American Assets Trust, Inc.
Form 10-Q
November 10, 2011
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, 2011 September 30, 2011

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	**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. 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 10, 2011 was 39,283,796.

Table of Contents

AMERICAN ASSETS TRUST, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2011

PART 1. FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Consolidated Balance Sheets as of September 30, 2011 (unaudited) and December 31, 2010	3
	Consolidated Statements of Operations (unaudited) for the three and nine months ended September 30, 2011 and 2010	4
	Consolidated Statement of Equity (unaudited) for the nine months ended September 30, 2011	5
	Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2011 and 2010	6
	Notes to Consolidated Financial Statements (unaudited)	7
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	49
Item 4.	Controls and Procedures	49
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	50
Item 1A.	Risk Factors	50
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 3.	Defaults Upon Senior Securities	51
Item 4.	Reserved	51
Item 5.	Other Information	51
Item 6.	Exhibits	52
SIGNATURES		53

Table of Contents

American Assets Trust, Inc.

Consolidated Balance Sheets

(In Thousands, Except Share Data)

	September 30, 2011 (unaudited)	December 31, 2010 (audited)
Assets		
Real estate, at cost		
Operating real estate	$ 1,653,329	$ 1,117,831
Construction in progress	4,285	925
Held for development	22,755	8,081
	1,680,369	1,126,837
Accumulated depreciation	(223,624)	(209,666)
Net real estate	1,456,745	917,171
Cash and cash equivalents	123,222	41,953
Restricted cash	8,760	4,481
Marketable securities	29,596	
Accounts receivable, net	6,525	1,564
Deferred rent receivables, net	22,792	19,486
Notes receivable from affiliate		21,769
Investment in real estate joint ventures		39,816
Prepaid expenses and other assets	77,121	43,718
Assets of discontinued operations		27,399
Total assets	$ 1,724,761	$ 1,117,357
Liabilities and equity		
Liabilities:		
Secured notes payable	$ 943,900	$ 828,685
Unsecured notes payable		38,013
Notes payable to affiliates		5,266
Accounts payable and accrued expenses	27,769	11,284
Security deposits payable	4,664	2,510
Other liabilities and deferred credits	57,955	38,846
Distributions in excess of earnings on real estate joint ventures		14,060
Liabilities of discontinued operations		23,572
Total liabilities	1,034,288	962,236
Commitments and contingencies (Note 11)		
Equity:		
Owners equity		121,874
American Assets Trust, Inc. stockholders equity		
Common stock $0.01 par value, 490,000,000 authorized, 39,283,796 outstanding at September 30, 2011	393	
Additional paid-in capital	652,932	
Accumulated dividends in excess of net income	(20,233)	
Total American Assets Trust, Inc. stockholders equity	633,092	

Noncontrolling interests		
Owners in consolidated real estate entities		33,247
Unitholders in the Operating Partnership	57,381	
	57,381	33,247
Total equity	690,473	155,121
Total liabilities and equity	$ 1,724,761	$ 1,117,357

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

3

Table of Contents

American Assets Trust, Inc.

Consolidated Statements of Operations

(Unaudited)

(In Thousands, Except Shares and Per Share Data)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenue:				
Rental income	$ 53,278	$ 33,903	$ 146,860	$ 88,213
Other property income	3,015	1,060	7,416	2,762
Total revenue	56,293	34,963	154,276	90,975
Expenses:				
Rental expenses	16,187	5,977	42,720	15,358
Real estate taxes	5,390	3,442	14,800	9,208
General and administrative	3,733	1,515	10,786	4,908
Depreciation and amortization	15,827	12,599	41,916	26,714
Total operating expenses	41,137	23,533	110,222	56,188
Operating income	15,156	11,430	44,054	34,787
Interest expense	(14,738)	(12,416)	(41,791)	(32,979)
Early extinguishment of debt			(25,867)	
Loan transfer and consent fees			(9,019)	
Gain on acquisition			46,371	4,297
Other income (expense), net	(108)	(251)	(179)	(1,167)
Income (loss) from continuing operations	310	(1,237)	13,569	4,938
Discontinued operations				
Income from discontinued operations	327	44	1,119	232
Gain on sale of real estate property	3,981		3,981	
Results from discontinued operations	4,308	44	5,100	232
Net income (loss)	4,618	(1,193)	18,669	5,170
Net income attributable to restricted shares	(132)		(350)	
Net loss attributable to Predecessor s noncontrolling interests in consolidated real estate entities		1,042	2,458	1,941
Net (income) loss attributable to Predecessor s controlled owners equity		151	(16,995)	(7,111)
Net income attributable to unitholders in the Operating Partnership	(1,434)		(1,209)	
Net income attributable to American Assets Trust, Inc. stockholders	$ 3,052	$	$ 2,573	$
Basic net income (loss) from continuing operations attributable to common stockholders per share	$ 0.00		$ (0.03)	
Basic net income from discontinued operations attributable to common stockholders per share	0.08		0.10	
Basic net income attributable to common stockholders per share	$ 0.08		$ 0.07	

Weighted average shares of common stock outstanding basic		38,655,084		36,106,397
Diluted net income (loss) from continuing operations attributable to common stockholders per share	$	0.00	$	(0.03)
Diluted net income from discontinued operations attributable to common stockholders per share		0.08		0.10
Diluted net income attributable to common stockholders per share	$	0.08	$	0.07
Weighted average shares of common stock outstanding diluted		57,051,173		53,265,648
Dividends declared per common share	$	0.21	$	0.59

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

Table of Contents

American Assets Trust, Inc.

Consolidated Statements 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	Predecessor s Controlled Owners Equity	Noncontrolling Interests - Unitholders in the Operating Partnership	Predecessor s Noncontrolling Interests - Owners in Consolidated Entities	Total
Balance at December 31, 2010		$	$	$	$ 121,874	$	$ 33,247	$ 155,121
Net income (loss)				2,923	16,995	1,209	(2,458)	18,669
Distributions					(33,435)		(6,525)	(39,960)
Proceeds from sale of common stock, net	31,625,000	316	587,695					588,011
Cash paid to non-accredited investors							(6,075)	(6,075)
Issuance of restricted stock	630,663	6	(6)					
Forfeiture of restricted stock	(1,951)							
Issuance of common shares and units for acquisition of properties	262,486	3	6,081			27,770		33,854
Proceeds from private placement						5,410		5,410
Notes receivable from affiliate settled in common units						(21,797)		(21,797)
Notes payable to affiliates settled in common units						828		828
Dividends declared and paid				(23,156)		(10,854)		(34,010)
Stock-based compensation			1,902					1,902
Distribution of investment in joint venture not acquired					(9,084)		(2,396)	(11,480)
Exchange of owners equity for common stock and units	6,767,598	68	57,260		(96,350)	54,815	(15,793)	
Balance at September 30, 2011	39,283,796	$ 393	$ 652,932	$ (20,233)	$	$ 57,381	$	$ 690,473

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

5

Table of Contents

American Assets Trust, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

(In Thousands)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
OPERATING ACTIVITIES		
Net income	$ 18,669	$ 5,170
Results from discontinued operations	(5,100)	(232)
Income from continuing operations	13,569	4,938
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	(1,639)	1,099
Depreciation and amortization	41,916	26,714
Amortization of debt issuance costs and debt fair value adjustments	2,924	418
Early extinguishment of debt	25,867	
Loan transfer and consent fees	9,019	
Gain on acquisition of controlling interests	(46,371)	(4,297)
Stock-based compensation expense	1,902	
Loss from real estate joint ventures	188	3,431
Distribution of earnings from real estate joint ventures		3,812
Other, net	1,586	497
Changes in operating assets and liabilities		
Change in restricted cash	(848)	(730)
Change in accounts receivable	(3,262)	(155)
Change in prepaid expenses and other assets	(590)	(1,725)
Change in accounts payable and accrued expenses	5,689	2,272
Change in security deposits and other liabilities	125	265
Net cash provided by operating activities of continuing operations	50,075	36,539
Net cash provided by operating activities of discontinued operations	1,748	1,055
Net cash provided by operating activities	51,823	37,594
INVESTING ACTIVITIES		
Acquisition of real estate, net of cash acquired	(227,309)	(19,762)
Capital expenditures	(5,871)	(3,355)
Change in restricted cash	(1,653)	16
Cash acquired from acquisition of controlling interests in real estate joint ventures	15,222	
Leasing commissions	(1,772)	(1,650)
Purchase of marketable securities	(33,103)	
Maturity of marketable securities	3,502	
Distribution of capital from real estate joint ventures		10,607
Issuance of notes receivable to affiliate		(800)
Net cash used in investing activities of continuing operations	(250,984)	(14,944)
Net cash provided by (used in) investing activities of discontinued operations	30,078	(444)

Net cash used in investing activities	(220,906)	(15,388)
FINANCING ACTIVITIES		
Issuance of secured notes payable	84,500	7,500
Repayment of secured notes payable	(263,106)	(10,647)
Defeasance costs on repayment of secured notes payable	(24,345)	
Loan transfer and consent fees paid	(8,350)	
Issuance of unsecured notes payable		23,000
Repayment of unsecured notes payable	(38,013)	(4,488)
Repayment of notes payable to affiliates	(19,279)	(1,778)
Debt issuance costs	(2,961)	(365)
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	(34,010)	
Payments to nonaccredited investors	(6,075)	
Contributions from Predecessor s controlling interests		1,147
Distributions to Predecessor s controlling and non-controlling interests	(39,960)	(23,401)
Net cash provided by (used in) financing activities	250,352	(9,032)
Net increase in cash and cash equivalents	81,269	13,174
Cash and cash equivalents, beginning of period	41,953	24,189
Cash and cash equivalents, end of period	$ 123,222	$ 37,363

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

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements

September 30, 2011

(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 110 employees providing substantial in-house expertise in asset management, property management, property development, leasing, tenant improvement construction, acquisitions, repositioning, redevelopment and financing.

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

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 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. More specifically, our financial condition as of December 31, 2010 and results of operations for the nine months ended September 30, 2010 reflect the financial condition and results of operations for our Predecessor. Our financial condition as of September 30, 2011 and 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 First & Main, Lloyd District Portfolio and Solana Beach Highway 101, each 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.

Prior to the Offering, the Predecessor s combined financial statements included investments in certain real estate joint ventures in which Ernest Rady and his affiliates had significant influence, but not control, over major decisions, including the decision to sell or refinance the properties. These investments, which represent non-controlling 25% to 80% ownership interests, were accounted for using the equity method of accounting. The Predecessor s investments in certain real estate joint ventures for which it had unilateral control, evidenced by the ability to make all major decisions, such as the acquisition, sale or refinancing of the property without approval of the minority party, were combined in these financial statements as they were under the common control of Ernest Rady and his affiliates.

As of September 30, 2011, we owned or had a controlling interest in 21 office, retail, multifamily and mixed-use operating properties, the operations of which we consolidate. Additionally, as of September 30, 2011, we owned land at five of our properties that we classify as held for development. 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

First & Main

Lloyd District Portfolio

Multifamily

Loma Palisades

Imperial Beach Gardens

Mariner s Point

Santa Fe Park RV Resort

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

Mixed-Use

Waikiki Beach Walk Retail and Hotel

Held for Development

Solana Beach Corporate Centre Land

Solana Beach Highway 101 Land

Sorrento Pointe Land

Torrey Reserve Land

Lloyd District Portfolio Land

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. The combined financial statements of our Predecessor include the accounts of our Predecessor and all entities in which our Predecessor had a controlling interest. When our Predecessor was the general partner or managing member of a limited partnership or limited liability company, as the case may be, our Predecessor was presumed to control the limited partnership or limited liability company unless the limited partners or non-managing members possessed or possess either (1) the substantive ability to dissolve the partnership or otherwise remove our Predecessor as the general partner or managing member without cause (commonly referred to as kick-out rights), or (2) the right to participate in substantive operating and financial decisions of the limited partnership or limited liability company that were expected to be made in the course of their business. The equity interests of other investors were reflected as noncontrolling interests. Our Predecessor accounted for its interests in joint ventures which it did not control using the equity method of accounting.

All significant intercompany transactions and balances are eliminated in consolidation.

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

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

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

Consolidated Statements of Cash Flows Supplemental Disclosures

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

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Supplemental cash flow information		
Cash paid for interest	$ 39,158	$ 33,131
Supplemental schedule of noncash investing and financing activities		
Accounts payable and accrued liabilities for property under development	$ 1,525	$ (103)
Assumption of debt upon acquisition (Note 2)	$ 268,008	$ 133,000
Assumption of notes to affiliates upon acquisition (Note 2)	$ 14,824	$
Acquisition of working capital deficit, net of cash (Note 2)	$ (4,175)	$ (1,972)
Distribution of investment in joint venture not acquired	$ 11,480	$
Issuance of common shares and units for acquisition of properties	$ 33,854	$

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

	Nine Months Ended September 30, 2011	2010
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	$

Offering Costs

In connection with the Offering, affiliates incurred legal, accounting and related costs, which were assumed or reimbursed by the Company upon the consummation of the Offering and such costs were deducted from the gross proceeds of the Offering.

Revenue Recognition and Accounts Receivable

Our leases with tenants are classified as operating leases. Substantially all such leases contain fixed rent escalations which occur at specified times during the term of the lease. Base rents are recognized on a straight-line basis from when the tenant controls the space through the term of the related lease, net of valuation adjustments, based on management s assessment of credit, collection and other business risks. Percentage rents, which represent additional rents based upon the level of sales achieved by certain tenants, are recognized at the end of the lease year or earlier if we have determined the required sales level is achieved and the percentage rents are collectible. Real estate tax and other cost reimbursements are recognized on an accrual basis over the periods in which the related expenditures are incurred. Other property income includes parking income, general excise tax billed to tenants and fees charged to tenants at our multifamily properties. Other property income is recognized when earned. For a tenant to terminate its lease agreement prior to the end of the agreed term, we may require that they pay a fee to cancel the lease agreement. Lease termination fees for which the tenant has relinquished control of the space are generally recognized on the termination date. When a lease is terminated early but the tenant continues to control the space under a modified lease agreement, the lease termination fee is generally recognized evenly over the remaining term of the modified lease agreement.

We recognize revenue on the hotel portion of our mixed-use property from the rental of hotel rooms and guest services when the rooms are occupied and services have been provided. Food and beverage sales are recognized when the customer has been served or at the time the transaction occurs. Revenue from room rental is included in rental revenue on the statement of operations. Revenue from other sales and services provided is included in other property income on the statement of operations.

