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American Assets Trust, Inc.
Form 10-Q
November 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from _____ to _____

Commission file number: 001-35030

AMERICAN ASSETS TRUST, INC.
(Exact Name of Registrant as Specified in its Charter)

Maryland 27-3338708
(State of Organization) (IRS Employer Identification No.)

11455 El Camino Real, Suite 200, 92130
San Diego, California (Zip Code)
(Address of Principal Executive Offices)
(858) 350-2600
(Registrant’s Telephone Number, Including Area Code)

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

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

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

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

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

The number of Registrant's common shares outstanding on November 8, 2013 was 40,447,825.

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AMERICAN ASSETS TRUST, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2013

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American Assets Trust, Inc.
 Consolidated Balance Sheets
 (In Thousands, Except Share Data)

	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Real estate, at cost		
Operating real estate	\$ 1,900,185	\$ 1,891,549
Construction in progress	62,478	32,183
Held for development	9,006	14,944
	1,971,669	1,938,676
Accumulated depreciation	(305,880	) (270,494
Net real estate	1,665,789	1,668,182
Cash and cash equivalents	65,722	42,479
Restricted cash	10,065	7,421
Accounts receivable, net	7,579	6,440
Deferred rent receivables, net	31,665	29,395
Other assets, net	60,026	73,670
TOTAL ASSETS	\$ 1,840,846	\$ 1,827,587
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured notes payable	\$ 1,044,117	\$ 1,044,682
Accounts payable and accrued expenses	41,256	29,509
Security deposits payable	5,010	4,856
Other liabilities and deferred credits	59,219	62,811
Total liabilities	1,149,602	1,141,858
Commitments and contingencies (Note 11)		
EQUITY:		
American Assets Trust, Inc. stockholders' equity		
Common stock, \$0.01 par value, 490,000,000 shares authorized, 40,448,393 and 39,664,212 shares outstanding at September 30, 2013 (unaudited) and December 31, 2012, respectively	405	397
Additional paid-in capital	691,389	663,589
Accumulated dividends in excess of net income	(40,007	) (25,625
Total American Assets Trust, Inc. stockholders' equity	651,787	638,361
Noncontrolling interests	39,457	47,368
Total equity	691,244	685,729
TOTAL LIABILITIES AND EQUITY	\$ 1,840,846	\$ 1,827,587

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

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American Assets Trust, Inc.

Consolidated Statements of Income

(Unaudited)

(In Thousands, Except Shares and Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
REVENUE:				
Rental income	\$62,405	\$58,310	\$181,332	\$165,058
Other property income	2,913	2,455	9,080	7,287
Total revenue	65,318	60,765	190,412	172,345
EXPENSES:				
Rental expenses	17,430	16,478	50,402	46,802
Real estate taxes	5,768	6,094	16,044	17,078
General and administrative	4,031	3,894	12,658	11,530
Depreciation and amortization	16,648	16,094	50,614	45,277
Total operating expenses	43,877	42,560	129,718	120,687
OPERATING INCOME	21,441	18,205	60,694	51,658
Interest expense	(14,764)	) (14,247)	) (44,244)	) (42,176)
Other income (expense), net	(419)	) 8	(763)	) (355)
INCOME FROM CONTINUING OPERATIONS	6,258	3,966	15,687	9,127
DISCONTINUED OPERATIONS				
Results from discontinued operations	—	319	—	653
NET INCOME	6,258	4,285	15,687	9,780
Net income attributable to restricted shares	(132)	) (133)	) (397)	) (396)
Net income attributable to unitholders in the Operating Partnership	(1,903)	) (1,335)	) (4,752)	) (3,022)
NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, INC. STOCKHOLDERS	\$4,223	\$2,817	\$10,538	\$6,362
EARNINGS PER COMMON SHARE, BASIC				
Continuing operations	\$0.11	\$0.07	\$0.27	\$0.16
Discontinued operations	—	0.01	—	0.01
Basic net income attributable to common stockholders per share	\$0.11	\$0.08	\$0.27	\$0.17
Weighted average shares of common stock outstanding - basic	39,816,753	38,673,617	39,439,488	38,663,352
EARNINGS PER COMMON SHARE, DILUTED				
Continuing operations	\$0.11	\$0.07	\$0.27	\$0.16
Discontinued operations	—	0.01	—	0.01
Diluted net income attributable to common stockholders per share	\$0.11	\$0.08	\$0.27	\$0.17
Weighted average shares of common stock outstanding - diluted	57,777,667	57,054,425	57,423,959	57,054,425
Dividends declared per common share	\$0.21	\$0.21	\$0.63	\$0.63

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

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American Assets Trust, Inc.
 Consolidated Statement of Equity
 (Unaudited)
 (In Thousands, Except Share Data)

	American Assets Trust, Inc. Stockholders' Equity				Noncontrolling		Total
	Common Shares		Additional	Accumulated	Interests -		
	Shares	Amount	Paid-in Capital	dividends in excess of net income	Operating Partnership		
Balance at December 31, 2012	39,664,212	\$397	\$663,589	\$(25,625)	\$ 47,368	\$685,729	
Net income	—	—	—	10,935	4,752	15,687	
Common shares issued	718,714	7	24,346	—	—	24,353	
Conversion of operating partnership units	64,326	1	1,335	—	(1,335)	1	
Issuance of restricted stock	5,004	—	—	—	—	—	
Forfeiture of restricted stock	(3,863)	—	—	—	—	—	
Dividends declared	—	—	—	(25,317)	(11,328)	(36,645)	
Stock-based compensation	—	—	2,119	—	—	2,119	
Balance at September 30, 2013	40,448,393	\$405	\$691,389	\$(40,007)	\$ 39,457	\$691,244	

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

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American Assets Trust, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

(In Thousands)

	Nine Months Ended September 30,	
	2013	2012
OPERATING ACTIVITIES		
Net income	\$ 15,687	\$ 9,780
Results from discontinued operations	—	(653)
Income from continuing operations	15,687	9,127
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	(3,593)	(4,720)
Depreciation and amortization	50,614	45,277
Amortization of debt issuance costs and debt fair value adjustments	2,949	2,928
Stock-based compensation expense	2,119	2,128
Loss from real estate joint ventures	54	—
Other, net	750	998
Changes in operating assets and liabilities		
Change in restricted cash	(1,549)	(1,852)
Change in accounts receivable	(1,019)	462
Change in other assets	(68)	(1,375)
Change in accounts payable and accrued expenses	8,071	3,031
Change in security deposits payable	154	(1,106)
Change in other liabilities and deferred credits	321	192
Net cash provided by operating activities of continuing operations	74,490	55,090
Net cash provided by operating activities of discontinued operations	—	304
Net cash provided by operating activities	74,490	55,394
INVESTING ACTIVITIES		
Acquisition of real estate, net of cash acquired	—	(253,090)
Capital expenditures	(33,503)	(25,628)
Change in restricted cash	305	1,066
Leasing commissions	(1,977)	(2,675)
Maturity of marketable securities	—	4,384
Sale of marketable securities	—	23,191
Deposit on property acquisition	—	(2,000)
Net cash used in investing activities of continuing operations	(35,175)	(254,752)
Net cash used in investing activities of discontinued operations	—	(203)
Net cash used in investing activities	(35,175)	(254,955)
FINANCING ACTIVITIES		
Change in restricted cash	(1,400)	—
Issuance of secured notes payable	—	21,900
Repayment of secured notes payable	(2,749)	(3,512)
Proceeds from unsecured line of credit	—	164,000
Repayment of unsecured line of credit	—	(23,000)
Debt issuance costs	—	(932)
Proceeds from issuance of common stock, net	24,790	—

