

American Assets Trust, Inc.
Form 10-Q
May 03, 2013
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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 March 31, 2013

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)

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

The number of Registrant's common shares outstanding on May 3, 2013 was 39,708,257.

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AMERICAN ASSETS TRUST, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2013

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American Assets Trust, Inc.

Consolidated Balance Sheets

(In Thousands, Except Share Data)

	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Real estate, at cost		
Operating real estate	\$ 1,898,070	\$ 1,891,549
Construction in progress	34,498	32,183
Held for development	15,007	14,944
	1,947,575	1,938,676
Accumulated depreciation	(283,020)	(270,494)
Net real estate	1,664,555	1,668,182
Cash and cash equivalents	43,972	42,479
Restricted cash	8,803	7,421
Accounts receivable, net	7,479	6,440
Deferred rent receivables, net	30,230	29,395
Other assets, net	69,431	73,670
TOTAL ASSETS	\$ 1,824,470	\$ 1,827,587
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured notes payable	\$ 1,044,467	\$ 1,044,682
Accounts payable and accrued expenses	35,599	29,509
Security deposits payable	5,067	4,856
Other liabilities and deferred credits	60,181	62,811
Total liabilities	1,145,314	1,141,858
Commitments and contingencies (Note 10)		
EQUITY:		
American Assets Trust, Inc. stockholders' equity		
Common stock \$0.01 par value, 490,000,000 shares authorized, 39,664,212 and 39,664,212 shares outstanding at March 31, 2013 and December 31, 2012, respectively	397	397
Additional paid-in capital	664,265	663,589
Accumulated dividends in excess of net income	(30,584)	(25,625)
Total American Assets Trust, Inc. stockholders' equity	634,078	638,361
Noncontrolling interests	45,078	47,368
Total equity	679,156	685,729
TOTAL LIABILITIES AND EQUITY	\$ 1,824,470	\$ 1,827,587

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

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American Assets Trust, Inc.

Consolidated Statements of Income

(Unaudited)

(In Thousands, Except Shares and Per Share Data)

	Three Months Ended March 31,	
	2013	2012
REVENUE:		
Rental income	\$ 59,222	\$ 53,008
Other property income	2,958	2,441
Total revenue	62,180	55,449
EXPENSES:		
Rental expenses	16,286	14,818
Real estate taxes	4,800	5,241
General and administrative	4,201	3,725
Depreciation and amortization	17,013	14,854
Total operating expenses	42,300	38,638
OPERATING INCOME	19,880	16,811
Interest expense	(14,736)	(13,901)
Other income (expense), net	(279)	(146)
INCOME FROM CONTINUING OPERATIONS	4,865	2,764
DISCONTINUED OPERATIONS		
Results from discontinued operations		107
NET INCOME	4,865	2,871
Net income attributable to restricted shares	(132)	(132)
Net income attributable to unitholders in the Operating Partnership	(1,495)	(883)
NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, INC. STOCKHOLDERS	\$ 3,238	\$ 1,856
EARNINGS PER COMMON SHARE, BASIC		
Continuing operations	\$ 0.08	\$ 0.05
Discontinued operations		
Basic net income attributable to common stockholders per share	\$ 0.08	\$ 0.05
Weighted average shares of common stock outstanding basic	39,033,013	38,657,170
EARNINGS PER COMMON SHARE, DILUTED		
Continuing operations	\$ 0.08	\$ 0.05
Discontinued operations		
Diluted net income attributable to common stockholders per share	\$ 0.08	\$ 0.05

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Weighted average shares of common stock outstanding diluted	57,056,448	57,053,259
Dividends declared per common share	\$ 0.21	\$ 0.21

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			Additional Paid-in Capital	Accumulated dividends in excess of net income	Noncontrolling Interests - Unitholders in the Operating Partnership	Total
Balance at December 31, 2012	39,664,212	\$ 397	\$ 663,589		\$ (25,625)	\$ 47,368	\$ 685,729
Net income					3,370	1,495	4,865
Dividends declared					(8,329)	(3,785)	(12,114)
Stock-based compensation				676			676
Balance at March 31, 2013	39,664,212	\$ 397	\$ 664,265		\$ (30,584)	\$ 45,078	\$ 679,156

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)

	Three Months Ended March 31,	
	2013	2012
OPERATING ACTIVITIES		
Net income	\$ 4,865	\$ 2,871
Results from discontinued operations		(107)
Income from continuing operations	4,865	2,764
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	(1,163)	(1,551)
Depreciation and amortization	17,013	14,854
Amortization of debt issuance costs and debt fair value adjustments	983	962
Stock-based compensation expense	676	699
Loss from real estate joint ventures	54	
Other, net	(1,256)	416
Changes in operating assets and liabilities		
Change in restricted cash	(500)	(595)
Change in accounts receivable	(1,198)	1,513
Change in other assets	(216)	(1,304)
Change in accounts payable and accrued expenses	5,956	408
Change in security deposits payable	211	(85)
Change in other liabilities and deferred credits	247	(209)
Net cash provided by operating activities of continuing operations	25,672	17,872
Net cash provided by operating activities of discontinued operations		628
Net cash provided by operating activities	25,672	18,500
INVESTING ACTIVITIES		
Acquisition of real estate, net of cash acquired		(32,918)
Capital expenditures	(9,902)	(5,990)
Change in restricted cash	518	(139)
Leasing commissions	(338)	(467)
Maturity of marketable securities		1,613
Net cash used in investing activities of continuing operations	(9,722)	(37,901)
Net cash used in investing activities of discontinued operations		(11)
Net cash used in investing activities	(9,722)	(37,912)
FINANCING ACTIVITIES		
Change in restricted cash	(1,400)	
Issuance of secured notes payable		21,900
Repayment of secured notes payable	(943)	(1,161)
Debt issuance costs		(924)

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Dividends paid to common stock and unitholders	(12,114)	(12,113)
Deferred offering costs		(361)
Net cash (used in) provided by financing activities	(14,457)	7,341
Net increase (decrease) in cash and cash equivalents	1,493	(12,071)
Cash and cash equivalents, beginning of period	42,479	112,723
Cash and cash equivalents, end of period	\$ 43,972	\$ 100,652

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

March 31, 2013

(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 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 real estate investment trust (REIT) subsidiary (TRS). 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.

We are a vertically integrated and self-administered REIT with approximately 119 employees providing substantial in-house expertise in asset management, property management, property development, leasing, tenant improvement construction, acquisitions, repositioning, redevelopment and financing.

As of March 31, 2013, we owned or had a controlling interest in 23 office, retail, multifamily and mixed-use operating properties, the operations of which we consolidate. Additionally, as of March 31, 2013, 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

Geary Marketplace

The Shops at Kalakaua

Waialele Center

Alamo Quarry Market

Office

Torrey Reserve Campus

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Solana Beach Corporate Centre

The Landmark at One Market

One Beach Street

First & Main

Lloyd District Portfolio

City Center Bellevue

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)

March 31, 2013

(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 December 2012, we sold 160 King Street. We have reclassified our financial statements for all periods prior to the sale to reflect 160 King Street 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. These financial statements should be read in conjunction with the audited consolidated financial statements and notes therein included in the Company's annual report on Form 10-K for the year ended December 31, 2012.

The preparation of financial statements in conformity with GAAP requires us 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 our best judgment, after considering past, current and expected events and economic conditions. Actual results could differ from these estimates.

Any reference to the number of properties and square footage are unaudited and outside the scope of our independent registered public accounting firm's audit of our financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

Consolidated Statements of Cash Flows Supplemental Disclosures

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

	Three Months Ended March 31,	
	2013	2012
Supplemental cash flow information		
Total interest costs incurred	\$ 15,093	\$ 13,901
Interest capitalized	\$ 357	\$
Interest expense	\$ 14,736	\$ 13,901
Cash paid for interest, net of amounts capitalized (including discontinued operations)	\$ 13,128	\$ 13,379

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Cash paid for income taxes	\$	\$ 720
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Supplemental schedule of noncash investing and financing activities

Accounts payable and accrued liabilities for construction in progress	\$ 556	\$ (232)
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Acquisition of working capital deficit, net of cash	\$	\$ (190)
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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, 2012. There have been no changes to our significant accounting policies during the three months ended March 31, 2013.

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2013

(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 February 2013, the Financial Accounting Standards Board issued ASU 2013-2, *Comprehensive Income (Topic 220): Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU 2013-2 requires entities to disclose certain information relating to amounts reclassified out of accumulated other comprehensive income. This pronouncement became effective for us in the first quarter of 2013 and did not have a significant impact on our consolidated financial statements.

