American Assets Trust, Inc.
Form 10-Q
November 09, 2012
Table of Contents

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 September 30, 2012

or

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

For the transition period from to

Commission file number: 001-35030

AMERICAN ASSETS TRUST, INC.

(Exact Name of Registrant as Specified in its Charter)

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

(858) 350-2600

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-Accelerated Filer	x (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

The number of Registrant s common shares outstanding on November 9, 2012 was 39,627,212.

Table of Contents

AMERICAN ASSETS TRUST, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2012

Table of Contents

American Assets Trust, Inc.

Consolidated Balance Sheets

(In Thousands, Except Share Data)

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Real estate, at cost		
Operating real estate	$ 1,917,089	$ 1,659,106
Construction in progress	34,369	3,495
Held for development	14,877	24,675
	1,966,335	1,687,276
Accumulated depreciation	(267,840)	(234,595)
Net real estate	1,698,495	1,452,681
Cash and cash equivalents	34,917	112,723
Restricted cash	10,251	9,216
Marketable securities		28,235
Accounts receivable, net	6,076	6,847
Deferred rent receivable, net	29,392	23,294
Other assets, net	81,806	76,285
TOTAL ASSETS	$ 1,860,937	$ 1,709,281
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured notes payable	$ 964,068	$ 943,479
Line of credit	141,000	
Accounts payable and accrued expenses	33,950	25,476
Security deposits payable	5,482	4,790
Other liabilities and deferred credits	61,140	55,808
Total liabilities	1,205,640	1,029,553
Commitments and contingencies (Note 10)		
EQUITY:		
American Assets Trust, Inc. stockholders equity		
Common stock, $0.01 par value, 490,000,000 shares authorized, 39,316,461 and 39,283,796 shares outstanding at September 30, 2012 and December 31, 2011, respectively	393	393
Additional paid-in capital	656,425	653,645
Accumulated dividends in excess of net income	(46,004)	(28,007)
Total American Assets Trust, Inc. stockholders equity	610,814	626,031
Noncontrolling interests	44,483	53,697
Total equity	655,297	679,728
TOTAL LIABILITIES AND EQUITY	$ 1,860,937	$ 1,709,281

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

Table of Contents

American Assets Trust, Inc.

Consolidated Statements of Income

(Unaudited)

(In Thousands, Except Shares and Per Share Data)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
REVENUE:				
Rental income	$ 59,915	$ 53,278	$ 169,199	$ 146,860
Other property income	2,921	3,015	8,484	7,416
Total revenue	62,836	56,293	177,683	154,276
EXPENSES:				
Rental expenses	17,024	16,187	48,219	42,720
Real estate taxes	6,301	5,390	17,689	14,800
General and administrative	3,959	3,733	11,716	10,786
Depreciation and amortization	16,432	15,827	46,356	41,916
Total operating expenses	43,716	41,137	123,980	110,222
OPERATING INCOME	19,120	15,156	53,703	44,054
Interest expense	(14,690)	(14,738)	(43,522)	(41,791)
Early extinguishment of debt				(25,867)
Loan transfer and consent fees				(9,019)
Gain on acquisition				46,371
Other income (expense), net	68	(108)	(188)	(179)
INCOME FROM CONTINUING OPERATIONS	4,498	310	9,993	13,569
DISCONTINUED OPERATIONS				
(Loss) income from discontinued operations	(213)	327	(213)	1,119
Gain on sale of real estate property		3,981		3,981
Results from discontinued operations	(213)	4,308	(213)	5,100
NET INCOME	4,285	4,618	9,780	18,669
Net income attributable to restricted shares	(133)	(132)	(396)	(350)
Net loss attributable to Predecessor s noncontrolling interests in consolidated real estate entities				2,458
Net income attributable to Predecessor s controlled owners equity				(16,995)
Net income attributable to unitholders in the Operating Partnership	(1,335)	(1,434)	(3,022)	(1,209)
NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, INC. STOCKHOLDERS	$ 2,817	$ 3,052	$ 6,362	$ 2,573
EARNINGS PER COMMON SHARE, BASIC				
Continuing operations	$ 0.08	$	$ 0.17	$ (0.03)
Discontinued operations		0.08		0.10
Basic net income attributable to common stockholders per share	$ 0.08	$ 0.08	$ 0.17	$ 0.07