We make estimates of the collectibility of our accounts receivable related to minimum rents, straight-line rents, expense reimbursements and other revenue. Accounts receivable and deferred rent receivable are carried net of this allowance for doubtful accounts. We generally do not require collateral or other security from our tenants, other than letters of credit or security deposits. Our determination as to the collectibility of accounts receivable and correspondingly, the adequacy of this allowance, is based primarily upon evaluations of individual receivables, current economic conditions, historical experience and other relevant factors. The allowance for doubtful accounts is increased or decreased through bad debt expense. In some cases, primarily relating to straight-line rents, the collection of these amounts extends beyond one year. Our experience relative to unbilled straight-line rents is that a portion of the amounts otherwise recognizable as revenue is never billed to or collected from tenants due to early lease terminations, lease modifications, bankruptcies and other factors. Accordingly, the extended collection period for straight-line rents along with our evaluation of tenant credit risk may result in the nonrecognition of a portion of straight-line rental income until the collection of such income is reasonably assured. If our evaluation of tenant credit risk changes indicating more straight-line revenue is reasonably collectible than previously estimated and realized, the additional straight-line rental income is recognized as revenue. If our evaluation of tenant credit risk changes indicating a portion of realized straight-line rental income is no longer collectible, a reserve and bad debt expense is recorded. At September 30, 2011 and December 31, 2010, our allowance for doubtful accounts was $1.8 million and $1.0 million, respectively.

We recognize gains on sales of properties upon the closing of the transaction with the purchaser. Gains on properties sold are recognized using the full accrual method when (1) the collectibility of the sales price is reasonably assured, (2) we are not obligated to perform significant activities after the sale, (3) the initial investment from the buyer is sufficient and (4) other profit recognition criteria have been satisfied. Gains on sales of properties may be deferred in whole or in part until the requirements for gain recognition have been met.

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

We receive various fee income from unconsolidated real estate joint ventures including property management fees, construction management fees, acquisition and disposition fees, leasing fees, asset management fees and financing fees. Fee income is recorded as earned in accordance with the respective fee agreement. Profit from these fees, if any, is eliminated to the extent of our ownership interest in these entities. Subsequent to the Formations Transactions and the acquisition of the outside interests in unconsolidated joint ventures, we no longer earn fee revenue (Note 15).

Real Estate

Land, buildings and improvements are recorded at cost. Depreciation is computed using the straight-line method. Estimated useful lives range generally from 30 years to a maximum of 40 years on buildings and major improvements. Minor improvements, furniture and equipment are capitalized and depreciated over useful lives ranging from 3 years to 15 years. Maintenance and repairs that do not improve or extend the useful lives of the related assets are charged to operations as incurred. Tenant improvements are capitalized and depreciated over the life of the related lease or their estimated useful life, whichever is shorter. If a tenant vacates its space prior to the contractual termination of its lease, the undepreciated balance of any tenant improvements are written off if they are replaced or have no future value. For the nine months ended September 30, 2011 and 2010, real estate depreciation expense was $30.4 million and $22.8 million, respectively.

Acquisitions of properties are accounted for in accordance with the authoritative accounting guidance on acquisitions and business combinations. Our methodology of allocating the cost of acquisitions to assets acquired and liabilities assumed is based on estimated fair values, replacement cost and appraised values. When we acquire operating real estate properties, the purchase price is allocated to land and buildings, intangibles such as in-place leases, and to current assets and liabilities acquired, if any. Such valuations include a consideration of the non-cancellable terms of the respective leases as well as any applicable renewal periods. The fair values associated with below market renewal options are determined based on a review of several qualitative and quantitative factors on a lease-by-lease basis at acquisition to determine whether it is probable that the tenant would exercise its option to renew the lease agreement. These factors include: (1) the type of tenant in relation to the property it occupies, (2) the quality of the tenant, including the tenant s long term business prospects and (3) whether the fixed rate renewal option was sufficiently lower than the fair rental of the property at the date the option becomes exercisable such that it would appear to be reasonably assured that the tenant would exercise the option to renew. The value allocated to in-place leases is amortized over the related lease term and reflected as depreciation and amortization in the statement of operations. The value of above and below market leases associated with the original noncancelable lease terms are amortized to rental income over the terms of the respective non-cancelable lease periods and are reflected as either an increase (for below market leases) or a decrease (for above market leases) to rental income in the statement of operations. The value of the leases associated with below market lease renewal options that are likely to be exercised are amortized to rental income over the respective renewal periods. If a tenant vacates its space prior to contractual termination of its lease or the lease is not renewed, the unamortized balance of any in-place lease value is written off to rental income and amortization expense. Acquisition-related expenses are expensed in the period incurred.

We capitalize certain costs related to the development and redevelopment of real estate including pre-construction costs, real estate taxes, insurance and construction costs and salaries and related costs of personnel directly involved. Additionally, we capitalize interest costs related to development and significant redevelopment activities. Capitalization of these costs begins when the activities and related expenditures commence and cease when the project is substantially complete and ready for its intended use, at which time the project is placed in service and depreciation commences. Additionally, we make estimates as to the probability of certain development and redevelopment projects being completed. If we determine that the completion of development or redevelopment is no longer probable, we expense all capitalized costs which are not recoverable.

Impairment of Long Lived Assets

We review for impairment on a property by property basis. Impairment is recognized on properties held for use when the expected undiscounted cash flows for a property are less than its carrying amount at which time the property is written-down to fair value. Properties held for sale are recorded at the lower of the carrying amount or the expected sales price less costs to sell. The sale or disposal of a component of an entity is treated as discontinued operations. The operating properties sold by us typically meet the definition of a component of an entity and as such the revenues and expenses associated with sold properties are reclassified to discontinued operations for all periods presented.

Financial Instruments

The estimated fair values of financial instruments are determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair values. The use of different market

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

assumptions or estimation methods may have a material effect on the estimated fair value amounts. Accordingly, estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

Cash and Cash Equivalents

We define cash and cash equivalents as cash on hand, demand deposits with financial institutions and short term liquid investments with an initial maturity of less than three months. Cash balances in individual banks may exceed the federally insured limit of $250,000 by the Federal Deposit Insurance Corporation. No losses have been experienced related to such accounts.

Restricted Cash

Restricted cash consists of amounts held by lenders to provide for future real estate tax expenditures, insurance expenditures and reserves for capital improvements. Activity for accounts related to real estate tax and insurance expenditures is classified as operating activities in the statement of cash flows. Changes in reserves for capital improvements are classified as investing activities in the statement of cash flows.

Marketable Securities

Our portfolio of marketable securities is comprised of debt securities that are classified as trading. Trading securities are presented on our consolidated balance sheets at fair value at the end of each reporting period. Gains and losses resulting from the mark-to-market of these securities are recognized as unrealized gains or losses in income.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist primarily of lease costs, lease incentives, acquired in-place leases, acquired above market leases and debt issuance costs. Capitalized lease costs are direct costs incurred which were essential to originate a lease and would not have been incurred had the leasing transaction not taken place and include third party commissions and internal salaries and personnel costs related to obtaining a lease. Capitalized lease costs are amortized over the life of the related lease and included in depreciation and amortization expense on the statement of operations. If a tenant vacates its space prior to the contractual termination of its lease, the unamortized balance of any lease costs are written off. We view these lease costs as part of the up-front initial investment we made in order to generate a long-term cash inflow. Therefore, we classify cash outflows for lease costs as an investing activity in our consolidated statements of cash flows.

Costs related to the issuance of debt instruments are capitalized and are amortized as interest expense over the estimated life of the related issue using the straight-line method which approximates the effective interest method. If a debt instrument is paid off prior to its original maturity date, the unamortized balance of debt issuance costs are written off to interest expense or, if significant, included in early extinguishment of debt. For the nine months ended September 30, 2011, $0.6 million in debt issuance costs were written off and included in early extinguishment of debt.

Variable Interest Entities

Certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or in which equity investors do not have the characteristics of a controlling financial interest qualify as variable interest entities (VIEs). VIEs are required to be consolidated by their primary beneficiary. The primary beneficiary of a VIE is the party that has a controlling interest in the VIE. Identifying the party with the controlling interest requires a focus on which entity has the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and (1) the obligation to absorb the expected losses of the VIE or (2) the right to receive the benefits from the VIE. We have evaluated our investments in certain joint ventures and determined that these joint ventures do not meet the requirements of a VIE and, therefore, consolidation of these ventures is not required. These investments are accounted for using the equity method. Our investment balances in our real estate joint ventures are presented separately in our consolidated balance sheets.

Investments in Real Estate Joint Ventures

We analyze our investments in real estate joint ventures under applicable guidance to determine if the venture is considered a VIE and would require consolidation. To the extent that the ventures do not qualify as VIEs, we further assess the venture to determine whether a general partner, or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights in order to determine whether consolidation is required.

We consolidate those ventures that are considered to be VIEs where we are the primary beneficiary. For non-VIEs, the Predecessor combined those ventures that Ernest Rady or the Rady Trust controlled through majority ownership interests or where the

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

Predecessor was the managing member and the partner did not have substantive participating rights. Control is further demonstrated by the ability of the general partner to manage day-to-day operations, refinance debt and sell the assets of the venture without the consent of the limited partner and inability of the limited partner to replace the general partner. We use the equity method of accounting for those ventures where we do not have control over operating and financial policies. Under the equity method of accounting, the investment in each venture is included on our balance sheet; however, the assets and liabilities of the ventures for which we use the equity method are not included in the balance sheet. The investment is adjusted for contributions, distributions and our proportionate share of the net earnings or losses of each respective venture.

We assess whether there has been impairment in the value of our investments in real estate joint ventures periodically. An impairment charge is recorded when events or changes in circumstances indicate that a decline in the fair value below the carrying value has occurred and such decline is other-than-temporary. The ultimate realization of the investments in unconsolidated real estate joint ventures is dependent on a number of factors, including the performance of the investments and market conditions.

Notes Receivable from Affiliate

Certain entities made loans to affiliates in order to attain a higher return on excess cash balances, and these loans were classified as notes receivable from affiliate at December 31, 2010. The notes bore interest at LIBOR and were to be repaid upon demand. The notes were settled as part of the Formation Transactions.

Notes Payable to Affiliates

Owners of certain entities made loans to the entities, and these loans were classified as notes payable to affiliates at December 31, 2010. The notes bore interest at 10% and matured in 2013. The notes were repaid using proceeds from the Offering or were settled as part of the Formation Transactions.

Stock-Based Compensation

We grant stock-based compensation awards to our employees and directors typically in the form of restricted shares of common stock, options to purchase common stock and/or shares of common stock. We measure stock-based compensation expense based on the fair value of the award on the grant date and recognize the expense ratably over the vesting period.

Deferred Compensation

Our Operating Partnership has adopted the American Assets Trust Executive Deferral Plan V (EDP V) and the American Assets Trust Executive Deferral Plan VI (EDP VI). These plans were adopted by our Operating Partnership as successor plans to those deferred compensation plans maintained by AAI in which certain employees of AAI, who were transferred to us in connection with the Offering (the Transferred Participants), participated prior to the Offering. EDP V and EDP VI contain substantially the same terms and conditions as these predecessor plans. AAI transferred to our Operating Partnership the Transferred Participants account balances under the predecessor plans. These transferred account balances represent amounts deferred by the Transferred Participants prior to the Offering while they were employed by AAI.

At the time eligible participants defer compensation, we record compensation cost and a corresponding deferred compensation plan liability, which is included in other liabilities and deferred credits on our consolidated balance sheets. This liability is adjusted to fair value at the end of each accounting period based on the performance of the benchmark funds selected by each participant, and the impact of adjusting the liability to fair value is recorded as an increase or decrease to compensation cost.

Income Taxes

Prior to the Offering, we were comprised primarily of limited partnerships and limited liability companies. Under applicable federal and state income tax rules, the allocated share of net income or loss from the limited partnerships and limited liability companies was reportable in the income tax returns of the respective partners and members.

Subsequent to the Offering, we intend to elect to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code) commencing with the taxable year ending December 31, 2011. To qualify as a REIT, we are required to distribute at least 90% of our REIT taxable income to our stockholders and meet the various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we qualify for taxation 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. If we fail to qualify as a REIT in any taxable year, and are unable to avail ourselves of certain savings provisions set forth in the Code, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax.

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

We, together with one of our subsidiaries, will elect to treat such subsidiary as a taxable REIT subsidiary (a TRS) for federal income tax purposes. Certain activities that we undertake must be conducted by a TRS, such as non-customary services for our tenants, and holding assets that we cannot hold directly. A TRS is subject to federal and state income taxes.

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: (1) the acquisition, redevelopment, ownership and management of retail real estate, (2) the acquisition, redevelopment, ownership and management of office real estate, (3) the acquisition, redevelopment, ownership and management of multifamily real estate and (4) the acquisition, redevelopment, ownership and management of 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 December 2010, the Financial Accounting Standards Board (FASB) issued ASU No. 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations* (ASU 2010-29), which amended ASC Topic 805, *Business Combinations* (ASC 805). The objective of this guidance is to eliminate diversity in the interpretation of pro forma revenue and earnings disclosures requirements for business combinations. The guidance specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance also expands the supplemental pro forma disclosures under ASC 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination(s) included in the reported pro forma revenue and earnings. ASU 2010-29 is effective for business combinations for which the acquisition date occurs following the first annual reporting period which commences after December 15, 2010. The guidance is required in interim and annual reporting periods. Our adoption of this guidance effective January 1, 2011 did not have a material effect on our consolidated financial statements.

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. We do not believe that adoption of ASU 2011-04 will have a significant impact on our financial position, results of operations or cash flows.

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

NOTE 2. REAL ESTATE

Acquisitions

As noted above, as part of the Formation Transactions, we acquired the controlling interests in the Waikiki Beach Walk entities and the Solana Beach Centre entities for Operating Partnership units and common shares with a value of approximately $33.9 million. The contribution or acquisition by merger of interests in these 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. Prior to acquisition, our Predecessor had an 80% noncontrolling interest in the Waikiki Beach Walk entities and a 50% noncontrolling interest in the Solana Beach Centre entities. Upon acquisition, we remeasured the assets and liabilities at fair value and recorded gains of $4.8 million and $41.6 million on the Waikiki Beach Walk entities and the Solana Beach

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

Centre entities, respectively, which are classified as gain on acquisition in the accompanying statement of operations. These gains were calculated based on the difference between the fair value of our Predecessor s ownership interests of $31.3 million and $26.0 million compared to the Predecessor s historical cost interests of $26.5 million and $(15.6) million in the Waikiki Beach Walk entities and Solana Beach Centre entities, respectively.