NOTE 2. 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 March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013	December 31, 2012
In-place leases	\$ 71,945	\$ 72,598
Accumulated amortization	(40,402)	(38,290)
Above market leases	30,654	32,846
Accumulated amortization	(20,236)	(21,363)
Acquired lease intangible assets, net	\$ 41,961	\$ 45,791
Below market leases	\$ 79,933	\$ 80,071
Accumulated accretion	(27,129)	(25,721)
Acquired lease intangible liabilities, net	\$ 52,804	\$ 54,350

NOTE 3. MARKETABLE SECURITIES

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Our portfolio of marketable securities was comprised of debt securities that were classified as trading securities. Our marketable securities consisted of investments in mortgage-backed securities issued by the Government National Mortgage Association (GNMA securities). We reported our trading securities at fair value, using prices provided by independent market participants that were based on observable inputs using market-based valuation techniques (Level 2 of the fair value hierarchy-see Note 4). On August 20, 2012, we sold all of our outstanding GNMA securities with a realized loss of \$0.7 million for the year ended December 31, 2012. For the three months ended March 31, 2012, gains and losses resulting from the mark-to-market of these securities were recognized as unrealized gains in income. Unrealized gain in our statement of income for the three months ended March 31, 2012 was \$0.2 million and is included in other income (expense), net on the accompanying consolidated statement of income.

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2013

(Unaudited)

NOTE 4. 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. The financial liability whose fair value we measure on a recurring basis using Level 2 inputs is our deferred compensation liability included in other liabilities and deferred credits on the consolidated balance sheet. We measure the fair value of this 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.

A summary of our financial liabilities that are measured at fair value on a recurring basis, by level within the fair value hierarchy is as follows (in thousands):

	March 31, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Deferred compensation liability	\$	\$ 660	\$	\$ 660	\$	\$ 637	\$	\$ 637

The fair value of our secured notes payable is sensitive to fluctuations in interest rates. Discounted cash flow analysis using observable market interest rates (Level 2) is generally used to estimate the fair value of our secured notes payable, using rates ranging from 3.2% to 4.5%.

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):

	March 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Secured notes payable	\$ 1,044,467	\$ 1,119,168	\$ 1,044,682	\$ 1,116,162

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2013

(Unaudited)

NOTE 5. OTHER ASSETS

Other assets consist of the following (in thousands):

	March 31, 2013	December 31, 2012
Leasing commissions, net of accumulated amortization of \$17,882 and \$16,829, respectively	\$ 18,191	\$ 18,329
Acquired above market leases, net	10,418	11,483
Acquired in-place leases, net	31,543	34,308
Lease incentives, net of accumulated amortization of \$2,313 and \$2,220, respectively	1,388	1,480
Other intangible assets, net of accumulated amortization of \$4,316 and \$4,239, respectively	873	960
Debt issuance costs, net of accumulated amortization of \$2,629 and \$2,374, respectively	3,396	3,651
Prepaid expenses and other	3,622	3,459
Total other assets	\$ 69,431	\$ 73,670

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2013****(Unaudited)****NOTE 6. OTHER LIABILITIES AND DEFERRED CREDITS**

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

	March 31, 2013	December 31, 2012
Acquired below market leases, net	\$ 52,804	\$ 54,350
Prepaid rent and deferred revenue	5,279	6,383
Deferred rent expense and lease intangible	969	1,008
Deferred compensation	660	637
Deferred tax liability	320	320
Straight-line rent liability	110	63
Other liabilities	39	50
Total other liabilities and deferred credits	\$ 60,181	\$ 62,811

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.

NOTE 7. DEBT

The following is a summary of our total secured notes payable outstanding as of March 31, 2013 and December 31, 2012 (in thousands):

Description of Debt	Principal Balance as of		Stated Interest	
	March 31, 2013	December 31, 2012	Rate as of March 31, 2013	Stated Maturity Date
Alamo Quarry Market ⁽¹⁾⁽²⁾	\$ 93,379	\$ 93,942	5.67%	January 8, 2014
Waialele Center ⁽³⁾	140,700	140,700	5.15%	November 1, 2014
The Shops at Kalakaua ⁽³⁾	19,000	19,000	5.45%	May 1, 2015
The Landmark at One Market ⁽²⁾⁽³⁾	133,000	133,000	5.61%	July 5, 2015
Del Monte Center ⁽³⁾	82,300	82,300	4.93%	July 8, 2015
First & Main ⁽³⁾	84,500	84,500	3.97%	July 1, 2016
Imperial Beach Gardens ⁽³⁾	20,000	20,000	6.16%	September 1, 2016
Mariner's Point ⁽³⁾	7,700	7,700	6.09%	September 1, 2016
South Bay Marketplace ⁽³⁾	23,000	23,000	5.48%	February 10, 2017
Waikiki Beach Walk Retail ⁽³⁾	130,310	130,310	5.39%	July 1, 2017
Solana Beach Corporate Centre III-IV ⁽⁴⁾	37,098	37,204	6.39%	August 1, 2017
Loma Palisades ⁽³⁾	73,744	73,744	6.09%	July 1, 2018

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One Beach Street ⁽³⁾	21,900	21,900	3.94%	April 1, 2019
Torrey Reserve North Court ⁽¹⁾	21,591	21,659	7.22%	June 1, 2019
Torrey Reserve VCI, VCII, VCIII ⁽¹⁾	7,269	7,294	6.36%	June 1, 2020
Solana Beach Corporate Centre I-II ⁽¹⁾	11,595	11,637	5.91%	June 1, 2020
Solana Beach Towne Centre ⁽¹⁾	38,650	38,790	5.91%	June 1, 2020
City Center Bellevue ⁽³⁾	111,000	111,000	3.98%	November 1, 2022
	1,056,736	1,057,680		
Unamortized fair value adjustment	(12,269)	(12,998)		
Total Secured Notes Payable Outstanding	\$ 1,044,467	\$ 1,044,682		

(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) Interest only.

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

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2013

(Unaudited)

Certain loans require us to comply with various financial covenants. As of March 31, 2013, we were in compliance with these financial covenants.

Credit Facility

On January 19, 2011, 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 March 31, 2013, our maximum allowable borrowing amount was \$226.2 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. The credit facility bears interest at the rate of either the applicable 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. On September 7, 2012, the credit facility was amended a third time to allow the Company's consolidated total secured indebtedness to be up to 55% of our secured total asset value for the period commencing upon the date that a material acquisition (generally, greater than \$100 million) is consummated through and including the last day of the third fiscal quarter that follows such date.

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 up to 55% in certain circumstances,

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

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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 March 31, 2013, we were in compliance with the credit facility financial covenants.

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2013****(Unaudited)****NOTE 8. 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 18,023,435 common units (the "noncontrolling common units"), and represented approximately 32% of the ownership interests in our Operating Partnership at March 31, 2013. 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.

Dividends

The following table lists the dividends declared and paid on our shares of common stock and noncontrolling common units during the three months ended March 31, 2013:

Period	Amount per Share/Unit	Period Covered	Dividend Paid Date
First Quarter 2013	\$ 0.21	January 1, 2013 to March 31, 2013	March 29, 2013

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

Pursuant to our 2011 Equity Incentive Award Plan (the "2011 Plan"), we have made grants of restricted shares of our common stock to certain executive officers pursuant to the terms of their employment agreements, which 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 our initial public offering or at the time the director was formally appointed to our board of directors (the "Board"). These awards of

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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 pursuant to our independent director compensation policy.

We have also granted restricted shares of our common stock to certain other employees pursuant to the 2011 Plan. These shares are subject to performance-based vesting, with substantially the same terms described above.

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2013****(Unaudited)**

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.

The following table summarizes the activity of restricted stock awards during the three months ended March 31, 2013:

	Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2013	633,222	\$ 15.64
Granted		
Vested	(2,601)	20.50
Forfeited		
Nonvested at March 31, 2013	630,621	\$ 15.51

We recognize noncash compensation expense ratably over the vesting period, and accordingly, we recognized \$0.7 million in noncash compensation expense for both the three months ended March 31, 2013 and 2012, which is included in general and administrative expense on the consolidated statements of income. Unrecognized compensation expense was \$3.6 million at March 31, 2013.

Earnings Per Share

We have calculated earnings per share (EPS) under the two-class method. The two-class method is an earnings allocation methodology whereby EPS for each class of common stock and participating security is calculated according to dividends declared and participation rights in undistributed earnings. For the three months ended March 31, 2013 and 2012, we had a weighted average of approximately 631,199 and 627,267 unvested shares outstanding, respectively, which are considered participating securities. Therefore, we have allocated our earnings for basic and diluted EPS between common shares and unvested shares.

Diluted EPS is calculated by dividing the net income applicable to common stockholders for the period by the weighted average number of common and dilutive instruments outstanding during the period using the treasury stock method. For the three months ended March 31, 2013 and 2012, diluted shares exclude incentive restricted stock as these awards are considered contingently issuable. Additionally, the unvested restricted stock awards subject to time vesting are anti-dilutive for all periods presented and accordingly, have been excluded from the weighted average common shares used to compute diluted EPS.