Weighted average shares of common stock outstanding - basic		38,673,617		38,655,084		38,663,352		36,106,397
EARNINGS PER COMMON SHARE, DILUTED								
Continuing operations	$	0.08	$		$	0.17	$	(0.03)
Discontinued operations				0.08				0.10
Diluted net income attributable to common stockholders per share	$	0.08	$	0.08	$	0.17	$	0.07
Weighted average shares of common stock outstanding - diluted		57,054,425		57,051,173		57,054,425		53,265,648
Dividends declared per common share	$	0.21	$	0.21	$	0.63	$	0.59

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

Table of Contents

American Assets Trust, Inc.

Consolidated Statement of Equity

(Unaudited)

(In Thousands, Except Share Data)

	American Assets Trust, Inc. Stockholders Equity Common Shares					
	Shares	Amount	Additional Paid-in Capital	Accumulated dividends in excess of net income	Noncontrolling Interests - Unitholders in the Operating Partnership	Total
Balance at December 31, 2011	39,283,796	$ 393	$ 653,645	$ (28,007)	$ 53,697	$ 679,728
Net income				6,758	3,022	9,780
Conversion of operating partnership units	24,903		652		(652)	
Issuance of restricted stock	10,015					
Forfeiture of restricted stock	(2,253)					
Dividends declared and paid				(24,755)	(11,584)	(36,339)
Stock-based compensation			2,128			2,128
Balance at September 30, 2012	39,316,461	$ 393	$ 656,425	$ (46,004)	$ 44,483	$ 655,297

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

Table of Contents

American Assets Trust, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

(In Thousands)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
OPERATING ACTIVITIES		
Net income	$ 9,780	$ 18,669
Results from discontinued operations	213	(5,100)
Income from continuing operations	9,993	13,569
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	(5,521)	(1,639)
Depreciation and amortization	46,356	41,916
Amortization of debt issuance costs and debt fair value adjustments	2,964	2,924
Early extinguishment of debt		25,867
Loan transfer and consent fees		9,019
Gain on acquisition of controlling interests		(46,371)
Stock-based compensation expense	2,128	1,902
Other, net	998	1,774
Changes in operating assets and liabilities		
Change in restricted cash	(2,100)	(848)
Change in accounts receivable	445	(3,262)
Change in other assets	(1,409)	(590)
Change in accounts payable and accrued expenses	2,848	5,689
Change in security deposits and other liabilities	(1,095)	125
Net cash provided by operating activities of continuing operations	55,607	50,075
Net cash (used in) provided by operating activities of discontinued operations	(213)	1,748
Net cash provided by operating activities	55,394	51,823
INVESTING ACTIVITIES		
Acquisition of real estate, net of cash acquired	(253,090)	(227,309)
Capital expenditures	(25,779)	(5,871)
Change in restricted cash	1,066	(1,653)
Cash acquired from acquisition of controlling interests in real estate joint ventures		15,222
Leasing commissions	(2,727)	(1,772)
Purchase of marketable securities		(33,103)
Maturity of marketable securities	4,384	3,502
Deposit on property acquisition	(2,000)	
Sale of marketable securities	23,191	
Net cash used in investing activities of continuing operations	(254,955)	(250,984)
Net cash provided by investing activities of discontinued operations		30,078
Net cash used in investing activities	(254,955)	(220,906)