The fair values assigned to identifiable intangible assets acquired were based on estimates and assumptions determined by management. Using information available at the time the acquisition closed, we allocated the total consideration to tangible assets and liabilities and identified intangible assets and liabilities.

The allocation of the consideration paid for the acquired assets and liabilities was as follows (in thousands):

	Solana Beach Towne Centre	Solana Beach Corporate Centre	Waikiki Beach Walk Retail and Hotel	Total
Land	$ 40,980	$ 14,896	$ 76,635	$ 132,511
Building	35,605	42,094	122,985	200,684
Land improvements	1,750	974	2,276	5,000
Tenant improvements	1,487	1,919	1,801	5,207
Furniture and fixtures			7,910	7,910
Total real estate	79,822	59,883	211,607	351,312
Cash and cash equivalents	957	718	13,547	15,222
Restricted cash	282	200	1,297	1,779
Accounts receivable, net	67		2,168	2,235
Lease intangibles	6,995	5,536	15,997	28,528
Prepaid expenses and other assets	22	45	266	333
Total assets	$ 88,145	$ 66,382	$ 244,882	$ 399,409
Secured notes payable	$ 39,738	$ 49,252	$ 198,618	$ 287,608
Fair market favorable debt value		(600)	(19,000)	(19,600)
Notes payable to affiliates			14,824	14,824
Accounts payable and accrued expenses	924	542	6,520	7,986
Security deposits payable	238	320	861	1,419
Lease intangibles	11,390	125	3,530	15,045
Other liabilities and deferred credits	192	331	442	965
Total liabilities	$ 52,482	$ 49,970	$ 205,795	$ 308,247

We have included the results of operations for each of these acquired entities in our consolidated statements of operations from January 19, 2011, the date of acquisition. For the period January 19, 2011 through September 30, 2011, the acquired entities contributed $42.6 million to total revenue, $35.3 million to operating expenses, $7.3 million to operating income and $(5.3) million to net income (loss).

On March 11, 2011, we acquired an approximately 364,000 square foot, 16-story, LEED Platinum certified office building located at 100 SW Main Street, in Portland, Oregon (First & Main). The purchase price for First & Main was approximately $128.9 million, excluding closing costs of approximately $0.1 million, which are included in other income (expense), net on the statement of operations. The purchase was funded using cash on hand and structured to accommodate a reverse tax deferred exchange in conjunction with the sale of Valencia Corporate Center pursuant to the provisions of Section 1031 of the Code and applicable state revenue and taxation code sections.

On July 1, 2011, we acquired the Lloyd District Portfolio, consisting of approximately 600,000 rentable square feet on more than 16 acres located in the Lloyd District of Portland, Oregon. The Lloyd District Portfolio is comprised of six office buildings within four contiguous blocks, including (i) a condominium interest in the 20-story Lloyd Tower, (ii) the 16-story Lloyd 700 Building and (iii) four low-rise landmark buildings within Oregon Square. The purchase price was approximately $91.6 million, excluding closing costs of approximately $0.1 million, which are included in other income (expense), net on the statement of operations. The purchase was funded using cash on hand. The acquisition was structured to accommodate a possible tax deferred exchange pursuant to the provisions of Section 1031 of the Code and applicable state revenue and taxation code sections.

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

On September 20, 2011, we acquired the Solana Beach Highway 101 property, consisting of approximately 1.7 acres located in Solana Beach, California. The property consists primarily of land held for future development. The purchase price was approximately $6.8 million, excluding closing costs of approximately $0.2 million, which are included in other income (expense), net on the statement of operations. The purchase was funded through cash on hand.

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 preliminary purchase price allocation after obtaining more information about asset valuations and liabilities assumed. The allocation of the purchase price for First & Main, Lloyd District Portfolio and Solana Beach Highway 101 was as follows (in thousands):

	First & Main	Lloyd District Portfolio	Solana Beach Highway 101	Total
Land	$ 14,697	$ 18,660	$ 6,692	$ 40,049
Building	102,597	53,325	107	156,029
Land improvements	151	1,444		1,595
Tenant improvements	6,991	5,909	11	12,911
Construction in progress		723		723
Total real estate	124,436	80,061	6,810	211,307
Accounts receivable, net	153			153
Lease intangibles	9,578	13,164	40	22,782
Prepaid expenses and other assets	296	10		306
Total assets	$ 134,463	$ 93,235	$ 6,850	$ 234,548
Accounts payable and accrued expenses	$ 387	$ 188	$ 12	$ 587
Security deposits payable		426	6	432
Other liabilities and deferred credits		519		519
Lease intangibles	5,199	502		5,701
Total liabilities	$ 5,586	$ 1,635	$ 18	$ 7,239

We have included the results of operations for First & Main, Lloyd District Portfolio and Solana Beach Highway 101 in our consolidated statements of operations from the date of acquisition. For the period of acquisition through September 30, 2011, First & Main, Lloyd District Portfolio and Solana Beach Highway 101 contributed $9.6 million to total revenue, $7.9 million to operating expenses, $1.7 million to operating income and $0.5 million to net income.

Pro Forma Financial Information

The unaudited financial information in the table below summarizes the combined results of operations of the Waikiki Beach Walk entities, Solana Beach Centre entities, First & Main, Lloyd District Portfolio and Solana Beach Highway 101 with the historical results of operations of the Company/Predecessor on a pro forma basis, as though the entities had been acquired on January 1, 2010. The pro forma financial information for the nine months ended September 30, 2010, also includes the pro forma results of operations for The Landmark at One Market, which was acquired by the Predecessor on June 30, 2010, as though the entity had been acquired on January 1, 2010. 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, 2010. 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 and The Landmark at One Market for the nine months ended September 30, 2010.

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

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Total revenue	$ 166,575	$ 158,003
Total operating expenses	120,689	109,312
Operating income	45,886	48,691
Net loss	$ (26,159) [(1)]	$ (993)

(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 for a sales price of $31.0 million. The property is located in Santa Clarita, California. The decision to sell Valencia Corporate Center 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 First & Main pursuant to the provisions of Section 1031 of the Code and applicable state revenue and taxation code sections. As a result of the sale, Valencia Corporate Center no longer serves as a borrowing base property under our revolving credit facility.

We determined that Valencia Corporate Center became a discontinued operation in the third quarter of 2011. We have, therefore, classified Valencia Corporate Center s net assets, liabilities and operating results as discontinued operations on our balance sheets and our statements of operations for all periods prior to the sale.

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net revenue from discontinued operations	$ 767	$ 1,107	$ 3,099	$ 3,314
Results from discontinued operations				
Net income from discontinued operations	327	44	1,119	232
Gain on sale of real estate from discontinued operations	3,981		3,981	
Total net income from discontinued operations	$ 4,308	$ 44	$ 5,100	$ 232

NOTE 3. INVESTMENTS IN REAL ESTATE JOINT VENTURES

As of December 31, 2010, our Predecessor had four joint venture arrangements with unrelated third parties. We owned from 25% to 80% of each of these ventures. For two of these ventures, we were the general partner or managing member; however, the outside owners were either a co-general partner or had substantive participating rights, and we could not make significant decisions without the outside owners approval. Accordingly, we accounted for these investments under the equity method. We acted as the manager of the three properties owned by these two ventures and received fees in accordance with service contracts (Note 15).

For the joint venture that owned a mixed-use property in Honolulu, Hawaii, we had an effective 80% limited ownership interest in the property; however, the outside owner was the managing member and managed the day-to-day business of the property. In addition, we did not have kick-out rights relating to the outside owner s managing membership interest. Accordingly, we accounted for these investments under the equity method of accounting.

The properties owned by these unconsolidated joint ventures at December 31, 2010 were as follows:

Property	Type	Location
Solana Beach Towne Centre	Retail	Solana Beach, CA
Solana Beach Corporate Centre	Office	Solana Beach, CA
Fireman s Fund Headquarters	Office	Novato, CA
Waikiki Beach Walk	Mixed Use	Honolulu, HI

17

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

As noted above, as part of the Formation Transactions, we acquired the unrelated third party s interest in Solana Beach Towne Centre, Solana Beach Corporate Centre and Waikiki Beach Walk. We consolidated the operations of these properties subsequent to the Formation Transactions. The Predecessor s ownership interest in Fireman s Fund Headquarters was not acquired, and rather the ownership interests in this entity were distributed to its owners as part of the Formation Transactions. In addition, we no longer receive fee income from these ventures.

The Waikiki Beach Walk property has a 47.7% investment in WBW CHP LLC, an entity that was formed to 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. Annual contributions are made to fund maintenance reserves. Upon acquisition of the Waikiki Beach Walk property, the investment in WBW CHP LLC was recorded at its fair value of $0.

NOTE 4. ACQUIRED IN-PLACE LEASES AND ABOVE/BELOW MARKET LEASES

The following summarizes our acquired lease intangibles, which are included in prepaid expenses and other assets and other liabilities and deferred credits, as of September 30, 2011 and December 31, 2010 (in thousands):

	September 30, 2011	December 31, 2010
In-place leases	$ 60,540	$ 41,108
Accumulated amortization	(29,038)	(30,901)
Above market leases	43,064	33,557
Accumulated amortization	(24,344)	(21,433)
Acquired lease intangible assets, net	50,222	22,331
Below market leases	70,332	54,576
Accumulated accretion	(20,618)	(21,546)
Acquired lease intangible liabilities, net	$ 49,714	$ 33,030

NOTE 5. MARKETABLE SECURITIES

Our portfolio of marketable securities is comprised of debt securities that are classified as trading securities. At September 30, 2011, our marketable securities consisted of investments in mortgage-backed securities issued by the Government National Mortgage Association (GNMA securities). We report our trading securities at fair value, based on quoted market prices (Level 1 of the fair value hierarchy see Note 6). Gains and losses resulting from the mark-to-market of these securities are recognized as unrealized gains or losses in income. For the nine months ended September 30, 2011, unrealized losses in our statement of operations, which are included in other income (expense), were insignificant.

NOTE 6. 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

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.

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

Except as disclosed below, the carrying amount of our financial instruments approximates their fair value. The fair value of our secured notes payable and unsecured 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 mortgages and notes payable, using rates ranging from 3.7% to 8.7%. 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 notes payable is as follows (in thousands):

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Secured notes payable, including discontinued operations	$ 943,900	$ 974,198	$ 851,547	$ 871,016
Unsecured notes payable			$ 38,013	$ 38,023

Due to their related party nature, notes with affiliates outstanding at December 31, 2010 cannot be measured at fair value.

NOTE 7. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consist of the following:

	September 30, 2011	December 31, 2010
	(In thousands)	
Leasing commissions, net of accumulated amortization of $13,955 and $13,136, respectively	$ 17,782	$ 10,724
Acquired above market leases, net	18,720	12,124
Acquired in-place leases, net	31,502	10,207
Lease incentives, net of accumulated amortization of $1,757 and $1,480, respectively	1,943	2,220
Other intangible assets, net of accumulated amortization of $3,174 and $1,325, respectively	1,732	364
Debt issuance costs, net of accumulated amortization of $2,203 and $2,683, respectively	3,698	2,209
Prepaid expenses, deposits, and other	1,744	5,870
Total prepaid expenses and other assets	$ 77,121	$ 43,718

Lease incentives are amortized over the term of the related lease and included as a reduction of rental income in the statement of operations. Prepaid expenses and deposits included $5.3 million in costs related to the Offering at December 31, 2010, which were recorded as a reduction of capital at the time of the Offering.

NOTE 8. OTHER LIABILITIES AND DEFERRED CREDITS

Other liabilities and deferred credits consist of the following:

	September 30, 2011	December 31, 2010
	(In thousands)	
Acquired below market leases, net	$ 49,714	$ 33,030
Prepaid rent and deferred revenue	5,936	5,145
Straight-line rent liability	601	622
Deferred rent expense and lease intangible	1,139	
Deferred compensation	485	
Other liabilities	80	49
Total other liabilities and deferred credits	$ 57,955	$ 38,846

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 9. DEBT

The following is a summary of our total debt outstanding as of September 30, 2011 and December 31, 2010 (in thousands):

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

Description of Debt	Principal Balance as of September 30, 2011	Principal Balance as of December 31, 2010	Stated Interest Rate as of September 30, 2011	Stated Maturity Date
Secured Notes Payable				
160 King Street (1)(2)(5)(10)	$	$ 8,564	N/A	November 1, 2012
Carmel Country Plaza (1)(4)		10,145	N/A	January 2, 2013
Santa Fe Park RV Resort (1)(4)		1,856	N/A	January 2, 2013
Lomas Santa Fe Plaza (1)(4)		19,599	N/A	May 1, 2013
Torrey Reserve South Court (1)(4)		12,892	N/A	May 1, 2013
Carmel Mountain Plaza (1)(4)		62,907	N/A	June 1, 2013
Alamo Quarry Market (4)(6)	96,538	98,011	5.670%	January 8, 2014
160 King Street (7)	31,800	32,931	5.680%	May 1, 2014
Waikele Center (5)	140,700	140,700	5.145%	November 1, 2014
The Shops at Kalakaua (5)	19,000	19,000	5.449%	May 1, 2015
The Landmark at One Market (5)(6)	133,000	133,000	5.605%	July 5, 2015
Del Monte Center (5)	82,300	82,300	4.926%	July 8, 2015
Rancho Carmel Plaza (1)(4)		8,049	N/A	January 1, 2016
First & Main (5)	84,500		3.965%	July 1, 2016
Imperial Beach Gardens (5)	20,000	20,000	6.163%	September 1, 2016
Mariner s Point (5)	7,700	7,700	6.092%	September 1, 2016
Torrey Reserve ICW Plaza (1)(5)		43,000	N/A	February 1, 2017
South Bay Marketplace (5)	23,000	23,000	5.477%	February 10, 2017
Waikiki Beach Walk Retail (5)	130,310		5.390%	July 1, 2017
Solana Beach Corporate Centre III-IV (11)	37,330		6.390%	August 1, 2017
Loma Palisades (5)	73,744	73,744	6.090%	July 1, 2018
Torrey Reserve North Court (4)	21,984	22,165	7.220%	June 1, 2019
Torrey Reserve Torrey Daycare (1)(8)		1,660	N/A	June 1, 2019
Torrey Reserve VCI, VCII, VCIII (4)	7,401	7,462	6.355%	June 1, 2020
Solana Beach Corporate Centre I-II (4)	11,825		5.910%	June 1, 2020
Solana Beach Towne Centre (4)	39,418		5.910%	June 1, 2020
	960,550	828,685		
Unamortized fair value adjustment	(16,650)			
	943,900	828,685		
Unsecured Notes Payable				
Waikele Center Notes (1)(2)(5)		5,813	N/A	February 15, 2011
Landmark Note (1)(2)(5)		19,000	N/A	July 1, 2013

Carmel Mountain Note [1][2][5]		13,200	N/A	August 1, 2013
		38,013		
Notes Payable to Affiliates				
Del Monte Center Affiliates [1][9]		5,266	N/A	March 1, 2013
Debt of Discontinued Operations				
Secured Notes Payable				
Valencia Corporate Center [1][2][3]		7,223	N/A	February 1, 2011
Valencia Corporate Center [1][4]		15,639	N/A	October 1, 2012
		22,862		
Total Debt Outstanding	$ 943,900	$ 894,826		

(1) Note was voluntarily repaid in full as part of the Formation Transactions.
(2) Loan was fully or partially guaranteed by owners or affiliates.