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2013

(Unaudited)

The computation of basic and diluted EPS is presented below (dollars in thousands, except share and per share amounts):

	Three Months Ended March 31,	
	2013	2012
NUMERATOR		
Income from continuing operations	\$ 4,865	\$ 2,764
Less: Net income attributable to restricted shares	(132)	(132)
Less: Income from continuing operations attributable to unitholders in the Operating Partnership	(1,495)	(883)
Income from continuing operations attributable to American Assets Trust, Inc. common stockholders basic	3,238	1,749
Plus: Results from discontinued operations attributable to American Assets Trust, Inc. common stockholders		107
Net income attributable to common stockholders basic	\$ 3,238	\$ 1,856
Income from continuing operations attributable to American Assets Trust, Inc. common stockholders basic	\$ 3,238	\$ 1,749
Plus: Income from continuing operations attributable to unitholders in the Operating Partnership	1,495	883
Income from continuing operations attributable to common stockholders diluted	4,733	2,632
Plus: Results from discontinued operations attributable to American Assets Trust, Inc. common stockholders		107
Plus: Results from discontinued operations attributable to unitholders in the Operating Partnership		
Net income attributable to common stockholders diluted	\$ 4,733	\$ 2,739
DENOMINATOR		
Weighted average common shares outstanding basic	39,033,013	38,657,170
Effect of dilutive securities conversion of Operating Partnership units	18,023,435	18,396,089
Weighted average common shares outstanding diluted	57,056,448	57,053,259
EARNINGS PER COMMON SHARE BASIC		
Continuing operations	\$ 0.08	\$ 0.05
Discontinued operations		
	\$ 0.08	\$ 0.05
EARNINGS PER COMMON SHARE DILUTED		
Continuing operations	\$ 0.08	\$ 0.05

Discontinued operations

	\$	0.08	\$	0.05
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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2013

(Unaudited)

NOTE 9. DISCONTINUED OPERATIONS

On December 4, 2012, we sold 160 King Street for a sales price of approximately \$93.8 million. The property is located in San Francisco, California and was previously included in our office segment. The decision to sell 160 King Street was a result of our desire to focus resources on our core, high-barrier-to-entry markets. The sale was completed as a reverse tax deferred exchange in conjunction with the acquisition of City Center Bellevue pursuant to the provisions of Section 1031 of the Code and applicable state revenue and taxation code sections. As a result of the sale, 160 King Street no longer serves as a borrowing base property under our revolving credit facility.

Net revenue and net income from the property's discontinued operations were as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Net revenue from discontinued operations	\$	\$ 1,589
Net property expenses from discontinued operations		628
Depreciation and amortization		399
Results from discontinued operations		
Income from discontinued operations		107
 Total income from discontinued operations	 \$	 \$ 107

NOTE 10. INCOME TAXES

We elected to be taxed as a REIT and operate in a manner that allows us to qualify as a REIT for federal income tax purposes commencing with our initial taxable year. As a REIT, we are generally not subject to corporate level income tax on the earnings distributed currently to our stockholders that we derive from our REIT qualifying activities. Taxable income from non-REIT activities managed through our TRS is subject to federal and state income taxes.

We lease our hotel property to a wholly owned TRS that is subject to federal and state income taxes. We account for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between GAAP carrying amounts and their respective tax bases. Additionally, we classify certain state taxes as income taxes for financial reporting purposes in accordance with ASC Topic 740, Income Taxes. We record the Portland Business Tax and Texas Margin Tax as income taxes in our financial statements.

A deferred tax liability of \$0.3 million as of March 31, 2013 and December 31, 2012 is included in our consolidated balance sheets in relation to real estate asset basis differences for Alamo Quarry Market and certain elections made in our 2011 return for our TRS.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Legal

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We are sometimes involved in various disputes, lawsuits, warranty claims, environmental and other matters arising in the ordinary course of business. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters.

We are currently a party to various legal proceedings. We accrue a liability for litigation if an unfavorable outcome is probable and the amount of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, we accrue the best estimate within the range; however, if no amount within the range is a better estimate than any other amount, the minimum within the range is accrued. Legal fees related to litigation are expensed as incurred. We do not believe that the ultimate outcome of these matters, either individually or in the aggregate, could have a material adverse effect on our financial position or overall trends in results of operations; however, litigation is subject to inherent uncertainties. Also, under our leases, tenants are typically obligated to indemnify us from and against all liabilities, costs and expenses imposed upon or asserted against us as owner of the properties due to certain matters relating to the operation of the properties by the tenant.

Commitments

At The Landmark at One Market, we lease, as lessee, a building adjacent to The Landmark under an operating lease effective through June 30, 2016, which we have the option to extend until 2026 by way of two five-year extension options.

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2013****(Unaudited)**

At Waikiki Beach Walk, we sublease a portion of the building of which Quiksilver is currently in possession, under an operating lease effective through December 31, 2021, which we have the option to extend at fair rental value in the event the sublessor extends its lease for the space with the master landlord. The lease payments under the lease will increase by approximately 3.4% annually through 2017 and, thereafter, will be equal to fair rental value, as defined in the lease, through lease expiration.

Current minimum annual payments under the leases are as follows, as of March 31, 2013 (in thousands):

Year Ending December 31,	
2013 (nine months ending December 31, 2013)	\$ 1,885
2014	2,569
2015	2,636
2016	1,709
2017	736 ⁽¹⁾
Thereafter	2,961
Total	\$ 12,496

(1) Lease payments on the Waikiki Beach Walk lease will be equal to fair rental value from March 2017 through the end of the lease term. In the table, we have shown the lease payments for this period based on the stated rate for the month of February 2017 of \$61,690.

We have management agreements with Outrigger Hotels & Resorts or an affiliate thereof (Outrigger) pursuant to which Outrigger manages each of the retail and hotel portions of the Waikiki Beach Walk property. Under the management agreement with Outrigger relating to the retail portion of Waikiki Beach Walk (the retail management agreement), we pay Outrigger a monthly management fee of 3.0% of net revenues from the retail portion of Waikiki Beach Walk. Pursuant to the terms of the retail management agreement, if the agreement is terminated in certain instances, including our election not to repair damage or destruction at the property, a condemnation or our failure to make required working capital infusions, we would be obligated to pay Outrigger a termination fee equal to the sum of the management fees paid for the two calendar months immediately preceding the termination date. The retail management agreement may not be terminated by us or by Outrigger without cause. Under our management agreement with Outrigger relating to the hotel portion of Waikiki Beach Walk (the hotel management agreement), we pay Outrigger a monthly management fee of 6.0% of the hotel's gross operating profit, as well as 3.0% of the hotel's gross revenues; provided that the aggregate management fee payable to Outrigger for any year shall not exceed 3.5% of the hotel's gross revenues for such fiscal year. Pursuant to the terms of the hotel management agreement, if the agreement is terminated in certain instances, including upon a transfer by us of the hotel or upon a default by us under the hotel management agreement, we would be required to pay a cancellation fee calculated by multiplying (1) the management fees for the previous 12 months by (2) (a) eight, if the agreement is terminated in the first 11 years of its term, or (b) four, three, two or one, if the agreement is terminated in the twelfth, thirteenth, fourteenth or fifteenth year, respectively, of its term. The hotel management agreement may not be terminated by us or by Outrigger without cause.

A wholly owned subsidiary of our Operating Partnership, BWB Hotel Lessee LLC, entered into a franchise license agreement with Embassy Suites Franchise LLC, the franchisor of the brand Embassy Suites , to obtain the non-exclusive right to operate the hotel under the Embassy Suites™ brand for 20 years. The franchise license agreement provides that BWB Hotel Lessee LLC must comply with certain management, operational, record keeping, accounting, reporting and marketing standards and procedures. In connection with this agreement, we are also subject to the terms of a product improvement plan pursuant to which we expect to undertake certain actions to ensure that our hotel's infrastructure is maintained in compliance with the franchisor's brand standards. In addition, we must pay to Embassy Suites Franchise LLC a monthly franchise royalty fee equal to 4.0% of the hotel's gross room revenue through December 2021 and 5.0% of the hotel's gross room

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revenue thereafter, as well as a monthly program fee equal to 4.0% of the hotel's gross room revenue. If the franchise license is terminated due to our failure to make required improvements or to otherwise comply with its terms, we may be liable to the franchisor for a termination payment, which could be as high as \$5.9 million based on operating performance through March 31, 2013.

We had a property management agreement with Langley Investment Properties, Inc. ("Langley") pursuant to which Langley managed and operated Lloyd District Portfolio, and we paid Langley a monthly management fee of 3.5% of gross receipts, as defined in the property management agreement, as well as leasing commissions and construction oversight fees in certain situations. The property management agreement was terminated on February 1, 2013 by mutual consent of both parties. Langley continues to provide development consulting services to us through June 30, 2013 and leasing services to us through December 31, 2013 pursuant to a Development, Consulting, Leasing and Transition Services and Management Termination Agreement.