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Dividends paid to common stock and unitholders	(36,645) (36,340)
Deferred offering costs	(68) (361)
Net cash (used in) provided by financing activities	(16,072	) 121,755)
Net increase (decrease) in cash and cash equivalents	23,243	(77,806)
Cash and cash equivalents, beginning of period	42,479	112,723	
Cash and cash equivalents, end of period	\$65,722	\$34,917	

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

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American Assets Trust, Inc.
 Notes to Consolidated Financial Statements—(Continued)
 September 30, 2013
 (Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

American Assets Trust, Inc. (which may be referred to in these financial statements as the “Company,” “we,” “us,” or “our”) is a Maryland corporation formed on July 16, 2010 that did not have any operating activity until the consummation of our initial public offering on January 19, 2011. The Company is the sole general partner of American Assets Trust, L.P., a Maryland limited partnership formed on July 16, 2010 (the “Operating Partnership”). The Company’s operations are carried on through our Operating Partnership and its subsidiaries, including our taxable real estate investment trust (“REIT”) subsidiary (“TRS”). Since the formation of our Operating Partnership, the Company has controlled our Operating Partnership as its general partner and has consolidated its assets, liabilities and results of operations. We are a vertically integrated and self-administered REIT with approximately 117 employees providing substantial in-house expertise in asset management, property management, property development, leasing, tenant improvement construction, acquisitions, repositioning, redevelopment and financing.

As of September 30, 2013, we owned or had a controlling interest in 23 office, retail, multifamily and mixed-use operating properties, the operations of which we consolidate. Additionally, as of September 30, 2013, we owned land at five of our properties that we classify as held for development and/or construction in progress. A summary of the properties owned by us is as follows:

Retail

Carmel Country Plaza	Del Monte Center
Carmel Mountain Plaza	Geary Marketplace
South Bay Marketplace	The Shops at Kalakaua
Rancho Carmel Plaza	Waialele Center
Lomas Santa Fe Plaza	Alamo Quarry Market

Solana Beach Towne Centre

Office

Torrey Reserve Campus	Lloyd District Portfolio
Solana Beach Corporate Centre	City Center Bellevue

The Landmark at One Market

One Beach Street

First & Main

Multifamily

Loma Palisades

Imperial Beach Gardens

Mariner's Point

Santa Fe Park RV Resort

Mixed-Use

Waikiki Beach Walk Retail and Embassy Suites™ Hotel

Held for Development and Construction in Progress

Solana Beach Corporate Centre – Land

Solana Beach – Highway 101 – Land

Sorrento Pointe – Land

Torrey Reserve – Land

Lloyd District Portfolio – Land

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements—(Continued)

September 30, 2013

(Unaudited)

Basis of Presentation

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

All significant intercompany transactions and balances are eliminated in consolidation.

In December 2012, we sold 160 King Street. We have reclassified our financial statements for all periods prior to the sale to reflect 160 King Street as discontinued operations. Unless noted otherwise, discussions in these notes pertain to our continuing operations.

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

These financial statements should be read in conjunction with the audited consolidated financial statements and notes therein included in the Company's annual report on Form 10-K for the year ended December 31, 2012.

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

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

Consolidated Statements of Cash Flows—Supplemental Disclosures

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

	Nine Months Ended September 30,	
	2013	2012
Supplemental cash flow information (including discontinued operations)		
Total interest costs incurred	\$45,692	\$43,983
Interest capitalized	\$1,448	\$461
Interest expense	\$44,244	\$43,522
Cash paid for interest, net of amounts capitalized	\$41,189	\$40,527
Cash paid for income taxes	\$868	\$1,210
Supplemental schedule of noncash investing and financing activities		
Accounts payable and accrued liabilities for construction in progress	\$3,188	\$5,635
Accrued leasing commissions	\$488	\$(562)
Reduction to capital for prepaid offering costs	\$437	\$—

Significant Accounting Policies

We describe our significant accounting policies in Note 1 to the consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2012. There have been no changes to our significant accounting policies during the nine months ended September 30, 2013.

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements—(Continued)

September 30, 2013

(Unaudited)

Segment Information

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

Reclassifications

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

Recent Accounting Pronouncements

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

NOTE 2. ACQUIRED IN-PLACE LEASES AND ABOVE/BELOW MARKET LEASES

The following summarizes our acquired lease intangibles and leasing costs, which are included in other assets and other liabilities and deferred credits, as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
In-place leases	\$63,242	\$72,598
Accumulated amortization	(36,689	) (38,290
Above market leases	28,362	32,846
Accumulated amortization	(20,057	) (21,363
Acquired lease intangible assets, net	\$34,858	\$45,791
Below market leases	\$76,996	\$80,071
Accumulated accretion	(27,552	) (25,721
Acquired lease intangible liabilities, net	\$49,444	\$54,350

NOTE 3. MARKETABLE SECURITIES

Our portfolio of marketable securities was comprised of debt securities that were classified as trading securities. Our marketable securities consisted of investments in mortgage-backed securities issued by the Government National Mortgage Association (“GNMA securities”). We reported our trading securities at fair value, using prices provided by independent market participants that were based on observable inputs using market-based valuation techniques (Level 2 of the fair value hierarchy-see Note 4). On August 20, 2012, we sold all of our outstanding GNMA securities with a realized loss of \$0.7 million for the nine months ended September 30, 2012.

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements—(Continued)

September 30, 2013

(Unaudited)

NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

1. Level 1 Inputs—quoted prices in active markets for identical assets or liabilities
2. Level 2 Inputs—observable inputs other than quoted prices in active markets for identical assets and liabilities
3. Level 3 Inputs—unobservable inputs

Except as disclosed below, the carrying amounts of our financial instruments approximate their fair value. The financial liability whose fair value we measure on a recurring basis using Level 2 inputs is our deferred compensation liability included in other liabilities and deferred credits on the consolidated balance sheet. We measure the fair value of this liability based on prices provided by independent market participants that are based on observable inputs using market-based valuation techniques.