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

(3) Interest rate has floor of 4.50%
(4) Principal payments based on a 30-year amortization schedule.
(5) Interest only.
(6) 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.
(7) Principal payments based on a 20-year amortization schedule.
(8) Principal payments based on a 25-year amortization schedule. The interest rate will be reset to the greater of 6.50% or LIBOR plus 4.00% on June 1, 2014.
(9) Principal payments based on a 5-year amortization schedule.
(10) Secured by the owners equity interests in the entity.
(11) Loan is interest only through August 2012. Beginning in September 2012, principal payments are based on a 30-year amortization schedule.

We used a portion of net proceeds received from the Offering to repay in full certain outstanding indebtedness, including applicable prepayment costs, exit fees and defeasance costs. The defeasance costs of $24.3 million are included in early extinguishment of debt, along with $0.6 million of unamortized deferred loan fees and $0.9 million of unamortized debt fair value adjustments that were written off related to loans repaid at the time of the Offering. Additionally, we paid $9.0 million in loan transfer and consent fees to lenders, which were expensed as incurred, in order for the lenders to consent to the transfer of the existing loans at certain properties to the Operating Partnership as part of the Formation Transactions.

On June 1, 2011, we, through a subsidiary, entered into a five-year non-recourse mortgage loan with PNC Bank, National Association with an original principal amount of $84.5 million. The loan is secured by a first-priority deed of trust on First & Main and an assignment of all leases, rents and security deposits relating to First & Main. The loan has a maturity date of July 1, 2016, bears interest at a fixed rate per annum of 3.965% and is interest only.

Certain loans require us to comply with various financial covenants, including the maintenance of minimum debt coverage ratios. As of September 30, 2011, we were in compliance with all loan covenants.

Revolving Credit Facility

On January 19, 2011, in connection with the Offering, we entered into a credit facility pursuant to which a group of lenders provided commitments for a revolving credit facility allowing borrowings of up to $250.0 million. At September 30, 2011, our maximum allowable borrowing amount was $197.5 million. The credit facility has an initial term of three years, and we have the option to extend the term for one additional year if we meet specified requirements. The credit facility has an accordion feature that may allow us to increase the availability thereunder up to $400.0 million, subject to meeting specified requirements and obtaining additional commitments from lenders. No amounts have been borrowed on the credit facility to date. The credit facility bears interest at the rate of either LIBOR or a base rate, in each case plus a margin that will vary depending on our leverage ratio. The amount available for us to borrow under the credit facility is subject to the net operating income of our properties that form the borrowing base of the facility and a minimum implied debt yield of such properties.

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 65% on or prior to December 31, 2011 and 60% thereafter,

- 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 57.5% on or prior to December 31, 2012 and 50% thereafter,

- 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 (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.

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

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.

NOTE 10. 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 18,396,089 common units (the noncontrolling common units), and represented approximately 32% of the ownership interests in our Operating Partnership at September 30, 2011. 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.

On February 14, 2011, we completed a private placement transaction of 251,050 common units for approximately $5.4 million.

Dividends

The following table lists the dividends declared and paid on our shares of common stock and noncontrolling common units for the nine months ended September 30, 2011:

Period	Amount per Share/Unit	Period Covered	Dividend Paid Date
First Quarter 2011	$ 0.17	January 19, 2011 to March 31, 2011	March 31, 2011
Second Quarter 2011	$ 0.21	April 1, 2011 to June 30, 2011	June 30, 2011
Third Quarter 2011	$ 0.21	July 1, 2011 to September 30, 2011	September 30, 2011

Taxability of Dividends

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

Stock-Based Compensation

Concurrently with the closing of the Offering, we made grants of restricted shares of our common stock to certain executive officers pursuant to the terms of their employment agreements. These awards were made pursuant to our 2011 Equity Incentive Award Plan (the 2011 Plan). At such time, we granted to such executive officers a total of 198,000 shares that are subject to timing-based vesting and 297,000 shares that are subject to performance-based vesting, with fair market values of $4.1 million for the timing-based vesting awards and $3.9 million for the performance-based vesting awards. 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.

Concurrently with the closing of the Offering, we also granted each of our non-employee directors 1,951 restricted shares of our common stock pursuant to the 2011 Plan, other than one who was granted 1,952 restricted shares. These awards of restricted stock will vest ratably as to one-third of the shares granted on each of the first three anniversaries of the date of grant, subject to the director s continued service on our board of directors, and had an aggregate fair value of $0.2 million on the date of the grants. On June 29, 2011, one of our directors notified us of his resignation as a director of the Company and, as a result, immediately forfeited the 1,951 restricted shares of our common stock previously granted to him, none of which had vested. On August 5, 2011, we granted 1,957 restricted shares of our common stock to a new non-employee director, with a fair value of $0.04 million on the date of the grant. The 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 of directors.

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

On March 16, 2011 we granted a total of 123,950 restricted shares of our common stock to certain other employees pursuant to the 2011 Plan with a fair value of $1.6 million. These shares are subject to performance-based vesting, with the terms described above related to performance-based vesting.

For the performance-based stock awards, the fair value of the awards was estimated using a Monte Carlo Simulation model. The volatilities of the returns on the stock price of the Company and the group 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.

None of the restricted shares were vested at September 30, 2011. We recognize noncash compensation expense ratably over the vesting period, and accordingly, we recognized $1.9 million in noncash compensation expense for the nine months ended September 30, 2011, which is included in general and administrative expense on the statement of operations. Unrecognized compensation expense was $7.8 million.

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 and nine months ended September 30, 2011, we had a weighted average of approximately 627,967 and 561,564 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 and nine months ended September 30, 2011, 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.

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

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

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Numerator		
Income from continuing operations	$ 310	$ 13,569
Less: Net income attributable to restricted shares	(132)	(350)
Less: Loss from continuing operations attributable to Predecessor s noncontrolling interests in consolidated real estate entities		2,454
Less: Income from continuing operations attributable to Predecessor s controlled owners equity		(17,009)
Less: Income (loss) from continuing operations attributable to unitholders in the Operating Partnership	(57)	427
Income (loss) from continuing operations attributable to American Assets Trust Inc. common stockholders basic	121	(909)
Plus: Results from discontinued operations attributable to American Assets Trust Inc. common stockholders	2,931	3,482
Net income attributable to common stockholders basic	$ 3,052	$ 2,573
Income (loss) from continuing operations attributable to American Assets Trust Inc. common stockholders basic	$ 121	$ (909)
Plus: Income (loss) from continuing operations attributable to unitholders in the Operating Partnership	57	(427)
Income (loss) from continuing operations attributable to common stockholders diluted	178	(1,336)
Plus: Results from discontinued operations attributable to American Assets Trust Inc. common stockholders	2,931	3,482
Plus: Results from discontinued operations attributable to unitholders in the Operating Partnership	1,377	1,636
Net income attributable to common stockholders diluted	$ 4,486	$ 3,782
Denominator		
Weighted average common shares outstanding basic	38,655,084	36,106,397
Effect of dilutive securities conversion of Operating Partnership units	18,396,089	17,159,251
Weighted average common shares outstanding diluted	57,051,173	53,265,648
Earnings (loss) per common share basic		

Continuing operations	$	0.00	$	(0.03)
Discontinued operations		0.08		0.10
	$	0.08	$	0.07
Earnings (loss) per common share diluted				
Continuing operations	$	0.00	$	(0.03)
Discontinued operations		0.08		0.10
	$	0.08	$	0.07

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

NOTE 11. COMMITMENTS AND CONTINGENCIES

Legal

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.

We acquired the Waikiki Beach Walk property as part of the Formation Transactions on January 19, 2011. 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 September 30, 2011 (in thousands):

Year Ending December 31,	
2011 (three months ending December 31, 2011)	$ 599
2012	2,436
2013	2,502
2014	2,569
2015	2,636
Thereafter	5,411 (1)
	$ 16,153

(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.

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

A wholly owned subsidiary of our Operating Partnership, WBW 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 WBW 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 revenue thereafter, as well as a monthly program fee equal to 4.0% of the hotel s gross room revenue.

In connection with our acquisition of Lloyd District Portfolio, we have entered into a property management agreement with Ashforth Pacific, Inc. (Ashforth) pursuant to which Ashforth manages and operates Lloyd District Portfolio. Pursuant to the property management agreement, we pay Ashforth 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 is for an initial term of two years, with three one-year renewal options, exercisable by us in our sole discretion. The property management agreement may not be terminated by us or by Ashforth without cause during the initial term. Since entering into the property management agreement, Ashforth has solicited our consent to assign their interest as manager in the property management agreement, to Langley Investment Properties, Inc. We consented to such assignment subject to certain conditions; however, the assignment has not yet closed.

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 three 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.

Concentrations of Credit Risk

Our properties are located in Southern California, Northern California, Hawaii, Oregon and Texas. 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. Thirteen 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 42% of total revenues for the nine months ended September 30, 2011. 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 nine months ended September 30, 2011 and 2010, 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.

As of September 30, 2011, 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 for the years/period ending December 31 (in thousands):

2011 (three months ending December 31, 2011)	$ 38,527
2012	134,606
2013	116,577
2014	93,330
2015	81,000
Thereafter	205,515
Total	$ 669,555

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Minimum rents				
Retail	$ 15,847	$ 14,548	$ 48,062	$ 43,114
Office	16,423	9,708	41,324	18,792
Multifamily	3,501	3,327	9,789	9,899
Mixed-use	2,239		6,275	
Cost reimbursement	6,406	5,774	18,963	14,980
Percentage rent	455	272	1,090	700
Hotel revenue	8,010		20,274	
Other	397	274	1,083	728
Total rental income	$ 53,278	$ 33,903	$ 146,860	$ 88,213

Minimum rents include $2.0 million and $0.1 million for the three months ended September 30, 2011 and 2010, respectively, and $3.6 million and $0.7 million for the nine months ended September 30, 2011 and 2010, respectively, to recognize minimum rents on a straight-line basis. In addition, minimum rents include $(0.9) million and $(0.6) million for the three months ended September 30, 2011 and 2010, respectively, and $(1.6) million and $(1.5) million for the nine months ended September 30, 2011 and 2010, respectively, to recognize the amortization of above and below market leases.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Rental operating	$ 6,031	$ 3,834	$ 15,747	$ 9,592
Hotel operating	5,168		13,819	
Repairs and maintenance	2,497	1,069	6,073	3,861
Marketing	402	209	1,261	462
Rent	555	566	2,154	566
Hawaii excise tax	1,028	286	2,516	812
Management fees	506	13	1,150	65

Total rental expenses	$ 16,187	$ 5,977	$ 42,720	$ 15,358

NOTE 14. OTHER INCOME (EXPENSE)

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

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Income tax expense	$ (309)	$	$ (690)	$
Loss from real estate joint ventures		(541)	(188)	(3,431)
Acquisition related expenses	(187)		(431)	
Fee income from real estate joint ventures		258	44	2,201
Interest and investment income	388	32	1,086	63
Total other income (expense)	$ (108)	$ (251)	$ (179)	$ (1,167)

NOTE 15. RELATED PARTY TRANSACTIONS

Prior to the Offering and Formation Transactions, we acted as the manager for certain unconsolidated real estate joint ventures and earned fees for these services (excluding Waikiki Beach Walk). Each unconsolidated joint venture (excluding Waikiki Beach Walk) had a master management agreement with additional agreements covering property management, construction management, acquisition, disposition and leasing and asset management. These agreements provided for the following fees to be paid to us by these unconsolidated joint ventures:

Property Management Fees Property management fees were incurred for the operation and management of the properties. Fees ranged from 1.25% to 5.5% of gross monthly cash collections each month, with minimum monthly fees ranging from $2,500 to $5,000.

Construction Management Fees Construction management fees were incurred for the management and supervision of construction projects owned by the unconsolidated joint ventures. Fees ranged from 3.0% to 5.0% of construction and development costs on buildings and improvements for most properties although certain agreements provided for a flat fee. For tenant improvements, fees were 10.0% of costs for projects where we directly supervised construction subcontractors or 3.0% for projects where we managed a general contractor, plus hourly fees for employees directly working on the tenant improvements.

Acquisition and Disposition Fees Acquisition and disposition fees were incurred for services provided in conjunction with acquisition and disposition of the properties owned by the unconsolidated real estate joint venture. Fees were either 0.5% or 1.0% of the total value of all the acquisition or disposition.

Leasing Fees Leasing fees were incurred for services provided to procure tenants for the properties owned by the unconsolidated joint venture. Fees were 1.0% of the total value of all leases executed for the properties, including new leases, renewals, extensions or other modifications.

Asset Management Fees/Financing Fees Asset management fees were incurred for evaluating property value, performance and/or condition, appealing property assessments or tax valuations, recommending ways to enhance value and procuring financing. The fees were charged at hourly rates ranging from $40 to $125 for asset management services. In addition, financing fees were paid for any permanent financing placed on the properties, with fees of either of 25 to 50 basis points of the financed amount or a flat fee of $50,000.