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2013

(Unaudited)

Our Del Monte Center property has ongoing environmental remediation related to ground water contamination. The environmental issue existed at purchase and remediation is expected to conclude within the next two years. The work performed is financed through an escrow account funded by the seller upon purchase of the property. We believe the funds in the escrow account are sufficient for the remaining work to be performed. However, if further work is required costing more than the remaining escrow funds, we could be required to pay such overage, although we may have a contractual claim for such costs against the prior owner or our environmental remediation consultant.

In connection with our initial public offering, we entered into tax protection agreements with certain limited partners of our Operating Partnership. These agreements provide that if we dispose of any interest with respect to Carmel Country Plaza, Carmel Mountain Plaza, Del Monte Center, Loma Palisades, Lomas Santa Fe Plaza, Waialele Center or the ICW Plaza portion of Torrey Reserve Campus, in a taxable transaction during the period from the closing of our initial public offering through January 19, 2018, we will indemnify such limited partners for their tax liabilities attributable to their share of the built-in gain that existed with respect to such property interest as of the time of our initial public offering and tax liabilities incurred as a result of the reimbursement payment. Subject to certain exceptions and limitations, the indemnification rights will terminate for any such protected partner that sells, exchanges or otherwise disposes of more than 50% of his or her common units. We have no present intention to sell or otherwise dispose of the properties or interest therein in taxable transactions during the restriction period. If we were to trigger the tax protection provisions under these agreements, we would be required to pay damages in the amount of the taxes owed by these limited partners (plus additional damages in the amount of the taxes incurred as a result of such payment).

As of March 31, 2013, the Company has accrued approximately \$6.6 million for transfer taxes that the Company expected to incur on its California properties in connection with its initial public offering. The Company believes that it has filed all necessary forms with the requisite taxing authorities, but can offer no assurances that the taxing authorities will agree with the Company's estimate above.

Concentrations of Credit Risk

Our properties are located in Southern California, Northern California, Hawaii, Oregon, Texas, and Washington. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social factors affecting the markets in which the tenants operate. Twelve of our consolidated properties are located in Southern California, which exposes us to greater economic risks than if we owned a more geographically diverse portfolio. Further, tenants in the retail industry accounted for 35.6% of total revenues for the three months ended March 31, 2013. This makes us susceptible to demand for retail rental space and subject to the risks associated with an investment in real estate with a concentration of tenants in the retail industry. For the three months ended March 31, 2013 and 2012, no tenant accounted for more than 10% of our total rental revenue.

NOTE 12. OPERATING LEASES

Our leases with office, retail, mixed-use and residential tenants are classified as operating leases. Leases at our office and retail properties and the retail portion of our mixed-use property generally range from three to ten years (certain leases with anchor tenants may be longer), and in addition to minimum rents, usually provide for cost recoveries for the tenant's share of certain operating costs and also may include percentage rents based on the tenant's level of sales achieved. Leases on apartments generally range from 7 to 15 months, with a majority having 12 month lease terms. Rooms at the hotel portion of our mixed-use property are rented on a nightly basis.

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2013

(Unaudited)

As of March 31, 2013, minimum future rentals from noncancelable operating leases, before any reserve for uncollectible amounts and assuming no early lease terminations, at our office and retail properties and the retail portion of our mixed-use property are as follows (in thousands):

Year Ending December 31,	
2013 (nine months ending December 31, 2013)	\$ 113,881
2014	138,282
2015	126,455
2016	106,785
2017	90,991
Thereafter	163,312
Total	\$ 739,706

The above future minimum rentals exclude residential leases, which typically have a term of 12 months or less, and exclude the hotel, as rooms are rented on a nightly basis.

NOTE 13. COMPONENTS OF RENTAL INCOME AND EXPENSE

The principal components of rental income are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Minimum rents		
Retail	\$ 17,351	\$ 16,075
Office	20,500	16,247
Multifamily	3,583	3,275
Mixed-use	2,420	2,283
Cost reimbursement	5,671	6,733
Percentage rent	418	292
Hotel revenue	8,848	7,664
Other	431	439
Total rental income	\$ 59,222	\$ 53,008

Minimum rents include \$0.7 million and \$1.8 million for the three months ended March 31, 2013 and 2012, respectively, to recognize minimum rents on a straight-line basis. In addition, net amortization of above and below market leases included in minimum rents were \$0.5 million and \$(0.3) million for the three months ended March 31, 2013 and 2012, respectively.

The principal components of rental expenses are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Rental operating	\$ 6,314	\$ 5,583
Hotel operating	5,482	4,956
Repairs and maintenance	2,114	2,004
Marketing	352	306
Rent	613	611
Hawaii excise tax	939	862
Management fees	472	496
Total rental expenses	\$ 16,286	\$ 14,818

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2013****(Unaudited)****NOTE 14. OTHER INCOME (EXPENSE), NET**

The principal components of other income (expense), net, are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Income and investment income	\$ 8	\$ 87
Income tax expense	(297)	(218)
Acquisition related expenses		(15)
Other non-operating income	10	
Total other income (expense), net	\$ (279)	\$ (146)

NOTE 15. RELATED PARTY TRANSACTIONS

At ICW Plaza, we lease space to Insurance Company of the West, which is under the indirect control of Ernest Rady, our Executive Chairman of the Board. Rental revenue recognized on the leases of \$0.5 million for the three months ended March 31, 2013 and 2012, respectively, is included in rental income.

The Waikiki Beach Walk entities have a 47.7% investment in WBW CHP LLC, an entity that was formed to, among other things, construct a chilled water plant to provide air conditioning to the property and other adjacent facilities. The operating expenses of WBW CHP LLC are recovered through reimbursements from its members, and reimbursements to WBW CHP LLC of \$0.2 million were made for the three months ended March 31, 2013 and 2012, respectively, and are included in rental expenses on the statement of income.

NOTE 16. SEGMENT REPORTING

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.

We evaluate the performance of our segments based on segment profit, which is defined as property revenue less property expenses. We do not use asset information as a measure to assess performance and make decisions to allocate resources. Therefore, depreciation and amortization expense is not allocated among segments. General and administrative expenses, interest expense, depreciation and amortization expense and other income and expense are not included in segment profit as our internal reporting addresses these items on a corporate level.

Segment profit is not a measure of operating income or cash flows from operating activities as measured by GAAP, and it is not indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity. Not all companies calculate segment profit in the same manner. We consider segment profit to be an appropriate supplemental measure to net income because it assists both

investors and management in understanding the core operations of our properties.

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

March 31, 2013

(Unaudited)

The following table represents operating activity within our reportable segments (in thousands):

	Three Months Ended March 31,	
	2013	2012
Total Retail		
Property revenue	\$ 22,154	\$ 21,691
Property expense	(4,971)	(5,726)
Segment profit	17,183	15,965
Total Office		
Property revenue	22,422	17,887
Property expense	(6,436)	(5,518)
Segment profit	15,986	12,369
Total Multifamily		
Property revenue	3,875	3,542
Property expense	(1,442)	(1,314)
Segment profit	2,433	2,228
Total Mixed-Use		
Property revenue	13,729	12,329
Property expense	(8,237)	(7,501)
Segment profit	5,492	4,828
Total segments profit	\$ 41,094	\$ 35,390

The following table is a reconciliation of segment profit to net income attributable to stockholders (in thousands):

	Three Months Ended March 31,	
	2013	2012
Total segments profit	\$ 41,094	\$ 35,390
General and administrative	(4,201)	(3,725)
Depreciation and amortization	(17,013)	(14,854)
Interest expense	(14,736)	(13,901)
Other income (expense), net	(279)	(146)

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Income from continuing operations	4,865	2,764
Discontinued operations		
Results from discontinued operations		107
Net income	4,865	2,871
Net income attributable to restricted shares	(132)	(132)
Net income attributable to unitholders in the Operating Partnership	(1,495)	(883)
Net income attributable to American Assets Trust, Inc. stockholders	\$ 3,238	\$ 1,856

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****March 31, 2013****(Unaudited)**

The following table shows net real estate and secured note payable balances for each of the segments (in thousands):

	March 31, 2013	December 31, 2012
Net Real Estate		
Retail	\$ 664,151	\$ 669,177
Office	762,210	759,203
Multifamily	36,020	36,391
Mixed-Use	202,174	203,411
	\$ 1,664,555	\$ 1,668,182
Secured Notes Payable ⁽¹⁾		
Retail	\$ 397,029	\$ 397,732
Office	427,953	428,194
Multifamily	101,444	101,444
Mixed-Use	130,310	130,310
	\$ 1,056,736	\$ 1,057,680