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

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

	September 30, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Deferred compensation liability	\$—	\$729	\$—	\$729	\$—	\$637	\$—	\$637

The fair value of our secured notes payable is sensitive to fluctuations in interest rates. Discounted cash flow analysis using observable market interest rates (Level 2) is generally used to estimate the fair value of our secured notes payable, using rates ranging from 3.9% to 5.5%.

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

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Secured notes payable	\$1,044,117	\$1,090,165	\$1,044,682	\$1,116,162

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements—(Continued)

September 30, 2013

(Unaudited)

NOTE 5. OTHER ASSETS

Other assets consist of the following (in thousands):

	September 30, 2013	December 31, 2012
Leasing commissions, net of accumulated amortization of \$18,579 and \$16,829, respectively	\$ 17,257	\$ 18,329
Acquired above market leases, net	8,305	11,483
Acquired in-place leases, net	26,553	34,308
Lease incentives, net of accumulated amortization of \$2,498 and \$2,220, respectively	1,203	1,480
Other intangible assets, net of accumulated amortization of \$1,515 and \$4,239, respectively	719	960
Debt issuance costs, net of accumulated amortization of \$3,139 and \$2,374, respectively	2,887	3,651
Prepaid expenses and other	3,102	3,459
Total other assets	\$ 60,026	\$ 73,670

NOTE 6. OTHER LIABILITIES AND DEFERRED CREDITS

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

	September 30, 2013	December 31, 2012
Acquired below market leases, net	\$ 49,444	\$ 54,350
Prepaid rent and deferred revenue	7,272	6,383
Deferred rent expense and lease intangible	879	1,008
Deferred compensation	729	637
Deferred tax liability	280	320
Straight-line rent liability	528	63
Other liabilities	87	50
Total other liabilities and deferred credits	\$ 59,219	\$ 62,811

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

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements—(Continued)

September 30, 2013

(Unaudited)

NOTE 7. DEBT

The following is a summary of our total secured notes payable outstanding as of September 30, 2013 and December 31, 2012 (in thousands):

Description of Debt	Principal Balance as of		Stated Interest Rate as of September 30, 2013	Stated Maturity Date
	September 30, 2013	December 31, 2012		
Alamo Quarry Market ⁽¹⁾⁽²⁾	\$92,289	\$93,942	5.67	% January 8, 2014
Waialele Center ⁽³⁾	140,700	140,700	5.15	% November 1, 2014
The Shops at Kalakaua ⁽³⁾	19,000	19,000	5.45	% May 1, 2015
The Landmark at One Market ⁽³⁾⁽⁴⁾	133,000	133,000	5.61	% July 5, 2015
Del Monte Center ⁽³⁾	82,300	82,300	4.93	% July 8, 2015
First & Main ⁽³⁾	84,500	84,500	3.97	% July 1, 2016
Imperial Beach Gardens ⁽³⁾	20,000	20,000	6.16	% September 1, 2016
Mariner's Point ⁽³⁾	7,700	7,700	6.09	% September 1, 2016
South Bay Marketplace ⁽³⁾	23,000	23,000	5.48	% February 10, 2017
Waikiki Beach Walk—Retail ⁽⁵⁾	130,310	130,310	5.39	% July 1, 2017
Solana Beach Corporate Centre III-IV ⁽⁵⁾	36,908	37,204	6.39	% August 1, 2017
Loma Palisades ⁽³⁾	73,744	73,744	6.09	% July 1, 2018
One Beach Street ⁽³⁾	21,900	21,900	3.94	% April 1, 2019
Torrey Reserve—North Court ⁽⁵⁾	21,450	21,659	7.22	% June 1, 2019
Torrey Reserve—VCI, VCII, VCIII ⁽⁵⁾	7,225	7,294	6.36	% June 1, 2020
Solana Beach Corporate Centre I-II ⁽¹⁾	11,516	11,637	5.91	% June 1, 2020
Solana Beach Towne Centre ⁽¹⁾	38,388	38,790	5.91	% June 1, 2020
City Center Bellevue ⁽³⁾	111,000	111,000	3.98	% November 1, 2022
	1,054,930	1,057,680		
Unamortized fair value adjustment	(10,813	) (12,998)	
Total Secured Notes Payable Outstanding	\$1,044,117	\$1,044,682		

(1)Principal payments based on a 30-year amortization schedule.

(2)Loan was prepaid, without penalty or premium, on October 8, 2013 (see Note 17).

(3)Interest only.

Maturity Date is the earlier of the loan maturity date under the loan agreement, or the "Anticipated Repayment Date"

(4)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.

(5)Loan was 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. As of September 30, 2013, we were in compliance with these financial covenants.

Credit Facility

On January 19, 2011, we entered into a credit facility pursuant to which a group of lenders provided commitments for a revolving credit facility allowing borrowings of up to \$250.0 million. At September 30, 2013, our maximum allowable borrowing amount was \$224.3 million. The credit facility has an accordion feature that may allow us to

increase the availability thereunder up to a maximum of \$400.0 million, subject to meeting specified requirements and obtaining additional commitments from lenders. The credit facility bears interest at the rate of either the applicable LIBOR or a base rate, in each case plus a margin that will vary depending on our leverage ratio. The amount available for us to borrow under the credit facility is subject to the net operating income of our properties that form the borrowing base of the facility and a minimum implied debt yield of such properties. At September 30, 2013, no amounts were outstanding on the credit facility. On October 8, 2013, we prepaid, without penalty or premium, the outstanding mortgage encumbering Alamo Quarry Market with funds drawn against the credit facility (Note 17).

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements—(Continued)

September 30, 2013

(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. On January 10, 2012, the credit facility was amended a second time to (1) extend the maturity date to January 10, 2016 (with a one-year extension option), (2) decrease the applicable interest rates and (3) modify certain financial covenants contained therein. On September 7, 2012, the credit facility was amended a third time to allow our consolidated total secured indebtedness to be up to 55% of our secured total asset value for the period commencing upon the date that a material acquisition (generally, greater than \$100 million) is consummated through and including the last day of the third fiscal quarter that follows such date.

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

- a maximum leverage ratio (defined as total indebtedness net of certain unrestricted cash and cash equivalents to total asset value) of 60%,

- a minimum fixed charge coverage ratio (defined as consolidated earnings before interest, taxes, depreciation and amortization to consolidated fixed charges) of 1.50x,

- a maximum secured leverage ratio (defined as total secured indebtedness to secured total asset value) of up to 55% in certain circumstances,

- a minimum tangible net worth equal to at least 75% of our tangible net worth at January 19, 2011, plus 85% of the net proceeds of any additional equity issuances (other than additional equity issuances in connection with any dividend reinvestment program), and

- a \$35.0 million limit on the maximum principal amount of recourse indebtedness we may have outstanding at any time, other than under the credit facility.