FINANCING ACTIVITIES

Issuance of secured notes payable	21,900	84,500
Repayment of secured notes payable	(3,512)	(263,106)
Defeasance costs on repayment of secured notes payable		(24,345)
Proceeds from unsecured line of credit	164,000	
Repayment of unsecured line of credit	(23,000)	
Loan transfer and consent fees paid		(8,350)
Repayment of unsecured notes payable		(38,013)
Repayment of notes payable to affiliates		(19,279)
Debt issuance costs	(932)	(2,961)
Proceeds from issuance of common stock, net		596,541
Proceeds from private placement of common units		5,410
Dividends paid to common stock and unitholders	(36,340)	(34,010)
Deferred offering costs	(361)	
Payments to nonaccredited investors		(6,075)
Distributions to Predecessor s controlling and noncontrolling interests		(39,960)
Net cash provided by financing activities	121,755	250,352
Net (decrease) increase in cash and cash equivalents	(77,806)	81,269
Cash and cash equivalents, beginning of period	112,723	41,953
Cash and cash equivalents, end of period	$ 34,917	$ 123,222

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

6

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements

September 30, 2012

(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

As of September 30, 2012, 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 September 30, 2012, we owned land at five of our properties that we classify as held for development and/or construction in progress. A summary of the properties owned by us is as follows:

Retail

Carmel Country Plaza

Carmel Mountain Plaza

South Bay Marketplace

Rancho Carmel Plaza

Lomas Santa Fe Plaza

Solana Beach Towne Centre

Del Monte Center

The Shops at Kalakaua

Waikele Center

Alamo Quarry Market

Office

Torrey Reserve Campus

Solana Beach Corporate Centre

160 King Street

The Landmark at One Market

One Beach Street

First & Main

Lloyd District Portfolio

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

8

Table of Contents

Basis of Presentation

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

All significant intercompany transactions and balances are eliminated in consolidation.

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

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

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

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):

	Nine Months Ended September 30, 2012	2011
Supplemental cash flow information		
Total interest costs incurred	$ 43,983	$ 41,791
Interest capitalized	$ 461	$
Interest expense	$ 43,522	$ 41,791
Cash paid for interest, net of amounts capitalized	$ 40,527	$ 39,158
Cash paid for income taxes	$ 1,210	$ 55
Supplemental schedule of noncash investing and financing activities		
Accounts payable and accrued liabilities for construction in progress	$ 5,635	$ 1,525
Assumption of debt upon acquisition	$	$ 268,008
Assumption of notes to affiliates upon acquisition	$	$ 14,824
Acquisition of working capital deficit, net of cash	$	$ (4,175)
Distribution of investment in joint venture not acquired	$	$ 11,480

Issuance of common shares and units for acquisition of properties	$		$	33,854
Notes receivable from affiliate settled in common units	$		$	21,797
Notes payable to affiliates settled in common units	$		$	828
Reduction to capital for prepaid Offering costs	$		$	1,974
Transfer taxes accrued at time of Offering	$		$	6,556

Table of Contents

Significant Accounting Policies

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

Segment Information

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

Reclassifications

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

Recent Accounting Pronouncements

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

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

NOTE 2. REAL ESTATE

Acquisitions

On January 24, 2012, we acquired One Beach Street, consisting of approximately 97,000 rentable square feet in a 3-story fully renovated historic office building located along the Embarcadero in San Francisco s North Waterfront District. The purchase price was approximately $36.5 million, excluding closing costs of approximately $0.02 million. The identified intangible assets and liabilities are being amortized over a weighted average life of 7.0 years.

On August 21, 2012, we acquired City Center Bellevue, a 27-story LEED-EB Gold certified office tower, consisting of approximately 497,000 square feet, located in Bellevue, Washington. The purchase price was approximately $228.8 million, excluding closing costs of approximately $0.1 million. Additionally, we received credits to our purchase price of approximately $6.9 million that primarily relate to outstanding tenant improvement obligations and rent abatements. The identified intangible assets and liabilities are being amortized over a weighted average life of 5.8 years.