(1) Excludes unamortized fair market value adjustments of \$12.3 million and \$13.0 million as of March 31, 2013 and December 31, 2012, respectively. Capital expenditures for each segment for the three months ended March 31, 2013 and 2012 were as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Capital Expenditures ⁽¹⁾		
Retail	\$ 1,947	\$ 3,430
Office	7,862	2,712
Multifamily	143	238
Mixed-Use	288	77
	\$ 10,240	\$ 6,457

(1) Capital expenditures represent cash paid for capital expenditures during the period and include leasing commissions paid.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. We make statements in this report that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act). In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, plans, pro forma, estimates or anticipates or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

adverse economic or real estate developments in our markets;

our failure to generate sufficient cash flows to service our outstanding indebtedness;

defaults on, early terminations of or non-renewal of leases by tenants, including significant tenants;

difficulties in identifying properties to acquire and completing acquisitions;

our failure to successfully operate acquired properties and operations;

our inability to develop or redevelop our properties due to market conditions;

fluctuations in interest rates and increased operating costs;

risks related to joint venture arrangements;

our failure to obtain necessary outside financing;

on-going litigation;

general economic conditions;

financial market fluctuations;

risks that affect the general retail, office, multifamily and mixed-use environment;

the competitive environment in which we operate;

decreased rental rates or increased vacancy rates;

conflicts of interests with our officers or directors;

lack or insufficient amounts of insurance;

environmental uncertainties and risks related to adverse weather conditions and natural disasters;

other factors affecting the real estate industry generally;

limitations imposed on our business and our ability to satisfy complex rules in order for us to continue to qualify as a REIT for U.S. federal income tax purposes; and

changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes. For a further discussion of these and other factors, see the section entitled Item 1A. Risk Factors contained herein and, in our annual report on Form 10-K for the year ended December 31, 2012.

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Overview

References to we, our, us and our company refer to American Assets Trust, Inc., a Maryland corporation, together with our consolidated subsidiaries, including American Assets Trust, L.P., a Maryland limited partnership, of which we are the sole general partner and which we refer to in this report as our Operating Partnership.

We are a full service, vertically integrated and self-administered real estate investment trust, or REIT, that owns, operates, acquires and develops high quality retail, office, multifamily and mixed-use properties in attractive, high-barrier-to-entry markets in Southern California, Northern California, Texas, Oregon, Washington and Hawaii. As of March 31, 2013, our portfolio is comprised of eleven retail shopping centers; seven office properties; a mixed-use property consisting of a 369-room all-suite hotel and a retail shopping center; and four multifamily properties. Additionally, as of March 31, 2013, we owned land at five of our properties that we classified as held for development and/or construction in progress. Our core markets include San Diego, the San Francisco Bay Area, Portland, Oregon, Bellevue, Washington and Oahu, Hawaii. We are a Maryland corporation formed on July 16, 2010 to acquire the entities owning various controlling and noncontrolling interests in real estate assets owned and/or managed by Ernest S. Rady or his affiliates, including the Ernest Rady Trust U/D/T March 13, 1983, or the Rady Trust, and did not have any operating activity until the consummation of our initial public offering on January 19, 2011. Our Company, as the sole general partner of our Operating Partnership, has control of our Operating Partnership and owned 68.4% of our Operating Partnership as of March 31, 2013. Accordingly, we consolidate the assets, liabilities and results of operations of our Operating Partnership.

Critical Accounting Policies

We identified certain critical accounting policies that affect certain of our more significant estimates and assumptions used in preparing our consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2012. We have not made any material changes to these policies during the periods covered by this report.

Capitalized Costs

Certain external and internal costs directly related to the development and redevelopment of real estate, including pre-construction costs, real estate taxes, insurance, construction costs and salaries and related costs of personnel directly involved, are capitalized. We capitalize costs under development until construction is substantially complete and the property is held available for occupancy. The determination of when a development project is substantially complete and when capitalization must cease involves a degree of judgment. We consider a construction project as substantially complete and held available for occupancy upon the completion of landlord-owned tenant improvements or when the lessee takes possession of the unimproved space for construction of its own improvements, but not later than one year from cessation of major construction activity. We cease capitalization on the portion substantially completed and occupied or held available for occupancy, and capitalize only those costs associated with any remaining portion under construction.

We capitalized external and internal costs related to both development and redevelopment activities combined of \$6.6 million and \$1.9 million for the three months ended March 31, 2013 and 2012, respectively.

We capitalized external and internal costs related to other property improvements of \$3.7 million and none, respectively, for the three months ended March 31, 2013 and \$4.1 million and none, respectively, for the three months ended March 31, 2012.

The amount of capitalized internal costs for salaries and related benefits for development and redevelopment activities and other property improvements was \$0.1 million for the three months ended March 31, 2013. For the quarter ended March 31, 2012, we did not allocate salaries or related personnel costs to any assets and there was no payroll that was capitalized or deferred because we had no projects under active development, redevelopment, or construction other than ongoing tenant improvements.

Interest costs on developments and major redevelopments are capitalized as part of developments and redevelopments not yet placed in service. Capitalization of interest commences when development activities and expenditures begin and end upon completion, which is when the asset is ready for its intended use as noted above. We make judgments as to the time period over which to capitalize such costs and these assumptions have a direct impact on net income because capitalized costs are not subtracted in calculating net income. If the time period for capitalizing interest is extended, more interest is capitalized, thereby decreasing interest expense and increasing net income during that period. We capitalized interest costs related to both

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development and redevelopment activities combined of \$0.4 million and none for the three months ended March 31, 2013 and 2012, respectively. For the quarter ended March 31, 2012, our primary capital expenditures related to tenant improvements and capital improvements at our existing operating properties which are currently leased to tenants, and we do not capitalize interest to those properties that are currently in use. We had no properties under active construction or placed into service during the quarter ended March 31, 2012.

Results of Operations

For our discussion of results of operations, we have provided information on a total portfolio and same-store basis. Information provided on a same-store basis includes the results of properties that we owned and operated for the entirety of both periods being compared, except for properties held for development and properties classified as discontinued operations, which are excluded for both periods.

Comparison of the three months ended March 31, 2013 to the three months ended March 31, 2012

The following summarizes our consolidated results of operations for the three months ended March 31, 2013 compared to our consolidated results of operations for the three months ended March 31, 2012. As of March 31, 2013, our operating portfolio was comprised of 23 retail, office, multifamily and mixed-use properties with an aggregate of approximately 5.8 million rentable square feet of retail and office space, including the retail portion of our mixed-use property, 922 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of March 31, 2013, we owned land at five of our properties that we classified as held for development and/or construction in progress. As of March 31, 2012, our operating portfolio was comprised of 21 properties with an aggregate of approximately 5.2 million rentable square feet of retail and office space, including the retail portion of our mixed-use property, and 922 residential units (including 122 RV spaces) and a 369-room hotel; we also owned land at five of our properties that we classified as held for development.

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The following table sets forth selected data from our consolidated statements of income for the three months ended March 31, 2013 and 2012 (dollars in thousands):

	Three Months Ended March 31,		Change	%
	2013	2012		
Revenues				
Rental income	\$ 59,222	\$ 53,008	\$ 6,214	12%
Other property income	2,958	2,441	517	21
Total property revenues	62,180	55,449	6,731	12
Expenses				
Rental expenses	16,286	14,818	1,468	10
Real estate taxes	4,800	5,241	(441)	(8)
Total property expenses	21,086	20,059	1,027	5
Total property income	41,094	35,390	5,704	16
General and administrative	(4,201)	(3,725)	(476)	13
Depreciation and amortization	(17,013)	(14,854)	(2,159)	15
Interest expense	(14,736)	(13,901)	(835)	6
Other income (expense), net	(279)	(146)	(133)	91
Total other, net	(36,229)	(32,626)	(3,603)	11
Income from continuing operations	4,865	2,764	2,101	76
Discontinued operations				
Results from discontinued operations		107	(107)	(100)
Net income	4,865	2,871	1,994	69
Net income attributable to restricted shares	(132)	(132)		
Net income attributable to unitholders in the Operating Partnership	(1,495)	(883)	(612)	69
Net income attributable to American Assets Trust, Inc. stockholders	\$ 3,238	\$ 1,856	\$ 1,382	74%

Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased \$6.7 million, or 12%, to \$62.2 million for the three months ended March 31, 2013 compared to \$55.4 million for the three months ended March 31, 2012. The percentage leased was as follows for each segment as of March 31, 2013 and 2012:

	Percentage Leased ⁽¹⁾ March 31,	
	2013	2012
Retail	96.1%	94.8%
Office	93.8%	94.5% ⁽²⁾
Multifamily	94.3%	88.4%
Mixed-Use ⁽³⁾	95.5%	98.8%

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- (1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of March 31, 2013 or March 31, 2012, as applicable.
- (2) Excludes 160 King Street, which was sold on December 4, 2012.
- (3) Includes the retail portion of the mixed-use property only.

The increase in total property revenue is attributable primarily to the factors discussed below.