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

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

As of September 30, 2013, we were in compliance with the credit facility financial covenants.

NOTE 8. EQUITY

Stockholders' Equity

On May 6, 2013, we entered into an at-the-market ("ATM") equity program with four sales agents in which we may, from time to time, offer and sell shares of our common stock having an aggregate offering price of up to \$150.0 million. The sales of shares of our common stock made through the ATM equity program are made in "at-the-market" offerings as defined in Rule 415 of the Securities Act of 1933, as amended. For the three months ended September 30, 2013, we issued no shares of common stock through the ATM equity program. For the nine months ended September 30, 2013, we issued 718,714 shares of common stock through the ATM equity program at a weighted average price per share of \$35.09 for gross proceeds of \$25.2 million and paid \$0.3 million in sales agent compensation and \$0.6 million in additional offering expenses related to the sales of these shares of common stock. We intend to use the net proceeds from the ATM equity program to fund our development or redevelopment activities, repay amounts outstanding from time to time under our revolving credit facility or other debt financing obligations, fund potential acquisition opportunities and/or for general corporate purposes. As of September 30, 2013, we had the capacity to issue up to an additional \$124.8 million in shares of our common stock under our ATM equity program. Actual future sales will depend on a variety of factors including, but not limited to, market conditions, the trading price of our common stock and our capital needs. We have no obligation to sell the remaining shares available for sale under the ATM equity program.

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September 30, 2013

(Unaudited)

Noncontrolling Interests

Noncontrolling interests in our Operating Partnership are interests in the Operating Partnership that are not owned by us. Noncontrolling interests consisted of 17,959,109 common units (the “noncontrolling common units”), and represented approximately 31% of the ownership interests in our Operating Partnership at September 30, 2013.

Common units and shares of our common stock have essentially the same economic characteristics in that common units and shares of our common stock share equally in the total net income or loss distributions of our Operating Partnership. Investors who own common units have the right to cause our Operating Partnership to redeem any or all of their common units for cash equal to the then-current market value of one share of our common stock, or, at our election, shares of our common stock on a one-for-one basis.

During the nine months ended September 30, 2013, approximately 64,326 common units were converted into shares of our common stock.

Dividends

The following table lists the dividends declared and paid on our shares of common stock and noncontrolling common units during the nine months ended September 30, 2013:

Period	Amount per Share/Unit	Period Covered	Dividend Paid Date
First Quarter 2013	\$0.21	January 1, 2013 to March 31, 2013	March 29, 2013
Second Quarter 2013	\$0.21	April 1, 2013 to June 30, 2013	June 28, 2013
Third Quarter 2013	\$0.21	July 1, 2013 to September 30, 2013	September 27, 2013

Taxability of Dividends

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

Stock-Based Compensation

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

We granted each of our non-employee directors restricted shares of our common stock pursuant to the 2011 Plan, either concurrently with the closing of our initial public offering or at the time the director was formally appointed to our board of directors (the “Board”). In addition, on the date of each annual meeting of our stockholders, each non-employee director who continues to serve on the Board following such annual meeting will be granted restricted shares of our common stock pursuant to the 2011 Plan. 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 pursuant to our independent director compensation policy.

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

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(Unaudited)

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

The following table summarizes the activity of restricted stock awards during the nine months ended September 30, 2013:

	Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2013	633,222	\$ 15.64
Granted	5,004	31.97
Vested	(4,737	) 22.55
Forfeited	(3,863	) 20.39
Nonvested at September 30, 2013	629,626	\$ 15.58

We recognize noncash compensation expense ratably over the vesting period, and accordingly, we recognized \$2.1 million in noncash compensation expense for both the nine months ended September 30, 2013 and 2012, which is included in general and administrative expense on the consolidated statements of income. Unrecognized compensation expense was \$2.3 million at September 30, 2013.

Earnings Per Share

We have calculated earnings per share (“EPS”) under the two-class method. The two-class method is an earnings allocation methodology whereby EPS for each class of common stock and participating security is calculated according to dividends declared and participation rights in undistributed earnings. For the three and nine months ended September 30, 2013 and 2012, we had a weighted average of approximately 629,835, 630,464, 632,438 and 628,240 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 as these unvested shares have nonforfeitable dividend equivalent rights.

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, 2013 and 2012, diluted shares exclude incentive restricted stock as these awards are considered contingently issuable. Additionally, the unvested restricted stock awards subject to time vesting are anti-dilutive for all periods presented, and accordingly, have been excluded from the weighted average common shares used to compute diluted EPS.

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(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,		Nine Months Ended September 30,	
	2013	2012	2013	2012
NUMERATOR				
Income from continuing operations	\$6,258	\$3,966	\$15,687	\$9,127
Less: Net income attributable to restricted shares	(132)	(133)	(397)	(396)
Less: Income from continuing operations attributable to unitholders in the Operating Partnership	(1,903)	(1,234)	(4,752)	(2,813)
Income from continuing operations attributable to American Assets Trust, Inc. common stockholders—basic	4,223	2,599	10,538	5,918
Plus: Results from discontinued operations attributable to American Assets Trust, Inc. common stockholders	—	218	—	444
Net income attributable to common stockholders—basic	\$4,223	\$2,817	\$10,538	\$6,362
Income from continuing operations attributable to American Assets Trust, Inc. common stockholders—basic	\$4,223	\$2,599	\$10,538	\$5,918
Plus: Income from continuing operations attributable to unitholders in the Operating Partnership	1,903	1,234	4,752	2,813
Income from continuing operations attributable to common stockholders—diluted	6,126	3,833	15,290	8,731
Plus: Results from discontinued operations attributable to American Assets Trust, Inc. common stockholders	—	218	—	444
Plus: Results from discontinued operations attributable to unitholders in the Operating Partnership	—	101	—	209
Net income attributable to common stockholders—diluted	\$6,126	\$4,152	\$15,290	\$9,384
DENOMINATOR				
Weighted average common shares outstanding—basic	39,816,753	38,673,617	39,439,488	38,663,352
Effect of dilutive securities—conversion of Operating Partnership units	17,960,914	18,380,808	17,984,471	18,391,073
Weighted average common shares outstanding—diluted	57,777,667	57,054,425	57,423,959	57,054,425
EARNINGS PER COMMON SHARE-BASIC				
Continuing operations	\$0.11	\$0.07	\$0.27	\$0.16
Discontinued operations	—	0.01	—	0.01
	\$0.11	\$0.08	\$0.27	\$0.17
EARNINGS PER COMMON SHARE-DILUTED				
Continuing operations	\$0.11	\$0.07	\$0.27	\$0.16
Discontinued operations	—	0.01	—	0.01
	\$0.11	\$0.08	\$0.27	\$0.17

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements—(Continued)

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NOTE 9. DISCONTINUED OPERATIONS