In addition to the fees noted above, certain unconsolidated joint ventures also reimbursed us for monthly maintenance and facilities management services provided to the properties owned by the unconsolidated joint ventures.

Fees earned by us from the unconsolidated joint ventures are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Property management fees	$	$ 222	$ 38	$ 1,013
Leasing fees				957
Asset management fees/financing fees				130
Maintenance reimbursements		30	6	90
Construction management fees		6		11
	$	$ 258	$ 44	$ 2,201

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

Subsequent to the Formation Transactions, we no longer earn fees from unconsolidated joint ventures.

At December 31, 2010, accounts payable and accrued expenses include $0.3 million related to amounts paid by AAI on behalf of the properties for loan transfer and consent fee and loan defeasance fee deposits, which was repaid upon completion of the Offering.

Certain affiliated entities made loans to affiliates in order to attain a higher return on excess cash balances, and these loans were classified as notes receivable from affiliates. The notes bore interest at LIBOR and were to be repaid upon demand. The notes receivable were settled as part of the Formation Transactions. A summary of the outstanding notes receivable balances and interest income are as follows (in thousands):

	As of and for the nine months ended September 30,	
	2011	2010
Notes receivable	$	$ 21,769
Interest income	$ 3	$ 43

We received unsecured loans on January 15, 2008, from certain of the entities that own Del Monte Center for $12.0 million, the proceeds of which were used to fund construction at the property. The notes bore interest at 10.0% and required monthly principal and interest payments until maturity on March 1, 2013. The notes were classified as notes payable to affiliates. The notes were repaid using proceeds from the Offering or were settled as part of the Formation Transactions. Interest expense related to the notes was $0.03 million and $0.5 million for the nine months ended September 30, 2011 and 2010, respectively.

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 $1.7 million and $1.9 million for the nine months ended September 30, 2011 and 2010, respectively, is included in rental income. In May, the lease agreement at ICW Plaza was amended to terminate the lease of approximately 12,000 square feet and reduce base rent on one suite in line with market rent. Additionally, we leased space to Insurance Company of the West at Valencia Corporate Center until the sale of Valencia Corporate Center on August 30, 2011, and rental revenue recognized on these leases of $1.2 million and $1.3 million for the nine months ended September 30, 2011 and 2010, respectively, is included in discontinued operations.

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.

Asset information by segment is not reported because we do not use this 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.

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Total Retail				
Property revenue	$ 21,494	$ 20,464	$ 64,923	$ 58,706
Property expense	(5,981)	(4,855)	(17,433)	(14,855)
Segment profit	15,513	15,609	47,490	43,851
Total Office				
Property revenue	18,335	10,898	45,767	21,577
Property expense	(6,209)	(3,309)	(15,029)	(6,256)
Segment profit	12,126	7,589	30,738	15,321
Total Multifamily				
Property revenue	3,803	3,601	10,588	10,692
Property expense	(1,387)	(1,255)	(3,974)	(3,455)
Segment profit	2,416	2,346	6,614	7,237
Total Mixed-Use				
Property revenue	12,661		32,998	
Property expense	(8,000)		(21,084)	
Segment profit	4,661		11,914	
Total segments profit	$ 34,716	$ 25,544	$ 96,756	$ 66,409

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

Table of Contents

American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

September 30, 2011

(Unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Total segments profit	$ 34,716	$ 25,544	$ 96,756	$ 66,409
General and administrative	(3,733)	(1,515)	(10,786)	(4,908)
Depreciation and amortization	(15,827)	(12,599)	(41,916)	(26,714)
Interest expense	(14,738)	(12,416)	(41,791)	(32,979)
Early extinguishment of debt			(25,867)	
Loan transfer and consent fees			(9,019)	
Gain on acquisition			46,371	4,297
Other income (expense), net	(108)	(251)	(179)	(1,167)
Income (loss) from continuing operations	310	(1,237)	13,569	4,938
Discontinued operations				
Income from discontinued operations	327	44	1,119	232
Gain on sale of real estate property	3,981		3,981	
Results from discontinued operations	4,308	44	5,100	232
Net income (loss)	4,618	(1,193)	18,669	5,170
Net income attributable to restricted shares	(132)		(350)	
Net loss attributable to Predecessor s noncontrolling interests in consolidated real estate entities		1,042	2,458	1,941
Net (income) loss attributable to Predecessor s controlled owners equity		151	(16,995)	(7,111)
Net income attributable to unitholders in the Operating Partnership	(1,434)		(1,209)	
Net income attributable to American Assets Trust, Inc. stockholders	$ 3,052	$	$ 2,573	$

31

Table of Contents

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;

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 environment;

the competitive environment in which we operate;

decreased rental rates or increased vacancy rates;

conflicts of interests with our officers;

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, in our annual report on Form 10-K for the year ended December 31, 2010, and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011.

Table of Contents

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 REIT that owns, operates, acquires and develops high quality retail, office, multifamily and mixed-use properties in attractive, high-barrier-to-entry markets primarily in Southern California, Northern California, Oregon and Hawaii. As of September 30, 2011 our portfolio is comprised of ten retail shopping centers; six office properties; a mixed-use property consisting of a 369-room all-suite hotel and a retail shopping center; and four multifamily properties. Our core markets include San Diego, the San Francisco Bay Area, Portland, Oregon 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, or the Offering, and the related acquisition of our Predecessor (as defined below) on January 19, 2011. After the completion of the Offering and the Formation Transactions (as defined below) on January 19, 2011, our operations have been carried on through our Operating Partnership. Our company, as the sole general partner of our Operating Partnership, has control of our Operating Partnership and owned 68.0% of our operating partnership as of September 30, 2011. Accordingly, we consolidate the assets, liabilities and results of operations of our Operating Partnership.

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 Rady Trust, which in turn owned (1) controlling interests in entities owning 17 properties and the property management business of American Assets, Inc. and (2) noncontrolling interests in entities owning four properties (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-used property consisting of a retail portion and a hotel portion), or the Waikiki Beach Walk entities, and (c) the entities that own Solana Beach Towne Centre and Solana Beach Corporate Centre, or the Solana Beach Centre entities (including our Predecessor s ownership interest in these entities).

As noted above, since the Offering and the Formation Transactions occurred on January 19, 2011, the results of operations and financial condition for the entities acquired by us in connection with the Offering and related Formation Transactions are not included in certain historical financial statements. More specifically, our results of operations and financial condition for the nine months ended September 30, 2010 reflect the results of operations and financial condition for our Predecessor. Our results of operations for the nine months ended September 30, 2011 reflect the results of operation and financial condition 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 First & Main, Lloyd District Portfolio, and Solana Beach Highway 101, each acquired subsequent to the Offering and discussed in more detail under Acquisitions and Dispositions . The results of operations for each of these acquisitions are included in our consolidated statements of operations only from the date of acquisition.

Acquisitions and Dispositions

Acquisitions

As part of the Formation Transactions, we acquired the controlling interests in the Waikiki Beach Walk entities and the Solana Beach Centre entities for Operating Partnership units and common shares with a value of approximately $33.9 million.

On March 11, 2011, we acquired an approximately 364,000 square foot, 16-story, LEED Platinum certified office building located at 100 SW Main Street, in Portland, Oregon, or First & Main. The purchase price for First & Main was approximately $128.9 million, excluding closing costs of approximately $0.1 million, which are included in other income (expense), net on the statement of operations. The purchase was funded using cash on hand and structured to accommodate a reverse tax deferred exchange in conjunction with the sale of Valencia Corporate Center pursuant to the provisions of Section 1031 of the Internal Revenue Code of 1986, as amended, or the Code, and applicable state revenue and taxation code sections.

On July 1, 2011, we acquired the Lloyd District Portfolio, consisting of approximately 600,000 rentable square feet on more than 16 acres located in the Lloyd District of Portland, Oregon. The Lloyd District Portfolio is comprised of six office buildings within four contiguous blocks, including (i) a condominium interest in the 20-story Lloyd Tower, (ii) the 16-story Lloyd 700 Building and (iii) four low-rise landmark buildings within Oregon Square. The purchase price was approximately $91.6 million, excluding closing costs of approximately $0.1 million, which are included in other income (expense), net on the statement of operations. The purchase was funded using cash on hand. The acquisition was structured to accommodate a possible tax deferred exchange pursuant to the provisions of Section 1031 of the Code and applicable state revenue and taxation code sections. We intend to evaluate further

Table of Contents

developing this property through the addition of retail, office and/or residential mixed-use development. However, we can offer no assurances that we will ultimately further develop this property.

On September 20, 2011, we acquired the Solana Beach Highway 101 property, consisting of approximately 1.7 acres located in Solana Beach, California. The purchase price was approximately $6.8 million, excluding closing costs of approximately $0.2 million, which are included in other income (expense), net on the statement of operations. The purchase was funded through cash on hand. We intend to evaluate developing this property into a retail, office and/or residential mixed-use site. However, we can offer no assurances that we will ultimately develop this property. The property currently includes approximately 2,800 rentable square feet, which we plan to lease until development begins, if at all.

Dispositions

On August 30, 2011, we sold Valencia Corporate Center for a sales price of $31.0 million. The property is located in Santa Clarita, California. The decision to sell Valencia Corporate Center 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 First & Main pursuant to the provisions of Section 1031 of the Code and applicable state revenue and taxation code sections. As a result of the sale, Valencia Corporate Center no longer serves as a borrowing base property under our revolving credit facility.

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, 2010. We have not made any material changes to these policies during the periods covered by this report.

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 September 30, 2011 to the three months ended September 30, 2010

The following table summarizes our consolidated results of operations for the three months ended September 30, 2011 compared to our Predecessor s combined results of operations for the three months ended September 30, 2010. As of September 30, 2011, our operating portfolio was comprised of 21 retail, office, multifamily and mixed-use properties with an aggregate of approximately 5.2 million rentable square feet of retail and office space, 922 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of September 30, 2011, we owned land at five of our properties that we classified as held for development. As of September 30, 2010, our Predecessor s operating portfolio was comprised of 17 properties with an aggregate of approximately 4.0 million rentable square feet of retail and office space and 922 residential units (including 122 RV spaces). The Predecessor also owned land at two of its properties that it classified as held for development. At September 30, 2010, our Predecessor had noncontrolling investments in four properties, which were accounted for under the equity method of accounting. The Landmark at One Market was acquired on June 30, 2010 by our Predecessor. Prior to June 30, 2010, our Predecessor had a noncontrolling interest in The Landmark at One Market and accounted for its investment under the equity method of accounting.

Table of Contents

The following table sets forth selected data from our consolidated/combined statements of operations for the three months ended September 30, 2011 and 2010 (dollars in thousands):

	Three Months Ended September 30, 2011	2010	Change	%
Revenues				
Rental income	$ 53,278	$ 33,903	$ 19,375	57%
Other property income	3,015	1,060	1,955	184
Total property revenues	56,293	34,963	21,330	61
Expenses				
Rental expenses	16,187	5,977	10,210	171
Real estate taxes	5,390	3,442	1,948	57
Total property expenses	21,577	9,419	12,158	129
Total property income	34,716	25,544	9,172	36
General and administrative	(3,733)	(1,515)	(2,218)	146
Depreciation and amortization	(15,827)	(12,599)	(3,228)	26
Interest expense	(14,738)	(12,416)	(2,322)	19
Other income (expense), net	(108)	(251)	143	(57)
Total other, net	(34,406)	(26,781)	(7,625)	28
Income (loss) from continuing operations	310	(1,237)	1,547	(125)
Discontinued operations				
Income from discontinued operations	327	44	283	643
Gain on sale of real estate property	3,981		3,981	100
Results from discontinued operations	4,308	44	4,264	9,691
Net income (loss)	4,618	(1,193)	5,811	(487)
Net income attributable to restricted shares	(132)		(132)	(100)
Net loss attributable to Predecessor s noncontrolling interests in consolidated real estate entities		1,042	(1,042)	(100)
Net loss attributable to Predecessor s controlled owners equity		151	(151)	(100)
Net income attributable to unitholders in the Operating Partnership	(1,434)		(1,434)	(100)
Net income attributable to American Assets Trust, Inc. stockholders	$ 3,052	$	$ 3,052	100%

Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased $21.3 million, or 61%, to $56.3 million for the three months ended September 30, 2011 compared to $35.0 million for the three months ended September 30, 2010. The percentage leased was as follows for each segment as of September 30, 2011 and 2010:

	Percentage Leased (1) September 30, 2011	2010

Retail	92.6%[2]	97.3%
Office	94.1	96.5 [4]
Multifamily	94.4	90.5
Mixed-Use	99.2 [3]	

(1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of September 30, 2011 or September 30, 2010, as applicable.
(2) The percentage leased includes the vacant building acquired at Carmel Mountain Plaza in November 2010. Excluding the acquired building, the percentage leased is 95.1%.
(3) Includes the retail portion of the mixed-use property only.
(4) Excludes Valencia Corporate Center, which was sold on August 30, 2011.

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

Rental revenues. Rental revenue includes minimum base rent, cost reimbursements, percentage rents and other rents. Rental revenue increased $19.4 million, or 57%, to $53.3 million for the three months ended September 30, 2011 compared to $33.9 million for the three months ended September 30, 2010. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio Three Months Ended September 30,				Same-Store Portfolio (1) Three Months Ended September 30,			
	2011	2010	Change	%	2011	2010	Change	%
Retail	$ 21,136	$ 20,069	$ 1,067	5%	$ 19,214	$ 19,339	$ (125)	(1)%
Office	17,282	10,504	6,778	65	10,034	10,455	(421)	(4)
Multifamily	3,504	3,330	174	5	3,504	3,330	174	5
Mixed-Use	11,356		11,356	100				
	$ 53,278	$ 33,903	$ 19,375	57%	$ 32,752	$ 33,124	$ (372)	(1)%

(1) For this table and tables following, the same-store portfolio excludes: Solana Beach Towne Centre, Solana Beach Corporate Centre and the Waikiki Beach Walk entities acquired on January 19, 2011; First & Main acquired on March 11, 2011; Lloyd District Portfolio acquired on July 1, 2011; and land held for development. Valencia Corporate Center is excluded from both the total portfolio and same-store portfolio, as it is classified as discontinued operations for all periods presented.