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Rental revenues. Rental revenue includes minimum base rent, cost reimbursements, percentage rents and other rents. Rental revenue increased \$6.2 million, or 12%, to \$59.2 million for the three months ended March 31, 2013 compared to \$53.0 million for the three months ended March 31, 2012. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio ⁽¹⁾			
	Three Months Ended				Three Months Ended			
	March 31,				March 31,			
	2013	2012	Change	%	2013	2012	Change	%
Retail	\$ 21,859	\$ 21,384	\$ 475	2%	\$ 21,390	\$ 21,369	\$ 21	%
Office	21,419	17,270	4,149	24	16,007	16,421	(414)	(3)
Multifamily	3,585	3,278	307	9	3,585	3,278	307	9
Mixed-Use	12,359	11,076	1,283	12	12,359	11,076	1,283	12
	\$ 59,222	\$ 53,008	\$ 6,214	12%	\$ 53,341	\$ 52,144	\$ 1,197	2%

(1) For this table and tables following, the same-store portfolio excludes: One Beach Street acquired on January 24, 2012; City Center Bellevue acquired on August 21, 2012; Geary Marketplace acquired on December 19, 2012 and land held for development.

Retail rental revenue increased \$0.5 million for the three months ended March 31, 2013 compared to the three months ended March 31, 2012. This increase was due to the acquisition of Geary Marketplace on December 19, 2012, which had rental revenue of \$0.5 million for the three months ended March 31, 2013.

The increase in office rental revenue was primarily caused by the acquisition of One Beach Street on January 24, 2012 and City Center Bellevue on August 21, 2012, which had additional rental revenue of \$0.3 million and \$4.3 million, respectively, for the three months ended March 31, 2013. Same-store office rental revenue decreased \$0.4 million for the three months ended March 31, 2013 primarily due to a decrease in the percentage leased during the period, mainly at the Lloyd District Portfolio.

The increase in multifamily rental revenue was primarily due to an increase in the average percentage leased during the three months ended March 31, 2013 compared to the three months ended March 31, 2012.

The increase in mixed-use rental revenue was due to higher revenue per available room of \$266 for the three months ended March 31, 2013 compared to \$228 for the three months ended March 31, 2012.

Other property income. Other property income increased \$0.5 million, or 21%, to \$3.0 million for the three months ended March 31, 2013, compared to \$2.4 million for the three months ended March 31, 2012. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended				Three Months Ended			
	March 31,				March 31,			
	2013	2012	Change	%	2013	2012	Change	%
Retail	\$ 295	\$ 307	\$ (12)	(4)%	\$ 295	\$ 306	\$ (11)	(4)%
Office	1,003	617	386	63	370	352	18	5
Multifamily	290	264	26	10	290	264	26	10
Mixed-Use	1,370	1,253	117	9	1,370	1,253	117	9
	\$ 2,958	\$ 2,441	\$ 517	21%	\$ 2,325	\$ 2,175	\$ 150	7%

The increase in office other property income of \$0.4 million was primarily caused by the acquisition of City Center Bellevue on August 21, 2012, which had other property income of \$0.6 million for the three months ended March 31, 2013. This increase was offset by decreased parking income at the Lloyd District Portfolio in connection with capitalization of development activities that began during the second quarter of 2012.

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The increase in multifamily other property income is due to an increase in the average percentage leased during the three months ended March 31, 2013 compared to the three months ended March 31, 2012.

The increase in mixed-use other property income is due to an increase in parking income, principally due to an increase in the overnight hotel guest parking rate from \$30/day to \$35/day effective January 2013, and an increase in sales of food and beverages and other services provided to hotel guests during the three months ended March 31, 2013 compared to the three months ended March 31, 2012.

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Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased by \$1.0 million, or 5%, to \$21.1 million for the three months ended March 31, 2013, compared to \$20.1 million for the three months ended March 31, 2012. This increase in total property expenses is attributable primarily to the factors discussed below.

Rental Expenses. Rental expenses increased \$1.5 million, or 10%, to \$16.3 million for the three months ended March 31, 2013, compared to \$14.8 million for the three months ended March 31, 2012. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended				Three Months Ended			
	March 31,				March 31,			
	2013	2012	Change	%	2013	2012	Change	%
Retail	\$ 3,087	\$ 3,149	\$ (62)	(2)%	\$ 2,980	\$ 3,146	\$ (166)	(5)%
Office	4,375	3,658	717	20	3,338	3,447	(109)	(3)
Multifamily	1,040	960	80	8	1,040	960	80	8
Mixed-Use	7,784	7,051	733	10	7,784	7,051	733	10
	\$ 16,286	\$ 14,818	\$ 1,468	10%	\$ 15,142	\$ 14,604	\$ 538	4%

The decrease in retail rental expenses was primarily due to lower rent expenses in the retail portfolio for the three months ended March 31, 2013 compared to the three months ended March 31, 2012, due to additional marketing expense and maintenance performed during the first quarter of 2012. This decrease was offset by additional rental expenses for Geary Marketplace acquired on December 19, 2012.

The increase in office rental expenses was primarily caused by the acquisition of City Center Bellevue on August 21, 2012, which had rental expenses of \$0.8 million for the three months ended March 31, 2013. This increase was offset by decreases in rental expenses at the Lloyd District Portfolio related to a decrease in parking expenses in connection with development activities that began during the second quarter of 2012. Additionally, we incurred less payroll and management fee expenses at the Lloyd District Portfolio in connection with the mutual termination of our property management agreement with Langley on February 1, 2013.

The increase in multifamily rental expenses is due to an increase in the average percentage leased during the three months ended March 31, 2013 compared to the three months ended March 31, 2012.

The increase in mixed-use rental expenses is due to an increase of various expenses during the three months ended March 31, 2013 compared to the three months ended March 31, 2012. The hotel portion of our mixed-use property incurred higher room, food and beverage, and advertising expenses during the first quarter of 2013. The retail portion of our mixed-use property also incurred higher advertising expenses and completed a lawn restoration project during the first quarter of 2013.

Real Estate Taxes. Real estate taxes decreased \$0.4 million, or 8%, to \$4.8 million for the three months ended March 31, 2013 compared to \$5.2 million for the three months ended March 31, 2012. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended				Three Months Ended			
	March 31,				March 31,			
	2013	2012	Change	%	2013	2012	Change	%
Retail	\$ 1,884	\$ 2,577	\$ (693)	(27)%	\$ 1,802	\$ 2,551	\$ (749)	(29)%
Office	2,061	1,860	201	11	1,737	1,738	(1)	
Multifamily	402	354	48	14	402	354	48	14
Mixed-Use	453	450	3	1	453	450	3	1
	\$ 4,800	\$ 5,241	\$ (441)	(8)%	\$ 4,394	\$ 5,093	\$ (699)	(14)%

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Retail real estate taxes decreased \$0.7 million for the three months ended March 31, 2013 compared to the three months ended March 31, 2012, primarily as a result of tax refunds at Lomas Santa Fe Plaza and Alamo Quarry Market that were offset by additional taxes incurred for Geary Marketplace, which was acquired on December 19, 2012.

The increase in office real estate taxes was primarily caused by the acquisition of City Center Bellevue on August 21, 2012, which had real estate tax expense of \$0.2 million for the three months ended March 31, 2013.

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The increase in multifamily real estate taxes for the three months ended March 31, 2013 was primarily due to additional real estate tax accruals based on supplemental tax bills from the California taxing authority received during the second and third quarters of 2012.

Property Operating Income

Property operating income increased \$5.7 million, or 16%, to \$41.1 million for the three months ended March 31, 2013, compared to \$35.4 million for the three months ended March 31, 2012. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended				Three Months Ended			
	March 31,				March 31,			
	2013	2012	Change	%	2013	2012	Change	%
Retail	\$ 17,183	\$ 15,965	\$ 1,218	8%	\$ 16,903	\$ 15,978	\$ 925	6%
Office	15,986	12,369	3,617	29	11,302	11,588	(286)	(2)
Multifamily	2,433	2,228	205	9	2,433	2,228	205	9
Mixed-Use	5,492	4,828	664	14	5,492	4,828	664	14
	\$ 41,094	\$ 35,390	\$ 5,704	16%	\$ 36,130	\$ 34,622	\$ 1,508	4%

Retail property operating income increased \$1.2 million for the three months ended March 31, 2013 compared to the three months ended March 31, 2012, primarily due to the acquisition of Geary Marketplace on December 19, 2012 and an increase in the average percentage leased for the retail properties.

The increase in office property operating income was primarily caused by the acquisition of One Beach Street on January 24, 2012 and City Center Bellevue on August 21, 2012, which had additional property operating income of \$0.2 million and \$3.8 million, respectively, for the three months ended March 31, 2013. The decrease in same-store office property operating income was primarily due to a decrease in percentage leased for the office properties, mainly at the Lloyd District Portfolio, which also had reduced parking lot activity due to construction that began during the second quarter of 2012.