On December 4, 2012, we sold 160 King Street for a sales price of approximately \$93.8 million. The property is located in San Francisco, California and was previously included in our office segment. The decision to sell 160 King Street was a result of our desire to focus resources on our core, high-barrier-to-entry markets. The sale was completed as a reverse tax deferred exchange in conjunction with the acquisition of City Center Bellevue pursuant to the provisions of Section 1031 of the Internal Revenue Code of 1986, as amended, and applicable state revenue and taxation code sections. As a result of the sale, 160 King Street no longer serves as a borrowing base property under our revolving credit facility.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September	
	2013	2012	2013	2012
Net revenue from discontinued operations	—	\$2,071	\$—	\$5,338
Net property expenses from discontinued operations	—	753	—	2,028
Depreciation and amortization	—	338	—	1,079
Results from discontinued operations				
Income from discontinued operations	—	319	—	653
Total income from discontinued operations	\$—	\$319	\$—	\$653

NOTE 10. INCOME TAXES

We elected to be taxed as a REIT and operate in a manner that allows us to qualify as a REIT for federal income tax purposes commencing with our initial taxable year. As a REIT, we are generally not subject to corporate level income tax on the earnings distributed currently to our stockholders that we derive from our REIT qualifying activities. Taxable income from non-REIT activities managed through our TRS is subject to federal and state income taxes. We lease our hotel property to a wholly owned TRS that is subject to federal and state income taxes. We account for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between GAAP carrying amounts and their respective tax bases. Additionally, we classify certain state taxes as income taxes for financial reporting purposes in accordance with ASC Topic 740, Income Taxes.

A deferred tax liability of \$0.3 million as of September 30, 2013 and December 31, 2012 is included in our consolidated balance sheets in relation to real estate asset basis differences of property subject to the Texas margin tax and certain prepaid expenses of our TRS.

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.

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Notes to Consolidated Financial Statements—(Continued)

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(Unaudited)

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.

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, 2013 (in thousands):

Year Ending December 31,		
2013 (three months ending December 31, 2013)	\$ 632	
2014	2,569	
2015	2,636	
2016	1,709	
2017	736	(1)
Thereafter	2,961	
Total	\$ 11,243	

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

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

A wholly owned subsidiary of our Operating Partnership, 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. If the franchise license is terminated due to our failure to make required improvements or to otherwise comply with its terms, we may be liable to the franchisor for a termination payment, which could be as high as \$6.2 million based on operating performance through September 30, 2013.

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(Unaudited)

We had a property management agreement with Langley Investment Properties, Inc. (“Langley”) pursuant to which Langley managed and operated Lloyd District Portfolio, and we paid Langley a monthly management fee of 3.5% of “gross receipts,” as defined in the property management agreement, as well as leasing commissions and construction oversight fees in certain situations. The property management agreement was terminated on February 1, 2013 by mutual consent of both parties. Langley continued to provide development consulting services to us until June 30, 2013 and will continue to provide leasing services to us through December 31, 2013 pursuant to a development, consulting, leasing and transition services and management termination agreement.

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

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

As of September 30, 2013, the Company has accrued approximately \$6.6 million for transfer taxes that the Company expected to incur on its California properties in connection with its initial public offering. The Company believes that it has filed all necessary forms with the requisite taxing authorities, but can offer no assurances that the taxing authorities will agree with the Company's estimate above.

Concentrations of Credit Risk

Our properties are located in Southern California, Northern California, Hawaii, Oregon, Texas, and Washington. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social factors affecting the markets in which the tenants operate. Twelve of our consolidated properties are located in Southern California, which exposes us to greater economic risks than if we owned a more geographically diverse portfolio. Further, tenants in the retail industry accounted for 36.3% of total revenues for the nine months ended September 30, 2013. This makes us susceptible to demand for retail rental space and subject to the risks associated with an investment in real estate with a concentration of tenants in the retail industry. For the nine months ended September 30, 2013 and 2012, no tenant accounted for more than 10% of our total rental revenue.

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

Year Ending December 31,	
2013 (three months ending December 31, 2013)	\$37,219
2014	147,360
2015	136,417
2016	116,888
2017	99,808
Thereafter	180,947
Total	\$718,639

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		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Minimum rents				
Retail	\$17,384	\$17,019	\$51,971	\$49,866
Office	20,736	18,219	61,534	50,974
Multifamily	3,837	3,633	11,107	10,160
Mixed-use	2,443	2,114	7,120	6,649
Cost reimbursement	7,093	7,392	20,006	20,813
Percentage rent	504	533	1,324	1,259
Hotel revenue	9,984	9,017	27,010	24,142
Other	424	383	1,260	1,195
Total rental income	\$62,405	\$58,310	\$181,332	\$165,058

Minimum rents include \$0.6 million and \$1.7 million for the three months ended September 30, 2013 and 2012, respectively, and \$1.8 million and \$5.2 million for the nine months ended September 30, 2013 and 2012, respectively, to recognize minimum rents on a straight-line basis. In addition, net amortization of above and below market leases included in minimum rents were \$1.0 million and immaterial for the three months ended September 30, 2013 and 2012, respectively, and \$1.8 million and \$(0.5) million for the nine months ended September 30, 2013 and 2012, respectively.

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Notes to Consolidated Financial Statements—(Continued)

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(Unaudited)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Rental operating	\$6,538	\$6,142	\$19,282	\$17,524
Hotel operating	5,654	5,458	16,574	15,570
Repairs and maintenance	2,727	2,576	7,330	6,861
Marketing	356	263	1,052	833
Rent	596	509	1,820	1,745
Hawaii excise tax	1,071	996	2,962	2,753
Management fees	488	534	1,382	1,516
Total rental expenses	\$17,430	\$16,478	\$50,402	\$46,802

NOTE 14. OTHER INCOME (EXPENSE), NET

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Interest and investment income	\$54	\$177	\$88	\$329
Income tax expense	(473	) (55	) (861	) (555
Acquisition related expenses	—	(114	) —	(129
Other non-operating income	—	—	10	—
Total other income (expense), net	\$(419	) \$8	\$(763	) \$(355

NOTE 15. RELATED PARTY TRANSACTIONS

At ICW Plaza, we lease space to Insurance Company of the West, which is under the indirect control of Ernest Rady, our Executive Chairman of the Board. Rental revenue recognized on the leases of \$1.6 million for each of the nine months ended September 30, 2013 and 2012, respectively, is included in rental income.

The Waikiki Beach Walk entities have a 47.7% investment in WBW CHP LLC, an entity that was formed to, among other things, construct a chilled water plant to provide air conditioning to the property and other adjacent facilities. The operating expenses of WBW CHP LLC are recovered through reimbursements from its members, and reimbursements to WBW CHP LLC of \$0.8 million were made for each of the nine months ended September 30, 2013 and 2012 and are included in rental expenses on the statement of income.