Table of Contents

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

	One Beach Street	City Center Bellevue	Total
Land	$ 15,332	$ 25,135	$ 40,467
Building	16,764	185,653	202,417
Land improvements	30	154	184
Tenant improvements	1,223	5,191	6,414
Total real estate	33,349	216,133	249,482
Lease intangibles	4,141	11,870	16,011
Prepaid expenses and other assets	1	2,596	2,597
Total assets	$ 37,491	$ 230,599	$ 268,090
Accounts payable and accrued expenses	$ 94	$ 456	$ 550
Security deposits payable	75	740	815
Lease intangibles	1,382	8,733	10,115
Other liabilities and deferred credits	22	497	519
Total liabilities	$ 1,573	$ 10,426	$ 11,999

We have included the results of operations for One Beach Street and City Center Bellevue in our consolidated statements of income from the date of acquisition. For the period of acquisition through September 30, 2012, One Beach Street contributed $2.9 million to total revenue, $0.7 million to operating expenses, $2.2 million to operating income and $0.6 million to net income. For the period of acquisition through September 30, 2012, City Center Bellevue contributed $2.2 million to total revenue, $0.4 million to operating expenses, $1.8 million to operating income and $0.1 million to net income.

On August 28, 2012, we entered into an agreement to acquire Geary Marketplace, a newly constructed, approximately 35,000 square foot, 100% leased, grocery anchored shopping center in Walnut Creek, California. The purchase price is approximately $21.0 million. The acquisition is expected to close early in the first quarter of 2013, subject to customary closing conditions.

Pro Forma Financial Information

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

Table of Contents

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

	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	As Reported	Pro Forma	As Reported	Pro Forma
Total revenue	$ 177,683	$ 186,776	$ 154,276	$ 179,780
Total operating expenses	123,980	134,068	110,222	133,590
Operating income	53,703	52,708	44,054	46,190
Net income (loss)	$ 9,993	$ 9,126	$ 13,569	$ (31,199)[(1)]

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

Dispositions

On August 30, 2011, we sold Valencia Corporate Center and determined that the property was a discontinued operation in the third quarter of 2011. During the third quarter of 2012, we received a supplemental tax billing related to Valencia Corporate Center for approximately $0.3 million, which we recorded against related reserves. The net tax billing of approximately $0.2 million is recorded in discontinued operations.

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

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

	September 30, 2012	December 31, 2011
In-place leases	$ 72,853	$ 59,812
Accumulated amortization	(36,806)	(30,924)
Above market leases	32,910	42,428
Accumulated amortization	(20,114)	(25,657)
Acquired lease intangible assets, net	$ 48,843	$ 45,659
Below market leases	$ 80,263	$ 70,332
Accumulated accretion	(25,470)	(21,715)
Acquired lease intangible liabilities, net	$ 54,793	$ 48,617

We recorded in-place leases of $11.7 million, above market leases of $0.1 million, and below market leases of $8.7 million related to our acquisition of City Center Bellevue during the third quarter of 2012. The identified intangible assets and liabilities for City Center Bellevue are being amortized over a weighted average life of 5.8 years.

NOTE 4. MARKETABLE SECURITIES

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 5). On August 20, 2012, we sold all of our outstanding GNMA securities with a realized loss of $0.7 million for the nine months ended September 30, 2012. For the nine months ended September 30, 2011, gains and losses resulting from the mark-to-market of these securities were recognized as unrealized gains or losses in income. Unrealized (losses) and gains in our statement of income for the nine months ended September 30, 2011 were insignificant and included in other income (expense).

NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Table of Contents

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

3. Level 3 Inputs unobservable inputs

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

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

The fair value of our secured notes payable is sensitive to fluctuations in interest rates. Discounted cash flow analysis (Level 2) is generally used to estimate the fair value of our secured notes payable, using rates ranging from 3.0% to 8.5%.