The increase in multifamily property operating income was primarily due to higher occupancy throughout the three months ended March 31, 2013 compared to the three months ended March 31, 2012.

Mixed-use property operating income increased due to higher revenue per available room throughout the three months ended March 31, 2013 compared to the three months ended March 31, 2012.

Other

Depreciation and amortization. Depreciation and amortization expense increased \$2.2 million, or 15%, to \$17.0 million for the three months ended March 31, 2013, compared to \$14.9 million for the three months ended March 31, 2012. This increase was primarily due to depreciation and amortization attributable to the acquired properties.

Interest expense. Interest expense increased \$0.8 million, or 6%, to \$14.7 million for the three months ended March 31, 2013, compared to \$13.9 million for the three months ended March 31, 2012. This increase was primarily due to interest expense on the senior mortgage loans obtained on One Beach Street on March 29, 2012 and City Center Bellevue on October 10, 2012. This was minimally offset by the repayment of outstanding debt on 160 King Street, which we sold on December 4, 2012.

Other income (expense), net. Other expense, net increased \$0.1 million, or 91%, to \$0.3 million for the three months ended March 31, 2013, compared to other expense, net of \$0.1 million for the three months ended March 31, 2012, primarily due to an increase in income tax expense related to our taxable REIT subsidiary and Portland Business tax.

Discontinued Operations. Discontinued operations relates to our sale of 160 King Street on December 4, 2012.

Liquidity and Capital Resources

Analysis of Liquidity and Capital Resources

Due to the nature of our business, we typically generate significant amounts of cash from operations. The cash generated from operations is used for the payment of operating expenses, capital expenditures, debt service and dividends to our stockholders and Operating Partnership unitholders. As of March 31, 2013, we held \$44.0 million in cash and cash equivalents.

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Our short-term liquidity requirements consist primarily of operating expenses and other expenditures associated with our properties, regular debt service requirements, dividend payments to our stockholders required to maintain our REIT status, capital expenditures and, potentially, acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations, reserves established from existing cash and, if necessary, borrowings available under the credit facility.

Our long-term liquidity needs consist primarily of funds necessary to pay for the repayment of debt at maturity, property acquisitions, tenant improvements and capital improvements. We expect to meet our long-term liquidity requirements to pay scheduled debt maturities and to fund property acquisitions and capital improvements with net cash from operations, long-term secured and unsecured indebtedness and the issuance of equity and debt securities. We also may fund property acquisitions and capital improvements using our credit facility pending permanent financing. We believe that we have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity. However, we cannot be assured that this will be the case. Our ability to incur additional debt will be dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our ability to access the equity capital markets will be dependent on a number of factors as well, including general market conditions for REITs and market perceptions about our company.

On February 7, 2012, we filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission, or the SEC, which was declared effective on February 17, 2012. The universal shelf registration statement may permit us, from time to time, to offer and sell up to an additional approximately \$500.0 million of equity securities. However, there can be no assurance that we will be able to complete any such offerings of securities. Factors influencing the availability of additional financing include investor perception of our prospects and the general condition of the financial markets, among others.

Indebtedness Outstanding

The following table sets forth information as of March 31, 2013, with respect to our secured notes payable (dollars in thousands):

Debt	Principal Balance at March 31, 2013	Interest Rate	Annual Debt Service	Maturity Date	Balance at Maturity
Alamo Quarry Market ⁽¹⁾⁽²⁾	\$ 93,379	5.67%	\$ 97,840	January 8, 2014	\$ 91,717
Waialele Center ⁽³⁾	140,700	5.15%	7,360	November 1, 2014	140,700
The Shops at Kalakaua ⁽³⁾	19,000	5.45%	1,053	May 1, 2015	19,000
The Landmark at One Market ⁽²⁾⁽³⁾	133,000	5.61%	7,558	July 5, 2015	133,000
Del Monte Center ⁽³⁾	82,300	4.93%	4,121	July 8, 2015	82,300
First & Main ⁽³⁾	84,500	3.97%	3,397	July 1, 2016	84,500
Imperial Beach Gardens ⁽³⁾	20,000	6.16%	1,250	September 1, 2016	20,000
Mariner's Point ⁽³⁾	7,700	6.09%	476	September 1, 2016	7,700
South Bay Marketplace ⁽³⁾	23,000	5.48%	1,281	February 10, 2017	23,000
Waikiki Beach Walk Retail ⁽³⁾	130,310	5.39%	7,020	July 1, 2017	130,310
Solana Beach Corporate Centre III-IV ⁽⁴⁾	37,098	6.39%	2,798	August 1, 2017	35,136
Loma Palisades ⁽³⁾	73,744	6.09%	4,553	July 1, 2018	73,744
One Beach Street ⁽³⁾	21,900	3.94%	875	April 1, 2019	21,900
Torrey Reserve North Court ⁽¹⁾	21,591	7.22%	1,836	June 1, 2019	19,443
Torrey Reserve VCI, VCII, VCIII ⁽¹⁾	7,269	6.36%	560	June 1, 2020	6,439
Solana Beach Corporate Centre I-II ⁽¹⁾	11,595	5.91%	855	June 1, 2020	10,169
Solana Beach Towne Centre ⁽¹⁾	38,650	5.91%	2,849	June 1, 2020	33,898
City Center Bellevue ⁽³⁾	111,000	3.98%	4,479	November 1, 2022	111,000
Total	1,056,736		\$ 150,161		\$ 1,043,956

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Unamortized fair value adjustment	(12,269)
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Total Secured Notes Payable Balance	\$ 1,044,467
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(1) Principal payments based on a 30-year amortization schedule.

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- (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) Interest only.
- (4) Loan was interest only through August 2012. Beginning in September 2012, principal payments are based on a 30-year amortization schedule. Annual debt service is for the period October 1, 2012 through September 30, 2013.

Certain loans require us to comply with various financial covenants. As of March 31, 2013, we were in compliance with these financial covenants.

Credit Facility

On January 19, 2011, upon completion of our initial public offering, we entered into a revolving credit facility, or the credit facility. A group of lenders for which an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated acts as administrative agent and joint arranger, and an affiliate of Wells Fargo Securities, LLC acts as syndication agent and joint arranger, have provided commitments for a revolving credit facility allowing borrowings of up to \$250 million. At March 31, 2013, our maximum allowable borrowing amount was \$226.2 million. The credit facility also has an accordion feature that may allow us to increase the availability thereunder up to a maximum of \$400 million, subject to meeting specified requirements and obtaining additional commitments from lenders. We expect to use the credit facility in the future for general corporate purposes, including working capital, the payment of capital expenses, acquisitions and development and redevelopment of properties in our portfolio. 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 credit 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 to, among other things, (1) extend the maturity date to January 10, 2016 (with a one-year extension option subject to payment of a 0.15% fee), (2) decrease the applicable interest rates and (3) modify certain financial covenants. This amendment provides for an interest rate based on, at our option, either (1) one-, two-, three- or six-month LIBOR, plus, in each case, a spread (ranging from 1.60%-2.20%) based on our consolidated leverage ratio, or (2) a base rate equal to the highest of the (a) prime rate, (b) federal funds rate plus 0.50% or (c) Eurodollar rate plus 1.00%. Such rates are more favorable than those previously contained in the revolving credit facility. In addition, the amendment reduces our secured debt ratio covenant under the credit facility to 50.0%.

On September 7, 2012, the credit facility was amended a third time to allow our consolidated total secured indebtedness to be up to 55% of our secured total asset value for the period commencing upon the date that a material acquisition (generally, greater than \$100 million) is consummated through and including the last day of the third fiscal quarter that follows such date.

The credit facility, as amended, 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 60.0%,

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 up to 55% in certain circumstances,

a minimum tangible net worth equal to at least 75.0% of our tangible net worth at January, 19, 2011, the closing date of our initial public offering, plus 85.0% of the net proceeds of any additional equity issuances (other than additional equity issuances in connection with any dividend reinvestment program), and

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a \$35.0 million limit on the maximum principal amount of recourse indebtedness we may have outstanding at any time, other than under 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 FFO, 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 March 31, 2013, we were in compliance with all the credit facility financial covenants.

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Off-Balance Sheet Arrangements

We currently do not have any off-balance sheet arrangements.

Cash Flows

Comparison of the three months ended March 31, 2013 to the three months ended March 31, 2012

Cash and cash equivalents were \$44.0 million and \$100.7 million, at March 31, 2013 and 2012, respectively.

Net cash provided by operating activities increased \$7.2 million to \$25.7 million for the three months ended March 31, 2013 compared to \$18.5 million for the three months ended March 31, 2012. The increase is due to the acquisitions of One Beach Street, City Center Bellevue and Geary Marketplace during 2012. Additionally, the increase is also due to higher occupancy throughout the first quarter of 2013 at our multifamily properties and an increase in revenue per available room at the Embassy SuitesTM Hotel.