NOTE 16. SEGMENT REPORTING

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

We evaluate the performance of our segments based on segment profit, which is defined as property revenue less property expenses. We do not use asset information as a measure to assess performance and make decisions to allocate

resources. Therefore, depreciation and amortization expense is not allocated among segments. General and administrative expenses, interest expense, depreciation and amortization expense and other income and expense are not included in segment profit as our internal reporting addresses these items on a corporate level.

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(Unaudited)

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.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Total Retail				
Property revenue	\$23,524	\$23,694	\$69,175	\$67,837
Property expense	(6,445)	(6,828)	(17,476)	(18,648)
Segment profit	17,079	16,866	51,699	49,189
Total Office				
Property revenue	22,664	19,586	67,598	55,500
Property expense	(6,636)	(6,054)	(19,656)	(17,430)
Segment profit	16,028	13,532	47,942	38,070
Total Multifamily				
Property revenue	4,155	3,906	12,004	10,957
Property expense	(1,525)	(1,558)	(4,383)	(4,437)
Segment profit	2,630	2,348	7,621	6,520
Total Mixed-Use				
Property revenue	14,975	13,579	41,635	38,051
Property expense	(8,592)	(8,132)	(24,931)	(23,365)
Segment profit	6,383	5,447	16,704	14,686
Total segments' profit	\$42,120	\$38,193	\$123,966	\$108,465

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Total segments' profit	\$42,120	\$38,193	\$123,966	\$108,465
General and administrative	(4,031)	(3,894)	(12,658)	(11,530)
Depreciation and amortization	(16,648)	(16,094)	(50,614)	(45,277)
Interest expense	(14,764)	(14,247)	(44,244)	(42,176)
Other income (expense), net	(419)	8	(763)	(355)
Income from continuing operations	6,258	3,966	15,687	9,127
Discontinued operations				
Results from discontinued operations	—	319	—	653
Net income	6,258	4,285	15,687	9,780
Net income attributable to restricted shares	(132)	(133)	(397)	(396)
Net income attributable to unitholders in the Operating Partnership	(1,903)	(1,335)	(4,752)	(3,022)
	\$4,223	\$2,817	\$10,538	\$6,362

Net income attributable to American Assets Trust, Inc.
stockholders

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements—(Continued)

September 30, 2013

(Unaudited)

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

	September 30, 2013	December 31, 2012
Net Real Estate		
Retail	\$655,569	\$669,177
Office	774,775	759,203
Multifamily	35,757	36,391
Mixed-Use	199,688	203,411
	\$1,665,789	\$1,668,182
Secured Notes Payable ⁽¹⁾		
Retail	\$395,677	\$397,732
Office	427,499	428,194
Multifamily	101,444	101,444
Mixed-Use	130,310	130,310
	\$1,054,930	\$1,057,680

⁽¹⁾ Excludes unamortized fair market value adjustments of \$10.8 million and \$13.0 million as of September 30, 2013 and December 31, 2012, respectively.

Capital expenditures for each segment for the three and nine months ended September 30, 2013 and 2012 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Capital Expenditures ⁽¹⁾				
Retail	\$616	\$4,292	\$3,143	\$11,734
Office	11,690	10,381	30,991	15,534
Multifamily	351	259	700	782
Mixed-Use	275	108	646	253
	\$12,932	\$15,040	\$35,480	\$28,303

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

NOTE 17. SUBSEQUENT EVENTS

On October 8, 2013, we prepaid, without penalty or premium, the mortgage encumbering Alamo Quarry Market in the amount of approximately \$92.3 million, utilizing funds drawn against our existing credit facility. The mortgage note had an original maturity date of January 8, 2014 and was secured by a first-priority deed of trust lien on the property, a security interest in all personal property used in connection with the property and an assignment of all leases, rents and security deposits relating to the property. As of November 8, 2013, \$93.0 million was outstanding on our credit facility.

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

Forward-Looking Statements

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. We make statements in this report that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act). In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “pro forma,” “estimates” or “anticipates” or 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;
- difficulties in completing dispositions;
- our failure to successfully operate acquired properties and operations;
- our inability to develop or redevelop our properties due to market conditions;
- fluctuations in interest rates and increased operating costs;
- risks related to joint venture arrangements;
- our failure to obtain necessary outside financing;
- on-going litigation;
- general economic conditions;
- financial market fluctuations;
- risks that affect the general retail, office, multifamily and mixed-use environment;
- the competitive environment in which we operate;
- decreased rental rates or increased vacancy rates;
- conflicts of interests with our officers or directors;
 - lack or insufficient amounts of insurance;
- environmental uncertainties and risks related to adverse weather conditions and natural disasters;
- other factors affecting the real estate industry generally;
- limitations imposed on our business and our ability to satisfy complex rules in order for us to continue to qualify as a REIT for U.S. federal income tax purposes; and
- changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs.

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

Overview

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

We are a full service, vertically integrated and self-administered real estate investment trust, or REIT, that owns, operates, acquires and develops high quality retail, office, multifamily and mixed-use properties in attractive, high-barrier-to-entry markets in Southern California, Northern California, Texas, Oregon, Washington and Hawaii. As of September 30, 2013, our portfolio was comprised of eleven retail shopping centers; seven office properties; a mixed-use property consisting of a 369-room all-suite hotel and a retail shopping center; and four multifamily properties. Additionally, as of September 30, 2013, we owned land at five of our properties that we classified as held for development and/or construction in progress. Our core markets include San Diego, the San Francisco Bay Area, Portland, Oregon, Bellevue, Washington and Oahu, Hawaii. We are a Maryland corporation formed on July 16, 2010 to acquire the entities owning various controlling and noncontrolling interests in real estate assets owned and/or managed by Ernest S. Rady or his affiliates, including the Ernest Rady Trust U/D/T March 13, 1983, or the Rady Trust, and did not have any operating activity until the consummation of our initial public offering on January 19, 2011. Our Company, as the sole general partner of our Operating Partnership, has control of our Operating Partnership and owned 68.9% of our Operating Partnership as of September 30, 2013. Accordingly, we consolidate the assets, liabilities and results of operations of our Operating Partnership.

Critical Accounting Policies

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

Same-store

We have provided certain information on a total portfolio, same-store and redevelopment 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 for which significant redevelopment or expansion occurred during either of the periods being compared, properties under development, properties classified as held for development and properties classified as discontinued operations. Information provided on a redevelopment same-store basis includes the results of properties undergoing significant redevelopment for the entirety or portion of both periods being compared. Same-store and redevelopment same-store is considered by management to be an important measure because it assists in eliminating disparities due to the development, acquisition or disposition of properties during the particular period presented, and thus provides a more consistent performance measure for the comparison of the Company's stabilized and redevelopment properties, as applicable. Additionally, redevelopment same-store is considered by management to be an important measure because it assists in evaluating the timing of the start and stabilization of our redevelopment opportunities and the impact that these redevelopments have in enhancing our operating performance.