The increase in retail rental revenue was primarily caused by the acquisition of Solana Beach Towne Centre on January 19, 2011. On a same-store basis, retail rental revenue decreased $0.1 million for the three months ended September 30, 2011 compared to the three months ended September 30, 2010. This decrease was primarily due to Borders closing (and the rejection of the leases in bankruptcy) at three of our properties, which resulted in a decrease in rental revenue of $0.3 million for the three months ended September 30, 2011 compared to 2010. This decrease was offset by increased rental revenue related to the increase in the average percentage leased.

The increase in office rental revenue was primarily caused by the acquisition of Solana Beach Corporate Centre on January 19, 2011, First & Main on March 11, 2011 and Lloyd District Portfolio on July 1, 2011, which had rental revenue of $1.4 million, $2.7 million and $3.1 million, respectively, for the three months ended September 30, 2011. Same-store office rental revenue decreased $0.4 million for the three months ended September 30, 2011 compared to the three months ended September 30, 2010. This decrease was primarily due a decrease in rental rates on new leases and renewals and a decrease in the percentage leased of the same-store portfolio.

The increase in multifamily rental revenue was primarily due to an increase in the percentage leased.

The rental revenue for our mixed-use segment represents rental revenue recognized for minimum base rent, cost reimbursements, percentage rents and other rents charged to retail tenants and rental of hotel rooms. The increase in mixed-use rental revenue was due to the acquisition of our mixed-use property, Waikiki Beach Walk, in our Formation Transactions on January 19, 2011.

Other property income. Other property income increased $1.9 million, or 184%, to $3.0 million for the three months ended September 30, 2011, compared to $1.1 million for the three months ended September 30, 2010. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio Three Months Ended September 30,				Same-Store Portfolio Three Months Ended September 30,			
	2011	2010	Change	%	2011	2010	Change	%
Retail	$ 358	$ 395	$ (37)	(9)%	$ 358	$ 395	$ (37)	(9)%
Office	1,053	394	659	167	558	394	164	42
Multifamily	299	271	28	10	299	271	28	10

Mixed-Use	1,305		1,305	100				
	$ 3,015	$ 1,060	$ 1,955	184%	$ 1,215	$ 1,060	$ 155	15%

The increase in office other property income was primarily caused by the acquisition of Lloyd District Portfolio on July 1, 2011, which had parking income of $0.4 million for the three months ended September 30, 2011. Same-store office other property income increased due to an increase of $0.2 million in parking income at the 160 King Street property due to incremental use of the parking structure by the public during construction at a nearby office building, along with those attending San Francisco Giants games at AT&T Park across the street from the property.

The other property income for our mixed-use segment represents Hawaii general excise tax reimbursements, parking income related to retail tenants and guests and sales of food and beverages and other services provided to hotel guests. The increase in mixed-use other property income was due to the acquisition of our mixed-use property, Waikiki Beach Walk, in our Formation Transactions on January 19, 2011.

Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased by $12.2 million, or 129%, to $21.6 million for the three months ended September 30, 2011, compared to $9.4 million for the three months ended September 30, 2010. This increase in total property expenses is attributable primarily to the factors discussed below.

Rental Expenses. Rental expenses increased $10.2 million, or 171%, to $16.2 million for the three months ended September 30, 2011, compared to $6.0 million for the three months ended September 30, 2010. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio Three Months Ended September 30,				Same-Store Portfolio Three Months Ended September 30,			
	2011	2010	Change	%	2011	2010	Change	%
Retail	$ 3,541	$ 2,741	$ 800	29%	$ 3,246	$ 2,741	$ 505	18%
Office	4,071	2,157	1,914	89	2,222	2,156	66	3
Multifamily	1,026	1,079	(53)	(5)	1,026	1,079	(53)	(5)
Mixed-Use	7,549		7,549	100				
	$ 16,187	$ 5,977	$ 10,210	171%	$ 6,494	$ 5,976	$ 518	9%

The increase in retail rental expenses was primarily caused by the acquisition of Solana Beach Towne Centre on January 19, 2011, which had rental expenses of $0.3 million for the three months ended September 30, 2011. On a same-store basis, rental expenses increased $0.5 million for the three months ended September 30, 2011 compared to the three months ended September 30, 2010. This increase was primarily due to additional maintenance performed, additional marketing costs and increased operating costs related to the increase in the average percentage leased for 2011.

The increase in office rental expenses was primarily caused by the acquisition of Solana Beach Corporate Centre on January 19, 2011, First & Main on March 11, 2011 and Lloyd District Portfolio on July 1, 2011, which had rental expenses of $0.2 million, $0.4 million and $1.2 million, respectively, for the three months ended September 30, 2011.

The mixed-use rental expenses increased as the result of our acquisition of the Waikiki Beach Walk mixed-use site on January 19, 2011.

Real Estate Taxes. Real estate tax expense increased $2.0 million, or 57%, to $5.4 million for the three months ended September 30, 2011, compared to $3.4 million for the three months ended September 30, 2010. Real estate tax expense by segment was as follows (dollars in thousands):

Table of Contents

	Total Portfolio Three Months Ended September 30, 2011	2010	Change	%	Same-Store Portfolio Three Months Ended September 30, 2011	2010	Change	%
Retail	$ 2,440	$ 2,114	$ 326	15%	$ 2,260	$ 2,114	$ 146	7%
Office	2,138	1,152	986	86	1,227	1,140	87	8
Multifamily	361	176	185	105	361	176	185	105
Mixed-Use	451		451	100				
	$ 5,390	$ 3,442	$ 1,948	57%	$ 3,848	$ 3,430	$ 418	12%

The increase in retail real estate taxes was primarily caused by additional real estate tax accruals of $0.2 million for expected supplemental billings once the properties in California are re-assessed by the taxing authority.

The increase in office real estate taxes was primarily caused by the acquisition of Solana Beach Corporate Centre on January 19, 2011, First & Main on March 11, 2011 and Lloyd District Portfolio on July 1, 2011, which had real estate taxes of $0.1 million, $0.4 million and $0.4 million, respectively, for the three months ended September 30, 2011.

The increase in multifamily real estate taxes was primarily caused by additional real estate tax accruals of $0.2 million for expected supplemental billings once the properties in California are re-assessed by the taxing authority.

The mixed-use rental expenses increased as the result of our acquisition of the Waikiki Beach Walk mixed-use site on January 19, 2011.

Property Operating Income

Property operating income increased $9.2 million, or 36%, to $34.7 million for the three months ended September 30, 2011, compared to $25.5 million for the three months ended September 30, 2010. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio Three Months Ended September 30, 2011	2010	Change	%	Same-Store Portfolio Three Months Ended September 30, 2011	2010	Change	%
Retail	$ 15,513	$ 15,609	$ (96)	(1)%	$ 14,066	$ 14,879	$ (813)	(5)%
Office	12,126	7,589	4,537	60	7,143	7,553	(410)	(5)
Multifamily	2,416	2,346	70	3	2,416	2,346	70	3
Mixed-Use	4,661		4,661	100				
	$ 34,716	$ 25,544	$ 9,172	36%	$ 23,625	$ 24,778	$ (1,153)	(5)%

The decrease in retail property operating income was offset by the property operating income generated by Solana Beach Towne Centre, which was acquired on January 19, 2011. On a same-store basis, the retail property operating income decreased $0.8 million for the three months ended September 30, 2011 compared to the three months ended September 30, 2010. The same-store decrease was primarily due to decreased rental revenue as a result of the Borders closures, an increase in rental expenses, specifically related to repairs, maintenance and marketing and an increase in real estate taxes.

The increase in office property operating income was primarily caused by the acquisition of Solana Beach Corporate Centre on January 19, 2011, First & Main on March 11, 2011 and Lloyd District Portfolio on July 1, 2011, which had property operating income of $1.0 million, $2.0 million and $1.9 million, respectively, for the three months ended September 30, 2011. On a same-store basis, office property operating income decreased $0.4 million for the three months ended September 30, 2011 compared to the three months ended September 30, 2010. The decrease was primarily due to a decrease in rental rates on new leases and renewals, a decrease in the percentage leased of the same-store portfolio, and increased operating expenses, offset by additional parking income at 160 King Street.

38

Table of Contents

The increase in multifamily property operating income was primarily due to an increase in the percentage leased and reduction of repairs and maintenance expenses due to the timing of the related activities. This was offset by additional real estate tax accruals of $0.2 million for expected supplemental billings once the properties in California are re-assessed by the taxing authority.

The mixed-use property operating income increased as the result of our acquisition of the Waikiki Beach Walk mixed-use site on January 19, 2011.

Other

General and administrative. General and administrative expenses increased $2.2 million, or 146%, to $3.7 million for the three months ended September 30, 2011, compared to $1.5 million for the three months ended September 30, 2010. This increase was due primarily to higher personnel costs and additional costs of being a publicly traded company as a result of the Offering, including stock-based compensation expense, along with additional costs for the acquired properties.

Depreciation and amortization. Depreciation and amortization expense increased $3.2 million, or 26%, to $15.8 million for the three months ended September 30, 2011, compared to $12.6 million for the three months ended September 30, 2010. This increase was due primarily to depreciation and amortization attributable to the acquired properties.

Interest expense. Interest expense increased $2.3 million, or 19%, to $14.7 million for the three months ended September 30, 2011 compared with $12.4 million for the three months ended September 30, 2010. This increase was primarily due to interest expense on the acquired debt for the acquired properties and the new senior mortgage loan obtained on First & Main on June 1, 2011 plus commitment fees on the revolving line of credit, offset by repayment of $316.8 million of outstanding debt at the time of the Offering.

Other income (expense), net. Other expense, net decreased $0.1 million, or 57%, to net expenses of $0.1 million for the three months ended September 30, 2011, compared to net expenses $0.2 million for the three months ended September 30, 2010. Other income (expense), net is comprised of interest and investment income, acquisition related expenses and income tax expense related to our taxable REIT subsidiary, which operates the hotel portion of our mixed-use property.

Discontinued Operations. Discontinued operations relates to Valencia Corporate Center, which was sold on August 30, 2011.

Comparison of the nine months ended September 30, 2011 to the nine months ended September 30, 2010

The following table summarizes our consolidated results of operations for the nine months ended September 30, 2011 compared to our Predecessor s combined results of operations for the nine months ended September 30, 2010. As of September 30, 2011, our operating portfolio was comprised of 21 retail, office, multifamily and mixed-use properties with an aggregate of approximately 5.2 million rentable square feet of retail and office space, 922 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of September 30, 2011, we owned land at five of our properties that we classified as held for development. As of September 30, 2010, our Predecessor s operating portfolio was comprised of 17 properties with an aggregate of approximately 4.0 million rentable square feet of retail and office space and 922 residential units (including 122 RV spaces). The Predecessor also owned land at two of its properties that it classified as held for development. At September 30, 2010, our Predecessor had noncontrolling investments in four properties, which were accounted for under the equity method of accounting. The Landmark at One Market was acquired on June 30, 2010 by our Predecessor. Prior to June 30, 2010, our Predecessor had a noncontrolling interest in The Landmark at One Market and accounted for its investment under the equity method of accounting.

Table of Contents

The following table sets forth selected data from our consolidated/combined statements of operations for the nine months ended September 30, 2011 and 2010 (dollars in thousands):

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Change	%
Revenues				
Rental income	$ 146,860	$ 88,213	$ 58,647	66%
Other property income	7,416	2,762	4,654	169
Total property revenues	154,276	90,975	63,301	70
Expenses				
Rental expenses	42,720	15,358	27,362	178
Real estate taxes	14,800	9,208	5,592	61
Total property expenses	57,520	24,566	32,954	134
Total property operating income	96,756	66,409	30,347	46
General and administrative	(10,786)	(4,908)	(5,878)	120
Depreciation and amortization	(41,916)	(26,714)	(15,202)	57
Interest expense	(41,791)	(32,979)	(8,812)	27
Early extinguishment of debt	(25,867)		(25,867)	(100)
Loan transfer and consent fees	(9,019)		(9,019)	(100)
Gain on acquisition	46,371	4,297	42,074	979
Other income (expense), net	(179)	(1,167)	988	(85)
Total other, net	(83,187)	(61,471)	(21,716)	35
Income from continuing operations	13,569	4,938	8,631	175
Discontinued operations				
Income from discontinued operations	1,119	232	887	382
Gain on sale of real estate property	3,981		3,981	100
Results from discontinued operations	5,100	232	4,868	2,098
Net income	18,669	5,170	13,499	261
Net income attributable to restricted shares	(350)		(350)	(100)
Net loss attributable to Predecessor s noncontrolling interests in consolidated real estate entities	2,458	1,941	517	27
Net income attributable to Predecessor s controlled owners equity	(16,995)	(7,111)	(9,884)	139
Net income attributable to unitholders in the Operating Partnership	(1,209)		(1,209)	(100)
Net income attributable to American Assets Trust, Inc. stockholders	$ 2,573	$	$ 2,573	100%

40

Table of Contents

Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased $63.3 million, or 70%, to $154.3 million for the nine months ended September 30, 2011 compared to $91.0 million for the nine months ended September 30, 2010. The increase in total property revenue is attributable primarily to the factors discussed below.

Rental revenues. Rental revenue includes minimum base rent, cost reimbursements, percentage rents and other rents. Rental revenue increased $58.7 million, or 66%, to $146.9 million for the nine months ended September 30, 2011 compared to $88.2 million for the nine months ended September 30, 2010. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio Nine Months Ended September 30,				Same-Store Portfolio (1) Nine Months Ended September 30,			
	2011	2010	Change	%	2011	2010	Change	%
Retail	$ 63,831	$ 57,738	$ 6,093	11%	$ 58,346	$ 57,738	$ 608	1%
Office	43,755	20,562	23,193	113	14,953	15,319	(366)	(2)
Multifamily	9,799	9,913	(114)	(1)	9,799	9,913	(114)	(1)
Mixed-Use	29,475		29,475	100				
	$ 146,860	$ 88,213	$ 58,647	66%	$ 83,098	$ 82,970	$ 128	0%

(1) For this table and tables following, the same-store portfolio excludes: Solana Beach Towne Centre, Solana Beach Corporate Centre and the Waikiki Beach Walk entities acquired on January 19, 2011; First & Main acquired on March 11, 2011; Lloyd District Portfolio acquired on July 1, 2011; The Landmark at One Market acquired on June 30, 2010; and land held for development. Valencia Corporate Center is excluded from both the total portfolio and same-store portfolio, as it is classified as discontinued operations for all periods presented.

