:

- a maximum leverage ratio (defined as total indebtedness net of certain unrestricted cash and cash equivalents to total asset value) of 60%,
- a minimum fixed charge coverage ratio (defined as consolidated earnings before interest, taxes, depreciation and amortization to consolidated fixed charges) of 1.50x,
- a maximum secured leverage ratio (defined as total secured indebtedness to secured total asset value) of 50%,
- a minimum tangible net worth equal to at least 75% of our tangible net worth at January 19, 2011, plus 85% of the net proceeds of any additional equity issuances (other than additional equity issuances in connection with any dividend reinvestment program), and
- a $35.0 million limit on the maximum principal amount of recourse indebtedness we may have outstanding at any time, other than under the credit facility.

The credit facility provides that our annual distributions may not exceed the greater of (1) 95.0% of our funds from operations or (2) the amount required for us to (a) qualify and maintain our REIT status and (b) avoid the payment of federal or state income or excise tax. If certain events of default exist or would result from a distribution, we may be precluded from making distributions other than those necessary to qualify and maintain our status as a REIT.

We and certain of our subsidiaries guarantee the obligations under the credit facility, and certain of our subsidiaries pledged specified equity interests in our subsidiaries as collateral for our obligations under the credit facility.

As of June 30, 2012, we were in compliance with all credit facility covenants.

NOTE 9. EQUITY

Noncontrolling Interests

Noncontrolling interests in our Operating Partnership are interests in the Operating Partnership that are not owned by us. Noncontrolling interests consisted of 18,394,476 common units (the noncontrolling common units), and represented approximately 32% of the ownership interests in our Operating Partnership at June 30, 2012. Common units and shares of our common stock have essentially the same economic characteristics in that common units and shares of our common stock share equally in the total net income or loss distributions of our Operating Partnership. Investors who own common units have the right to cause our Operating Partnership to redeem any or all of their common units for cash equal to the then-current market value of one share of our common stock, or, at our election, shares of our common stock on a one-for-one basis.

During the six months ended June 30, 2012, approximately 1,613 common units were converted into shares of our common stock at a price per share of $22.56.

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

Dividends

The following table lists the dividends declared and paid on our shares of common stock and noncontrolling common units during the six months ended June 30, 2012:

Period	Amount per Share/Unit	Period Covered	Dividend Paid Date
First Quarter 2012	$ 0.21	January 1, 2012 to March 31, 2012	March 30, 2012
Second Quarter 2012	$ 0.21	April 1, 2012 to June 30, 2012	June 29, 2012

Taxability of Dividends

Earnings and profits, which determine the taxability of distributions to stockholders and holders of common units, may differ from income reported for financial reporting purposes due to the differences for federal income tax purposes in the treatment of loss on extinguishment of debt, revenue recognition and compensation expense and in the basis of depreciable assets and estimated useful lives used to compute depreciation.

Stock-Based Compensation

Concurrently with the closing of the Offering, we made grants of restricted shares of our common stock to certain executive officers pursuant to the terms of their employment agreements. These awards were made pursuant to our 2011 Equity Incentive Award Plan (the 2011 Plan) and are subject to either timing-based vesting or performance-based vesting. Those awards subject to time-based vesting will vest, subject to the recipient s continued employment, in two substantially equal installments on each of the third and fourth anniversaries of the date of grant. The vesting of those restricted stock awards subject to performance-based vesting is based on the achievement of absolute and relative total shareholder return hurdles over a three-year performance period, commencing on January 19, 2011. Following the completion of the three-year performance period, our compensation committee will determine the number of shares to which the executive officer is entitled based on our performance relative to the performance hurdles set forth in the restricted stock award agreement he entered into in connection with his initial award grant. These shares will then vest in two substantially equal installments, with the first installment vesting on the third anniversary of the date of grant and the second installment vesting on the fourth anniversary of the date of grant, subject to the executive officer s continued employment on those dates.

We granted each of our non-employee directors restricted shares of our common stock pursuant to the 2011 Plan, either concurrently with the closing of the Offering or at the time the director was formally appointed to our board of directors (the Board). These awards of restricted stock will vest ratably as to one-third of the shares granted on each of the first three anniversaries of the date of grant, subject to the director s continued service on our Board.

On March 16, 2011, we granted a total of 123,950 restricted shares of our common stock to certain other employees, and on January 19, 2012, we granted an additional 2,000 restricted shares of our common stock to employees, all pursuant to the 2011 Plan. These shares are subject to performance-based vesting, with substantially the same terms described above.

For the performance-based stock awards, the fair value of the awards was estimated using a Monte Carlo Simulation model. Our stock price, along with the stock prices of a group of peer REITs, is assumed to follow the Multivariate Geometric Brownian Motion Process. Multivariate Geometric Brownian Motion is a common assumption when modeling in financial markets, as it allows the modeled quantity (in this case, the stock price) to vary randomly from its current value and take any value greater than zero. The volatilities of the returns on the stock price of the Company and the group of REITs were estimated based on a three year look-back period. The expected growth rate of the stock prices over the "derived service period" of the employee is determined with consideration of the risk free rate as of the grant date. For the restricted stock grants that are time-vesting, we estimate the stock compensation expense based on the fair value of the stock at the grant date.

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June 30, 2012

(Unaudited)

The following table summarizes the activity of restricted stock awards during the six months ended June 30, 2012:

	Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2012	628,712	$ 15.43
Granted	2,000	12.26
Vested	(2,600	