While there is judgment surrounding changes in designations, we typically reclassify significant development, redevelopment or expansion properties to same-store properties once they are stabilized. Properties are deemed stabilized typically at the earlier of (i), reaching 90% occupancy or (ii) four quarters following a property's inclusion in operating real estate. We typically remove properties from same-store properties when the development,

redevelopment or expansion has or is expected to have a significant impact to the property's annualized base rent, occupancy and operating income within the calendar year. Acquired properties are classified to same-store properties once we have owned such properties for the entirety of comparable period(s) and the properties are not under significant development or expansion.

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Below is a summary of our same-store composition for the three and nine months ended September 30, 2013 and 2012. For the three months ended September 30, 2013, one acquired property was classified into same-store properties, two properties with significant redevelopment activity were removed from same-store properties and one disposed property was removed from same-store properties when compared to the designations for the three months ended September 30, 2012. For the nine months ended September 30, 2013, four acquired properties were classified into same-store properties, one property with significant redevelopment activity was removed from same-store properties and one disposed property was removed from same-store properties when compared to the designations for the nine months ended September 30, 2012.

	Three Months Ended at September 30,		Nine Months Ended at September 30,	
	2013	2012	2013	2012
Same-Store	19	21	18	16
Non-Same Store	4	2	5	7
Total Properties	23	23	23	23
Redevelopment Same-Store	21	21	20	16
Total Development Properties	5	5	5	5

Outlook

We seek growth in earnings, funds from operations, and cash flows primarily through a combination of the following: growth in our same-store portfolio, growth in our portfolio from property development and redevelopments and expansion of our portfolio through property acquisitions. Our properties are located in some of the nation's most dynamic, high-barrier-to-entry markets primarily in Southern California, Northern California, Oregon, Washington and Hawaii, which allow us to take advantage of redevelopment opportunities that enhance our operating performance through renovation, expansion, reconfiguration, and/or retensing. We evaluate our properties on an ongoing basis to identify these types of opportunities.

In the third quarter of 2013, we broke ground at our Lloyd District Portfolio redevelopment. We expect that the project will be LEED Certified and has been defined to include approximately 47,000 square feet of retail space and 657 multi-family units in addition to the existing 605,000 square feet of office space. Construction of the project is expected to be complete in 2015, with a stabilization date in 2017. Projected costs of the development are approximately \$192 million, of which approximately \$14 million has been incurred to date.

Additionally, we continue our ongoing redevelopment efforts at Torrey Reserve Campus and are currently under construction to increase rentable office space by approximately 81,500 square feet, which we expect to stabilize in 2015. Projected costs of the redevelopment are approximately \$34 million, of which approximately \$18 million has been incurred to date. We expect to incur the remaining costs for this redevelopment project throughout 2013 and 2014.

In our determination of same-store and redevelopment same-store properties, Lloyd District Portfolio and Torrey Reserve Campus have been identified as same-store redevelopment properties due to the significant construction activity noted above. Office same-store net operating income increased approximately 0.7% and 2.6%, respectively, for the three and nine months ended September 30, 2013 compared to the same periods in 2012. Office redevelopment same-store net operating income increased approximately 2.0% and 0.3%, respectively, for the three and nine months ended September 30, 2013 compared to the same periods in 2012.

We intend to opportunistically pursue the development of future phases of Lloyd District Portfolio and Torrey Reserve Campus based on, among other things, market conditions and our evaluation of whether such opportunities would generate appropriate risk adjusted financial returns. Our redevelopment and development opportunities are subject to various factors, including market conditions and may not ultimately come to fruition.

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We continue to review acquisition opportunities in our primary markets that would complement our portfolio and provide long-term growth opportunities. Some of our acquisitions do not initially contribute significantly to earnings growth; however, we believe they provide long-term re-leasing growth, redevelopment opportunities and other strategic opportunities. Any growth from acquisitions is contingent on our ability to find properties that meet our qualitative standards at prices that meet our financial hurdles. Changes in interest rates may affect our success in achieving earnings growth through acquisitions by affecting both the price that must be paid to acquire a property, as well as our ability to economically finance a property acquisition. Generally, our acquisitions are initially financed by available cash, mortgage loans and/or borrowings under our revolving credit facility, which may be repaid later with funds raised through the issuance of new equity or new long-term debt.

Leasing

Our same-store growth is primarily driven by increases in rental rates on new leases and lease renewals and changes in portfolio occupancy. Over the long-term, we believe that the infill nature and strong demographics of our properties provide us with a strategic advantage, allowing us to maintain relatively high occupancy and increase rental rates. We have continued to see signs of improvement for many of our tenants as well as increased interest from prospective tenants for our spaces. While there can be no assurance that these positive signs will continue, we remain cautiously optimistic regarding the improved trends we have seen over the past few years. We believe the locations of our properties and diverse tenant base mitigate the potentially negative impact of the current economic environment. However, any reduction in our tenants' abilities to pay base rent, percentage rent or other charges, will adversely affect our financial condition and results of operations.

During the three months ended September 30, 2013, we signed 26 retail leases for a total of 59,433 square feet of retail space including 53,709 square feet of comparable space leases (leases for which there was a prior tenant) at an average rental rate decrease of 1.2% on a cash basis and an increase of 4.5% on a straight-line basis. New retail leases for comparable spaces were signed for 5,790 square feet at an average rental rate decrease of 14.4% on a cash basis and 14.5% on a straight-line basis. Renewals for comparable retail spaces were signed for 47,919 square feet at an average rental rate increase of 1.0% on a cash basis and 7.7% on a straight-line basis. Tenant improvements and incentives were \$54.20 and \$0.42 per square foot of retail space for comparable new leases and comparable renewals, respectively, for the three months ended September 30, 2013. Tenant improvements and incentives increased for new leases relative to our historical experience primarily due to the new Starbucks lease at Rancho Carmel Plaza. We expect the amount of tenant improvements and incentives for comparable new leases to return to levels more in line with our historical experience through the remainder of 2013.

During the three months ended September 30, 2013, we signed 19 office leases for a total of 79,317 square feet of office space including 52,805 square feet of comparable space leases, at an average rental rate increase of 0.4% on a cash basis and average rental increase of 3.7% on a straight-line basis. New office leases for comparable spaces were signed for 14,930 square feet at an average rental rate increase of 10.7% on a cash basis and average rental rate increase of 12.8% on a straight-line basis. Renewals for comparable office spaces were signed for 37,875 square feet at an average rental rate decrease of 3.9% on a cash basis with no change on a straight-line basis. Tenant improvements and incentives were \$9.00 and \$7.36 per square foot of office space for comparable new leases and comparable renewals, respectively, for the three months ended September 30, 2013.