Net cash used in investing activities decreased \$28.2 million to \$9.7 million for the three months ended March 31, 2013 compared to \$37.9 million for the three months ended March 31, 2012. The decrease was primarily due to the acquisition of One Beach Street during the first quarter of 2012.

Net cash used in financing activities decreased \$21.8 million to \$14.5 million for the three months ended March 31, 2013 compared to net cash provided by financing activities of \$7.3 million for the three months ended March 31, 2012. The decrease was primarily due to loan proceeds related to the mortgage loan on One Beach Street received during the first quarter of 2012.

Net Operating Income

Net Operating Income, or NOI, is a non-GAAP financial measure of performance. We define NOI as operating revenues (rental income, tenant reimbursements, lease termination fees, ground lease rental income and other property income) less property and related expenses (property expenses, ground lease expense, property marketing costs, real estate taxes and insurance). NOI excludes general and administrative expenses, interest expense, depreciation and amortization, acquisition-related expense, other nonproperty income and losses, gains and losses from property dispositions, extraordinary items, tenant improvements, and leasing commissions. Other REITs may use different methodologies for calculating NOI, and accordingly, our NOI may not be comparable to other REITs.

NOI is used by investors and our management to evaluate and compare the performance of our properties and to determine trends in earnings and to compute the fair value of our properties as it is not affected by (1) the cost of funds of the property owner, (2) the impact of depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets that are included in net income computed in accordance with GAAP, or (3) general and administrative expenses and other gains and losses that are specific to the property owner. The cost of funds is eliminated from net income because it is specific to the particular financing capabilities and constraints of the owner. The cost of funds is also eliminated because it is dependent on historical interest rates and other costs of capital as well as past decisions made by us regarding the appropriate mix of capital which may have changed or may change in the future. Depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets are eliminated because they may not accurately represent the actual change in value in our retail, office, multifamily or mixed use properties that result from use of the properties or changes in market conditions. While certain aspects of real property do decline in value over time in a manner that is intended to be captured by depreciation and amortization, the value of the properties as a whole have historically increased or decreased as a result of changes in overall economic conditions instead of from actual use of the property or the passage of time. Gains and losses from the sale of real property vary from property to property and are affected by market conditions at the time of sale which will usually change from period to period. These gains and losses can create distortions when comparing one period to another or when comparing our operating results to the operating results of other real estate companies that have not made similarly timed purchases or sales. We believe that eliminating these costs from net income is useful because the resulting measure captures the actual revenue generated and actual expenses incurred in operating our properties as well as trends in occupancy rates, rental rates and operating costs.

However, the usefulness of NOI is limited because it excludes general and administrative costs, interest expense, interest income and other expense, depreciation and amortization expense and gains or losses from the sale of properties, and other gains and losses as stipulated by GAAP, the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, all of which are significant economic costs. NOI may fail to capture significant trends in these components of net income which further limits its usefulness.

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NOI is a measure of the operating performance of our properties but does not measure our performance as a whole. NOI is therefore not a substitute for net income as computed in accordance with GAAP. This measure should be analyzed in conjunction with net income computed in accordance with GAAP and discussions elsewhere in Management's Discussion and Analysis of Financial Condition and Results of Operations regarding the components of net income that are eliminated in the calculation of NOI. Other companies may use different methods for calculating NOI or similarly entitled measures and, accordingly, our NOI may not be comparable to similarly entitled measures reported by other companies that do not define the measure exactly as we do.

The following is a reconciliation of our NOI to net income for the three months ended March 31, 2013 and 2012 computed in accordance with GAAP (in thousands):

	Three Months Ended March 31,	
	2013	2012
Net operating income	\$ 41,094	\$ 35,390
General and administrative	(4,201)	(3,725)
Depreciation and amortization	(17,013)	(14,854)
Interest expense	(14,736)	(13,901)
Other income (expense), net	(279)	(146)
Income from continuing operations	4,865	2,764
Discontinued operations:		
Results from discontinued operations		107
Net income	\$ 4,865	\$ 2,871

Funds from Operations

We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT. FFO represents net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciable operating property, impairment losses, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures.

FFO is a supplemental non-GAAP financial measure. Management uses FFO as a supplemental performance measure because it believes that FFO is beneficial to investors as a starting point in measuring our operational performance. Specifically, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, which do not relate to or are not indicative of operating performance, FFO provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effects and could materially impact our results from operations, the utility of FFO as a measure of our performance is limited. In addition, other equity REITs may not calculate FFO in accordance with the NAREIT definition as we do, and, accordingly, our FFO may not be comparable to such other REITs' FFO. Accordingly, FFO should be considered only as a supplement to net income as a measure of our performance. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or service indebtedness. FFO also should not be used as a supplement to or substitute for cash flow from operating activities computed in accordance with GAAP.

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The following table sets forth a reconciliation of our FFO for the three months ended March 31, 2013 and 2012 to net income, the nearest GAAP equivalent (in thousands, except per share and share data):

	Three Months Ended March 31,	
	2013	2012
Funds from Operations (FFO)		
Net income	\$ 4,865	\$ 2,871
Plus: Real estate depreciation and amortization ⁽¹⁾	17,013	15,253
Funds from operations	21,878	18,124
Less: Nonforfeitable dividends on incentive restricted stock awards	(88)	(89)
FFO attributable to common stock and units	\$ 21,790	\$ 18,035
FFO per diluted share/unit	\$ 0.38	\$ 0.31
Weighted average number of common shares and units, diluted ⁽²⁾	57,266,950	57,258,935

(1) Includes depreciation and amortization related to 160 King Street, which was sold on December 4, 2012 and is included in discontinued operations on the consolidated statements of income.

(2) The weighted average common shares used to compute FFO per diluted share include unvested restricted stock awards that are subject to time vesting, which were excluded from the computation of diluted EPS, as the vesting of the restricted stock awards is dilutive in the computation of FFO per diluted share but is anti-dilutive for the computation of diluted EPS for the period. Diluted shares exclude incentive restricted stock as these awards are considered contingently issuable.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. As of March 31, 2013, we do not hold any derivative financial instruments.

Interest Rate Risk

Marketable Securities

Our investments in marketable securities are subject to market risk due to changes in interest rates since interest rate movements affect the value of those investments. The market value of these securities tends to decline in value as interest rates rise. If interest rates decrease, the market value of these securities generally will tend to increase, along with the level of prepayments of the underlying mortgages.

Outstanding Debt

The following discusses the effect of hypothetical changes in market rates of interest on the fair value of our total outstanding debt. Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on our debt. Discounted cash flow analysis is generally used to estimate the fair value of our mortgages payable. Considerable judgment is necessary to estimate the fair value of financial instruments. This analysis does not purport to take into account all of the factors that may affect our debt, such as the effect that a changing interest rate environment could have on the overall level of economic activity or the action that our management might take to reduce our exposure to the change. This analysis assumes no change in our financial structure.

Fixed Interest Rate Debt

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All of our outstanding debt obligations (maturing at various times through June 2020) have fixed interest rates which limit the risk of fluctuating interest rates. However, interest rate fluctuations may affect the fair value of our fixed rate debt instruments. At March 31, 2013, we had \$1,056.7 million of fixed rate debt outstanding with an estimated fair value of \$1,119.2 million. If interest rates at March 31, 2013 had been 1.0% higher, the fair value of those debt instruments on that date would have decreased by approximately \$34.1 million. If interest rates at March 31, 2013 had been 1.0% lower, the fair value of those debt instruments on that date would have increased by approximately \$39.8 million.

Variable Interest Rate Debt

At March 31, 2013, our only variable interest rate debt is our credit facility, which had no balance outstanding at March 31, 2013.

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ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the rules and regulations of the SEC and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We have carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures as of March 31, 2013, the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded, as of March 31, 2013, that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports filed or submitted under the Exchange Act (1) is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and (2) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

No changes to our internal control over financial reporting were identified in connection with the evaluation referenced above that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently a party, as plaintiff or defendant, to any legal proceedings that we believe to be material or which, individually or in the aggregate, would be expected to have a material effect on our business, financial condition or results of operation if determined adversely to us. We may be subject to on-going litigation, relating to our portfolio and the properties comprising our portfolio, and we expect to otherwise be party from time to time to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in Item 1A. Risk Factors in our annual report on Form 10-K for the year ended December 31, 2012.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statement of Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements that have been detail tagged.

* Filed herewith.

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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 thereunto authorized.

American Assets Trust, Inc.

May 3, 2013

/s/ JOHN W. CHAMBERLAIN
John W. Chamberlain
President and Chief Executive Officer
(Principal Executive Officer)

May 3, 2013

/s/ ROBERT F. BARTON
Robert F. Barton
Executive Vice President, Chief Financial

Officer and Treasurer
(Principal Financial and Accounting

Officer)