The increase in retail rental revenue was primarily caused by the acquisition of Solana Beach Towne Centre on January 19, 2011, which had rental revenue of $5.5 million from acquisition through September 30, 2011. On a same-store basis, retail rental revenue increased $0.6 million for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. This increase was primarily due to the increase in average percentage leased. Additionally, we recorded $0.2 million in revenue related to property tax expense reimbursements for the same-store properties, which will be passed through to tenants as a result of expected supplemental billings once the properties in California are re-assessed by the taxing authority. The reduction of revenue related to Borders closing at three of our properties was $0.1 million and resulted from the decrease in base rent and cost reimbursements, offset by the recognition of certain below market lease intangibles.

The increase in office rental revenue was primarily caused by the acquisition of Solana Beach Corporate Centre on January 19, 2011, First & Main on March 11, 2011 and Lloyd District Portfolio on July 1, 2011, which had rental revenue of $4.1 million, $6.0 million and $3.1 million, respectively, from acquisition through September 30, 2011. Additionally, the Landmark at One Market was acquired on June 30, 2010 and contributed $10.3 million of the increase in rental revenue. On a same-store basis, office rental revenue decreased $0.4 million for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. This decrease was primarily due to a decrease in rental rates on new leases and renewals and a decrease in the percentage leased of the same-store portfolio.

The decrease in multifamily rental revenue was primarily due to the lower percentage leased for the first quarter of 2011 compared to 2010.

The rental revenue for our mixed-use segment represents rental revenue recognized for minimum base rent, cost reimbursements, percentage rents and other rents charged to retail tenants and rental of hotel rooms. The increase in mixed-use rental revenue was due to the acquisition of our mixed-use property, Waikiki Beach Walk, in our Formation Transactions on January 19, 2011.

Table of Contents

Other property income. Other property income increased $4.6 million, or 169%, to $7.4 million for the nine months ended September 30, 2011, compared to $2.8 million for the nine months ended September 30, 2010. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended September 30,				Nine Months Ended September 30,			
	2011	2010	Change	%	2011	2010	Change	%
Retail	$ 1,092	$ 968	$ 124	13%	$ 1,091	$ 968	$ 123	13%
Office	2,012	1,015	997	98	1,393	1,006	387	38
Multifamily	789	779	10	1	789	779	10	1
Mixed-Use	3,523		3,523	100				
	$ 7,416	$ 2,762	$ 4,654	169%	$ 3,273	$ 2,753	$ 520	19%

The increase in office other property income was caused by the acquisition of The Landmark at One Market on June 30, 2010, First & Main on March 11, 2011 and Lloyd District Portfolio on July 1, 2011, which had other property income of $0.1 million, $0.1 million and $0.4 million, respectively, for the nine months ended September 30, 2011. On a same-store basis, office other property income increased due to an increase of $0.3 million in parking income at the 160 King Street property due to incremental use of the parking structure by the public during construction at a nearby office building, along with those attending San Francisco Giants games at AT&T Park across the street from the property.

The other property income for our mixed-use segment represents Hawaii general excise tax reimbursements, parking income related to retail tenants and guests and sales of food and beverages and other services provided to hotel guests. The increase in mixed-use other property income was due to the acquisition of our mixed-use property, Waikiki Beach Walk, in our Formation Transactions on January 19, 2011.

Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased by $32.9 million, or 134%, to $57.5 million for the nine months ended September 30, 2011, compared to $24.6 million for the nine months ended September 30, 2010. This increase in total property expenses is attributable primarily to the factors discussed below.

Rental Expenses. Rental expenses increased $27.3 million, or 178%, to $42.7 million for the nine months ended September 30, 2011, compared to $15.4 million for the nine months ended September 30, 2010. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended September 30,				Nine Months Ended September 30,			
	2011	2010	Change	%	2011	2010	Change	%
Retail	$ 10,199	$ 8,413	$ 1,786	21%	$ 9,538	$ 8,413	$ 1,125	13%
Office	9,701	4,019	5,682	141	3,010	2,743	267	10
Multifamily	3,001	2,926	75	3	3,001	2,926	75	3
Mixed-Use	19,819		19,819	100				
	$ 42,720	$ 15,358	$ 27,362	178%	$ 15,549	$ 14,082	$ 1,467	10%

The increase in retail rental expenses was primarily caused by the acquisition of Solana Beach Towne Centre on January 19, 2011, which had rental expenses of $0.7 million from acquisition through September 30, 2011. Same-store retail rental expenses increased $1.1 million for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. This increase was primarily due to additional maintenance performed, additional marketing costs and increased operating costs related to the increase in the average percentage leased for 2011.

42

Table of Contents

The increase in office rental expenses was primarily caused by the acquisition of Solana Beach Corporate Centre on January 19, 2011, First & Main on March 11, 2011, and Lloyd District Portfolio on July 1, 2011, which had rental expenses of $0.7 million, $0.9 million and $1.2 million, respectively, from acquisition through September 30, 2011. Additionally, the Landmark at One Market was acquired on June 30, 2010 and contributed $2.6 million of the increase in rental expenses. On a same-store basis, office rental expenses increased $0.3 million for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. This increase was primarily due to additional operating costs incurred related to increased use of the 160 King Street parking garage and additional maintenance performed at various properties.

The mixed-use rental expenses increased as the result of our acquisition of the Waikiki Beach Walk mixed-use site on January 19, 2011.

Real Estate Taxes. Real estate tax expense increased $5.6 million, or 61%, to $14.8 million for the nine months ended September 30, 2011, compared to $9.2 million for the nine months ended September 30, 2010. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended September 30,				Nine Months Ended September 30,			
	2011	2010	Change	%	2011	2010	Change	%
Retail	$ 7,234	$ 6,442	$ 792	12%	$ 6,749	$ 6,442	$ 307	5%
Office	5,328	2,237	3,091	138	1,821	1,579	242	15
Multifamily	973	529	444	84	973	529	444	84
Mixed-Use	1,265		1,265	100				
	$ 14,800	$ 9,208	$ 5,592	61%	$ 9,543	$ 8,550	$ 993	12%

The increase in retail real estate taxes was primarily caused by additional real estate tax accruals of $0.5 million for expected supplemental billings once the properties in California are re-assessed by the taxing authority, of which $0.3 million related to our same-store portfolio and $0.2 million related to Solana Beach Towne Centre. Additionally, the acquisition of Solana Beach Towne Centre on January 19, 2011, increased real estate taxes $0.3 million, excluding the accruals previously discussed, from acquisition through September 30, 2011.

The increase in office real estate taxes was primarily caused by the acquisition of Solana Beach Corporate Centre on January 19, 2011, First & Main on March 11, 2011, and Lloyd District Portfolio on July 1, 2011, which had real estate taxes of $0.3 million, $0.8 million and $0.4 million, respectively, from acquisition through September 30, 2011. The Landmark at One Market was acquired on June 30, 2010 and contributed $1.2 million of the increase in real estate taxes. Additionally, we recorded real estate tax accruals of $0.4 million for expected supplemental billings once the properties in California are re-assessed by the taxing authority, of which $0.3 million related to our same-store portfolio.

The increase in multifamily real estate taxes was primarily caused by additional real estate tax accruals of $0.4 million for expected supplemental billings once the properties in California are re-assessed by the taxing authority.

The mixed-use rental expenses increased as the result of our acquisition of the Waikiki Beach Walk mixed-use site on January 19, 2011.

Property Operating Income

Property operating income increased $30.3 million, or 46%, to $96.7 million for the nine months ended September 30, 2011, compared to $66.4 million for the nine months ended September 30, 2010. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended September 30,				Nine Months Ended September 30,			
	2011	2010	Change	%	2011	2010	Change	%
Retail	$ 47,490	$ 43,851	$ 3,639	8%	$ 43,150	$ 43,851	$ (701)	(2)%
Office	30,738	15,321	15,417	101	11,515	12,003	(488)	(4)
Multifamily	6,614	7,237	(623)	(9)	6,614	7,237	(623)	(9)
Mixed-Use	11,914		11,914	100				
	$ 96,756	$ 66,409	$ 30,347	46%	$ 61,279	$ 63,091	$ (1,812)	(3)%

The increase in retail property operating income was primarily caused by the acquisition of Solana Beach Towne Centre on January 19, 2011, which had property operating income of $4.3 million from acquisition through September 30, 2011. On a same-store basis, the retail property operating income decreased $0.7 million for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. The decrease was due to an increase in rental expenses, specifically related to repairs, maintenance and marketing. Additionally, we recorded same-store real estate tax accruals of $0.1 million (net of cost reimbursement revenue for amounts to be billed to tenants) for expected supplemental billings once the properties in California are re-assessed by the taxing authority. The increased expenses more than offset the increase in rental revenue related to increases in the average percentage leased.

The increase in office property operating income was primarily caused by the acquisition of Solana Beach Corporate Centre on January 19, 2011, First & Main on March 11, 2011 and Lloyd District Portfolio on July 1, 2011, which had property operating income of $3.0 million, $4.4 million and $1.9 million, respectively, from acquisition through September 30, 2011. Additionally, the Landmark at One Market was acquired on June 30, 2010 and contributed $6.6 million of the increase in property operating income. On a same-store basis, office property operating income decreased $0.5 million, for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. This decrease was primarily due to the decrease in rental rates on new leases and renewals, a decrease in the percentage leased of the same-store portfolio and increased operating expenses, offset by additional parking income at 160 King Street.

The decrease in multifamily property operating income was due to a lower percentage leased for the beginning of 2011 compared to 2010 and increased marketing expense in order to attract new tenants, which lead to an increase in the percentage leased during the second and third quarters of 2011. Additional real estate tax accruals of $0.4 million for expected supplemental billings once the properties in California are re-assessed by the taxing authority further decreased the property operating income for the nine months ended September 30, 2011.

The mixed-use property operating income increased as the result of our acquisition of the Waikiki Beach Walk mixed-use site on January 19, 2011.

Other

General and administrative. General and administrative expenses increased $5.9 million, or 120%, to $10.8 million for the nine months ended September 30, 2011, compared to $4.9 million for the nine months ended September 30, 2010. This increase was due primarily to higher personnel costs and additional costs of being a publicly traded company as a result of the Offering, including stock-based compensation expense, along with additional costs for the acquired properties.

Depreciation and amortization. Depreciation and amortization expense increased $15.2 million, or 57%, to $41.9 million for the nine months ended September 30, 2011, compared to $26.7 million for the nine months ended September 30, 2010. This increase was due primarily to depreciation and amortization attributable to the acquired properties.

Interest expense. Interest expense increased $8.8 million, or 27%, to $41.8 million for the nine months ended September 30, 2011 compared with $33.0 million for the nine months ended September 30, 2010. This increase was primarily due to interest expense on the acquired debt for the acquired properties and interest expense on the new mortgage loan obtained on First & Main on June 1, 2011 plus commitment fees on the revolving line of credit, offset by repayment of $316.8 million of outstanding debt at the time of the Offering.

Early extinguishment of debt. Early extinguishment of debt includes $24.3 million in defeasance costs, $0.6 million of unamortized deferred loan fees and $0.9 million of unamortized debt fair value adjustments that were written off related to loans repaid at the time of the Offering.

Loan transfer and consent fees. Loan transfer and consent fees relate to fees paid to lenders in order for the lenders to consent to the transfer of the existing loans at certain properties to the Operating Partnership as part of the Formation Transactions.

Gain on acquisition. The gain on acquisition for the nine months ended September 30, 2011 relates to the gains recognized on the acquisition of the outside ownership interests in the Solana Beach Centre entities and the Waikiki Beach Walk entities. The gain on acquisition for the nine months ended September 30, 2010 relates to the gain recognized on the acquisition of the outside ownership interests in The Landmark at One Market.

Other income (expense), net. Other expense, net decreased $1.0 million, or 85%, to net expense of $0.2 million for the nine months ended September 30, 2011, compared to net expense of $1.2 million for the nine months ended September 30, 2010. Other income (expense), net is comprised of interest and investment income, acquisition related expenses, and income tax expense related to our taxable REIT subsidiary, which operates the hotel portion of our mixed-use property. Fee income from real estate joint ventures is also included, which decreased related to our acquisition of the Solana Beach Centre entities on January 19, 2011 and The Landmark at One Market on June 30, 2010, and as a result of not providing management services and recognizing the related fees to the Fireman s Fund Headquarters after the Offering. Finally, income from real estate joint ventures is included, and as the real estate joint ventures were acquired on January 19, 2011, we only recorded our share of the real estate joint ventures losses through January 18, 2011. Subsequently, the operations for these entities were included in consolidated revenues and expenses.

Discontinued Operations. Discontinued operations relates to Valencia Corporate Center, which was sold on August 30, 2011.

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 stockholders and Operating Partnership unitholders. As of September 30, 2011, we held $123.2 million in cash and cash equivalents and $29.6 million in marketable securities that are classified as trading securities.

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 the proceeds of our initial public offering 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.

Indebtedness Outstanding

The following table sets forth information as of September 30, 2011, with respect to our indebtedness (dollars in thousands):

Debt	Principal Balance at September 30,	Interest Rate	Annual Debt Service	Maturity Date	Balance at Maturity

	2011				
Alamo Quarry Market [(1)(2)]	$ 96,538	5.67%	$ 7,567	January 8, 2014	$ 91,717
160 King Street [(3)]	31,800	5.68%	3,350	May 1, 2014	27,513
Waikele Center [(4)]	140,700	5.15%	7,360	November 1, 2014	140,700
The Shops at Kalakaua [(4)]	19,000	5.45%	1,053	May 1, 2015	19,000

Debt	Principal Balance at September 30, 2011	Interest Rate	Annual Debt Service	Maturity Date	Balance at Maturity
The Landmark at One Market [2][4]	133,000	5.61%	7,558	July 5, 2015	133,000
Del Monte Center [4]	82,300	4.93%	4,121	July 8, 2015	82,300
First & Main [4]	84,500	3.97%	3,397	July 1, 2016	84,500
Imperial Beach Gardens [4]	20,000	6.16%	1,250	September 1, 2016	20,000
Mariner s Point [4]	7,700	6.09%	476	September 1, 2016	7,700
South Bay Marketplace [4]	23,000	5.48%	1,281	February 10, 2017	23,000
Waikiki Beach Walk Retail [4]	130,310	5.39%	7,020	July 1, 2017	130,310
Solana Beach Corporate Centre III-IV [5]	37,330	6.39%	2,418	August 1, 2017	35,136
Loma Palisades [4]	73,744	6.09%	4,553	July 1, 2018	73,744
Torrey Reserve Pacific North Court [1]	21,984	7.22%	1,836	June 1, 2019	19,443
Torrey Reserve VC1, VC2, VC3 [1]	7,401	6.36%	560	June 1, 2020	6,439
Solana Beach Corporate Centre I-II [1]	11,825	5.91%	855	June 1, 2020	10,169
Solana Beach Towne Centre [1]	39,418	5.91%	2,849	June 1, 2020	33,898
Total	960,550		$ 57,504		$ 938,569
Unamortized fair value adjustment	(16,650)				
Debt Balance	$ 943,900				

(1) Principal payments based on a 30-year amortization schedule.
(2) Maturity date is the earlier of the loan maturity date under the loan agreement, or the Anticipated Repayment Date as specifically defined in the loan agreement, which is the date after which substantial economic penalties apply if the loan has not been paid off.
(3) Principal payments based on a 20-year amortization schedule.
(4) Interest only.
(5) Loan is interest only through August 2012. Beginning in September 2012, principal payments are based on a 30-year amortization schedule.