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):

	September 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Marketable securities	$	$	$ 28,235	$ 28,235
Secured notes payable	964,068	1,003,699	943,479	974,273
Credit facility	141,000	141,000		
Deferred compensation liability	604	604	520	520

NOTE 6. OTHER ASSETS

Other assets consist of the following (in thousands):

	September 30, 2012	December 31, 2011
Leasing commissions, net of accumulated amortization of $17,107 and $14,722, respectively	$ 19,906	$ 18,207
Acquired above market leases, net	12,796	16,771
Acquired in-place leases, net	36,047	28,888
Lease incentives, net of accumulated amortization of $2,128 and $1,850, respectively	1,573	1,850
Other intangible assets, net of accumulated amortization of $4,208 and $3,885, respectively	973	987
Debt issuance costs, net of accumulated amortization of $2,476 and $2,509, respectively	3,561	3,392
Purchase deposit	2,000	3,000
Prepaid expenses, deposits, and other	4,950	3,190
Total other assets	$ 81,806	$ 76,285

Lease incentives are amortized over the term of the related lease and included as a reduction of rental income in the statement of income. The purchase deposit at December 31, 2011 relates to the acquisition of One Beach Street in San Francisco, California, which was completed on January 24, 2012 (Note 2). The purchase deposit at September 30, 2012 relates to the pending acquisition of Geary Marketplace in Walnut Creek, California (Note 2).

Table of Contents

NOTE 7. OTHER LIABILITIES AND DEFERRED CREDITS

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

	September 30, 2012	December 31, 2011
Acquired below market leases, net	$ 54,793	$ 48,617
Prepaid rent and deferred revenue	4,538	5,008
Deferred rent expense and lease intangible	1,042	1,122
Deferred compensation	604	520
Straight-line rent liability	124	433
Other liabilities	39	108
Total other liabilities and deferred credits	$ 61,140	$ 55,808

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

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2012

(Unaudited)

NOTE 8. DEBT

The following is a summary of our total secured notes payable outstanding as of September 30, 2012 and December 31, 2011 (in thousands):

Description of Debt	Principal Balance as of September 30, 2012	Principal Balance as of December 31, 2011	Stated Interest Rate as of September 30, 2012	Stated Maturity Date
Alamo Quarry Market (1)(2)	$ 94,482	$ 96,027	5.67%	January 8, 2014
160 King Street (3)	30,214	31,412	5.68%	May 1, 2014
Waikele Center (4)	140,700	140,700	5.15%	November 1, 2014
The Shops at Kalakaua (4)	19,000	19,000	5.45%	May 1, 2015
The Landmark at One Market (2)(4)	133,000	133,000	5.61%	July 5, 2015
Del Monte Center (4)	82,300	82,300	4.93%	July 8, 2015
First & Main (4)	84,500	84,500	3.97%	July 1, 2016
Imperial Beach Gardens (4)	20,000	20,000	6.16%	September 1, 2016
Mariner s Point (4)	7,700	7,700	6.09%	September 1, 2016
South Bay Marketplace (4)	23,000	23,000	5.48%	February 10, 2017
Waikiki Beach Walk Retail (4)	130,310	130,310	5.39%	July 1, 2017
Solana Beach Corporate Centre III-IV (5)	37,302	37,330	6.39%	August 1, 2017
Loma Palisades (4)	73,744	73,744	6.09%	July 1, 2018
One Beach Street (4)	21,900		3.94%	April 1, 2019
Torrey Reserve North Court (1)	21,727	21,921	7.22%	June 1, 2019
Torrey Reserve VCI, VCII, VCIII (1)	7,316	7,380	6.36%	June 1, 2020
Solana Beach Corporate Centre I-II (1)	11,676	11,788	5.91%	June 1, 2020
Solana Beach Towne Centre (1)	38,922	39,293	5.91%	June 1, 2020
	977,793	959,405		
Unamortized fair value adjustment	(13,725)	(15,926)		
Total Secured Notes Payable Outstanding	$ 964,068	$ 943,479		

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

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

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

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

Credit Facility

On January 19, 2011, in connection with the Offering, we entered into a credit facility pursuant to which a group of lenders provided commitm