Certain loans require us to comply with various financial covenants, including the maintenance of minimum debt coverage ratios. As of September 30, 2011, we were in compliance with all loan covenants.

Table of Contents

Revolving Credit Facility

On January 19, 2011, upon completion of the 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 September 30, 2011, our maximum allowable borrowing amount was $197.5 million. The credit facility has an initial term of three years, and we have the option to extend the term for one additional year if we meet specified requirements. The credit facility also has an accordion feature that may allow us to increase the availability thereunder up to $400.0 million, subject to meeting specified requirements and obtaining additional commitments from lenders. No amounts have been borrowed on the credit facility to date. 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 credit facility bears interest at the rate of either LIBOR or a base rate, 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 credit facility and a minimum implied debt yield of such properties.

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 65.0% on or prior to December 31, 2011 and 60.0% thereafter,

- 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 57.5% on or prior to December 31, 2012 and 50.0% thereafter,

- 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

- 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.

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.

Off-Balance Sheet Arrangements

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

Cash Flows

Comparison of the nine months ended September 30, 2011 to the nine months ended September 30, 2010

Cash and cash equivalents were $123.2 million and $37.4 million, at September 30, 2011 and 2010, respectively.

Net cash provided by operating activities increased $14.2 million to $51.8 million for the nine months ended September 30, 2011, compared to $37.6 million for the nine months ended September 30, 2010. The increase is due to the acquisitions of The Landmark at One Market, the Solana Beach Centre entities, the Waikiki Beach Walk entities, First & Main and Lloyd District Portfolio.

Net cash used in investing activities increased $205.5 million to $220.9 million for the nine months ended September 30, 2011, compared to $15.4 million for the nine months ended September 30, 2010. The increase was primarily due to the acquisition of First & Main for $128.9 million, the acquisition of Lloyd District Portfolio for $91.6 million, the acquisition of the Solana Beach

Table of Contents

Highway 101 for $6.8 million and the purchase of $33.1 million of marketable securities during 2011, along with distributions of capital from real estate joint ventures of $10.6 million for the nine months ended September 30, 2010 that did not occur in 2011. The increases were offset by cash received from the sale of Valencia Corporate Center of $30.3 million, the acquisition of the controlling interest in the Solana Beach Centre entities and the Waikiki Beach Walk entities of $15.2 million, in the aggregate, and the acquisition of The Landmark at One Market on June 30, 2010 for $19.7 million.

Net cash provided by financing activities increased $259.4 million to $250.4 million for the nine months ended September 30, 2011, compared to net cash used of $9.0 million for the nine months ended September 30, 2010. The increase was primarily due to the proceeds from the issuance of shares of our common stock in connection with the Offering and proceeds from an $84.5 million loan, which was partially offset by the repayment of certain indebtedness in connection with the Formation Transactions and payment of dividends. Additionally, we had proceeds of $5.4 million from a private placement of common units that closed on February 14, 2011.

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, 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.

The following table sets forth a reconciliation of our FFO for the three and nine months ended September 30, 2011 to net income, the nearest GAAP equivalent (in thousands, except per share and share data):

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Funds from Operations (FFO)		
Net income	$ 4,618	$ 18,669
Plus: Real estate depreciation and amortization [(1)]	16,053	42,820
Plus: Depreciation and amortization on unconsolidated real estate joint ventures (pro rata)		688
Less: Gain on sale of real estate	(3,981)	(3,981)
Funds from operations	$ 16,690	$ 58,196
Less: FFO attributable to Predecessor s controlled and noncontrolled owners equity		(16,973)
Less: Nonforfeitable dividends on incentive restricted stock awards	(88)	(227)
FFO attributable to common stock and units	$ 16,602	$ 40,996

FFO per diluted share/unit	$	0.29	$	0.77
Weighted average number of common shares and units, diluted [2]		57,258,190		53,459,442

(1) Includes depreciation and amortization related to Valencia Corporate Center, which was sold on August 30, 2011 and is included in discontinued operations on the statement of operations.

Table of Contents

(2) For the three and nine months ended September 30, 2011, 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 shares for the three and nine months ended September 30, 2011, 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. For the nine months ended September 30, 2011, the weighted average shares outstanding have been weighted for the full year to date, not the date of our initial public offering.

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 September 30, 2011, we do not hold any derivative financial instruments.

Interest Rate Risk

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.

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 September 30, 2011, we had $960.5 million of fixed-rate debt outstanding with an estimated fair value of $974.2 million. If interest rates at September 30, 2011 had been 1.0% higher, the fair value of those debt instruments on that date would have decreased by approximately $35.6 million. If interest rates at September 30, 2011 had been 1.0% lower, the fair value of those debt instruments on that date would have increased by approximately $37.6 million.

At September 30, 2011, our only variable interest rate debt is our credit facility, which has not been drawn upon to date.

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 Securities and Exchange Commission, or 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 September 30, 2011, 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 September 30, 2011, 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.

49

Table of Contents

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, including existing claims relating to American Assets, Inc., or AAI, certain prior direct and indirect owners of 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.

In addition, AAI (which is a prior investor in our properties and a participant in the Formation Transactions), the Rady Trust and Mr. Rady are subject to on-going litigation filed in California Superior Court in 2009 by four direct and indirect stockholders of AAI, alleging, among other things that Mr. Rady breached his fiduciary duties to the plaintiffs in his capacity as an officer, director and controlling shareholder of AAI. The claims brought by the plaintiffs include direct and derivative claims for an accounting, injunctive and declaratory relief, and involuntary dissolution of AAI, in addition to claims for an unspecified amount of damages. In order to obtain authorization to effectuate the Formation Transactions, we solicited the consent of the prior investors in our properties pursuant to a confidential private placement memorandum. In response to this solicitation, each of the three prior investors who is also a plaintiff in this matter provided his or her consent to the Formation Transactions and, in connection therewith, agreed to waive any claims against us for alleged breaches of fiduciary by Mr. Rady in his capacity as a director, officer or stockholder of AAI.

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, 2010 other than as previously disclosed in our quarterly report on Form 10-Q for the quarter ended June 30, 2011 and the addition of the risk factor set forth below:

If we invest in mortgage receivables, such investment would be subject to several risks, any of which could decrease the value of such investments and result in a significant loss to us.

From time to time, we may invest in mortgage receivables. In general, investments in mortgages are subject to several risks, including:

- borrowers may fail to make debt service payments or pay the principal when due, which may make it necessary for us to foreclose our mortgages or engage in costly negotiations;
- the value of the mortgaged property may be less than the principal amount of the mortgage note securing the property;
- interest rates payable on the mortgages may be lower than our cost for the funds to acquire these mortgages; and
- the mortgages may be or become subordinated to mechanics or materialmen s liens or property tax liens, in which case we would need to make payments to maintain the current status of a prior lien or discharge it in its entirety to protect such mortgage investment.

If any of these risks were to be realized, the total amount we would recover from our mortgage receivables may be less than our total investment, resulting in a loss and our mortgage receivables may be materially and adversely affected.

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

On January 19, 2011, we completed the Offering, a sale of 31,625,000 shares of common stock at an offering price of $20.50 per share pursuant to (1) a Registration Statement on Form S-11, as amended (Reg. No. 333-169326) that was declared effective by the SEC on January 12, 2011 and (2) an immediately effective Registration Statement on Form S-11 (Reg. No. 333-171680) filed with the SEC on January 13, 2011 pursuant to Rule 462(b) of the Securities Act. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC and Morgan Stanley & Co. Incorporated acted as joint book-running managers for the Offering and as representatives of the underwriters. We received net proceeds from the Offering of approximately $594.6 million, reflecting the gross proceeds of $648.3 million, net of underwriting fees of $45.4 million and Offering expenses of $8.3 million.

We contributed the net proceeds of the Offering to our Operating Partnership in exchange for common units and our Operating Partnership used the net proceeds received from us as described below:

approximately $342.0 million to repay in full certain outstanding indebtedness, including applicable prepayment costs, exit fees and defeasance costs of $24.3 million;

$10.8 million for loan transfer and consent fees and credit facility origination fees;

approximately $6.1 million to pay non-accredited prior investors in connection with the Formation Transactions;

Table of Contents

approximately $0.4 million for tenant improvements and leasing commissions at The Landmark at One Market; and

approximately $0.3 million for the renovation of Solana Beach Towne Centre.

Subsequent to the Offering, on March 11, 2011, we used approximately $129.0 million of the net proceeds to acquire First & Main and on July 1, 2011 we used approximately $92.0 million of the net proceeds to acquire Lloyd District Portfolio.

Of the remaining proceeds, we intend to use (1) up to $8.0 million for additional tenant improvements and leasing commissions at The Landmark at One Market; (2) up to $0.7 million to pay additional costs related to the renovation of Solana Beach Towne Centre; and (3) the remainder for general corporate purposes, including working capital, future acquisitions, transfer taxes and, potentially, paying distributions. This use of proceeds does not represent a material change from the use of proceeds described in the final prospectus we filed pursuant to Rule 424(b) of the Securities Act with the SEC on January 14, 2011.

We invested the net proceeds in a money market account and GNMA securities in a manner that is consistent with our intention to qualify as a REIT for U.S. federal income tax purposes. As noted above, pursuant to the partnership agreement of our Operating Partnership, limited partners of our Operating Partnership and some assignees of limited partners will have the right, beginning 14 months after the completion of the Offering, to require our Operating Partnership to redeem part or all of their common units for cash equal to the then-current market value of an equal number of shares of our common stock (determined in accordance with and subject to adjustment under the partnership agreement), or, at our election, to exchange their common units for shares of our common stock on a one-for-one basis, subject to certain adjustments and the restrictions on ownership and transfer of our stock set forth in our charter.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. RESERVED

ITEM 5. OTHER INFORMATION

None

Table of Contents

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1(1)	Articles of Amendment and Restatement of American Assets Trust, Inc.
3.2(1)	Amended and Restated Bylaws of American Assets Trust, Inc.
10.1(2)	Amended and Restated Agreement of Limited Partnership of American Assets Trust, L.P., dated January 19, 2011
10.2(2)	Registration Rights Agreement among American Assets Trust, Inc. and the persons named therein, dated January 19, 2011
10.3(1)	American Assets Trust, Inc. and American Assets Trust, L.P. 2011 Equity Incentive Award Plan
10.4(1)	Form of American Assets Trust, Inc. Restricted Stock Award Agreement (Time Vesting)
10.5(1)	Form of American Assets Trust, Inc. Restricted Stock Award Agreement (Performance Vesting)
10.6(1)	Form of Indemnification Agreement between American Assets Trust, Inc. and its directors and officers
10.7(2)	Tax Protection Agreement by and among American Assets Trust, Inc., American Assets Trust, L.P., and each partner set forth in Schedule I, Schedule II and Schedule III thereto, dated January 19, 2011
10.8(2)	Transition Services Agreement between American Assets, Inc. and American Assets Trust, L.P., dated January 19, 2011
10.9(1)	Form of Employment Agreement among American Assets Trust, Inc., American Assets Trust, L.P. and each of John W. Chamberlain, Robert F. Barton, Adam Wyll and Patrick Kinney
10.10(2)	Employment Agreement among American Assets Trust, Inc., American Assets Trust, L.P. and Ernest S. Rady, dated January 19, 2011
10.11(1)	Independent Director Compensation Policy
10.12(2)	Franchise License Agreement Embassy Suites Waikiki Beach Walk Honolulu, Hawaii between Embassy Suites Franchise LLC and WBW Hotel Lessee, LLC, dated January 19, 2011
10.13(3)	Credit Agreement among American Assets Trust, L.P., as the Borrower, American Assets Trust, Inc., as a Guarantor, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Securities, LLC, as Joint Lead Arrangers and Joint Bookrunners and Wells Fargo Bank, N.A., as Syndication Agent and KeyBank National Association and Royal Bank of Canada as Co- Documentation Agents, dated January 19, 2011
10.14(4)	Purchase Agreement between Two Main Development LLC, as Seller, and American Assets Trust, L.P., as Buyer, dated March 1, 2011
10.15(5)	Deed of Trust and Security Agreement by and between AAT Oregon Office I, LLC, as Borrower, and PNC Bank, National Association, as Lender, dated June 1, 2011
10.16(5)	Promissory Note by AAT Oregon Office I, LLC, as maker, to PNC Bank, National Association, dated June 1, 2011
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 September 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statement of Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith.

(1)

Incorporated herein by reference to American Assets Trust, Inc. s Registration Statement of Form S-11, as amended (File No. 333-169326), filed with the Securities and Exchange Commission on September 13, 2010.

(2) Incorporated herein by reference to American Assets Trust, Inc. s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 19, 2011.

(3) Incorporated herein by reference to American Assets Trust, Inc. s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 20, 2011.

(4) Incorporated herein by reference to American Assets Trust, Inc. s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 3, 2011.

(5) Incorporated herein by reference to American Assets Trust, Inc. s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 1, 2011.

Table of Contents

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.
Date: November 10, 2011	/s/ JOHN W. CHAMBERLAIN John W. Chamberlain President and Chief Executive Officer (Principal Executive Officer)
Date: November 10, 2011	/s/ ROBERT F. BARTON Robert F. Barton Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

53