The rental increases associated with comparable spaces generally include all leases signed in arms-length transactions reflecting market leverage between landlords and tenants during the period. The comparison between average rent for expiring leases and new leases is determined by including minimum rent and percentage rent paid on the expiring lease and minimum rent and, in some instances, projections of first lease year percentage rent, to be paid on the new lease. In some instances, management exercises judgment as to how to most effectively reflect the comparability of

spaces reported in this calculation. The change in rental income on comparable space leases is impacted by numerous factors including current market rates, location, individual tenant creditworthiness, use of space, market conditions when the expiring lease was signed, capital investment made in the space and the specific lease structure. Tenant improvements and incentives include the total dollars committed for the improvement of a space as it relates to a specific lease, but may also include base building costs (i.e. expansion, escalators or new entrances) which are required to make the space leasable. Incentives include amounts paid to tenants as an inducement to sign a lease that do not represent building improvements.

The leases signed in 2013 generally become effective over the following year, though some may not become effective until 2014 and beyond. Further, there is risk that some new tenants will not ultimately take possession of their space and that tenants for both new and renewal leases may not pay all of their contractual rent due to operating, financing or other matters. However, we believe that these increases do provide information about the tenant/landlord relationship and the potential fluctuations we may achieve in rental income over time.

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Through the remainder of 2013, we believe our leasing volume will be in-line with our historical averages with overall positive increases in rental income. However, changes in rental income associated with individual signed leases on comparable spaces may be positive or negative, and we can provide no assurance that the rents on new leases will continue to increase at the above disclosed levels, if at all.

Capitalized Costs

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

We capitalized external and internal costs related to both development and redevelopment activities combined of \$12.5 million and \$2.2 million for the three months ended September 30, 2013 and 2012, respectively. We capitalized external and internal costs related to both development and redevelopment activities combined of \$26.0 million and \$7.5 million for the nine months ended September 30, 2013 and 2012, respectively.

We capitalized external and internal costs related to other property improvements combined of \$4.4 million and \$13.9 million, for the three months ended September 30, 2013 and 2012, respectively. We capitalized external and internal costs related to other property improvements combined of \$10.6 million and \$24.0 million, for the nine months ended September 30, 2013 and 2012, respectively.

We capitalized internal costs for salaries and related benefits for development and redevelopment activities and other property improvements of \$0.03 million and \$0.03 million for the three months ended September 30, 2013 and 2012, respectively. We capitalized internal costs for salaries and related benefits for development and redevelopment activities and other property improvements of \$0.10 million and \$0.06 million for the nine months ended September 30, 2013 and 2012, respectively.

Interest costs on developments and major redevelopments are capitalized as part of developments and redevelopments not yet placed in service. Capitalization of interest commences when development activities and expenditures begin and end upon completion, which is when the asset is ready for its intended use as noted above. We make judgments as to the time period over which to capitalize such costs and these assumptions have a direct impact on net income because capitalized costs are not subtracted in calculating net income. If the time period for capitalizing interest is extended, more interest is capitalized, thereby decreasing interest expense and increasing net income during that period. We capitalized interest costs related to both development and redevelopment activities combined of \$0.6 million and \$0.3 million for the three months ended September 30, 2013 and 2012, respectively. We capitalized interest costs related to both development and redevelopment activities combined of \$1.4 million and \$0.5 million for the nine months ended September 30, 2013 and 2012, respectively.

Results of Operations

For our discussion of results of operations, we have provided information on a total portfolio and same-store basis.

Comparison of the three months ended September 30, 2013 to the three months ended September 30, 2012

The following summarizes our consolidated results of operations for the three months ended September 30, 2013 compared to our consolidated results of operations for the three months ended September 30, 2012. As of September 30, 2013, our operating portfolio was comprised of 23 retail, office, multifamily and mixed-use properties

with an aggregate of approximately 5.8 million rentable square feet of retail and office space, including the retail portion of our mixed-use property, 922 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of September 30, 2013, we owned land at five of our properties that we classified as held for development and/or construction in progress. As of September 30, 2012, our operating portfolio was comprised of 22 properties with an aggregate of approximately 5.8 million rentable square feet of retail and office space, including the retail portion of our mixed-use property, 922 residential units (including 122 RV spaces) and a 369-room hotel; we also owned land at five of our properties that we classified as held for development.

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The following table sets forth selected data from our unaudited consolidated statements of income for the three months ended September 30, 2013 and 2012 (dollars in thousands):

	Three Months Ended		Change	%	
	September 30, 2013	September 30, 2012			
Revenues					
Rental income	\$62,405	\$58,310	\$4,095	7	%
Other property income	2,913	2,455	458	19	
Total property revenues	65,318	60,765	4,553	7	
Expenses					
Rental expenses	17,430	16,478	952	6	
Real estate taxes	5,768	6,094	(326)	(5))
Total property expenses	23,198	22,572	626	3	
Total property income	42,120	38,193	3,927	10	
General and administrative	(4,031)	(3,894)	(137)	4)
Depreciation and amortization	(16,648)	(16,094)	(554)	3)
Interest expense	(14,764)	(14,247)	(517)	4)
Other income (expense), net	(419)	8	(427)	(5,338))
Total other, net	(35,862)	(34,227)	(1,635)	5)
Income from continuing operations	6,258	3,966	2,292	58	
Discontinued operations					
Results from discontinued operations	—	319	(319)	(100))
Net income	6,258	4,285	1,973	46	
Net income attributable to restricted shares	(132)	(133)	1	(1))
Net income attributable to unitholders in the Operating Partnership	(1,903)	(1,335)	(568)	43)
Net income attributable to American Assets Trust, Inc. stockholders	\$4,223	\$2,817	\$1,406	50	%

Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased \$4.6 million, or 7%, to \$65.3 million for the three months ended September 30, 2013 compared to \$60.8 million for the three months ended September 30, 2012. The percentage leased was as follows for each segment as of September 30, 2013 and 2012:

	Percentage Leased ⁽¹⁾		
	September 30, 2013	September 30, 2012	
Retail	95.6	% 96.9	%
Office	91.4	% 93.7	%(2)
Multifamily	96.7	% 96.2	%
Mixed-Use ⁽³⁾	97.9	% 97.4	%

(1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of September 30, 2013 or September 30, 2012, as applicable.

(2) Excludes 160 King Street, which was sold on December 4, 2012.

(3) Includes the retail portion of the mixed-use property only.

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The increase in total property revenue was 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 \$4.1 million, or 7%, to \$62.4 million for the three months ended September 30, 2013 compared to \$58.3 million for the three months ended September 30, 2012. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio ⁽¹⁾				
	Three Months Ended		Change	%	Three Months Ended		Change	%	
	September 30, 2013	September 30, 2012			September 30, 2013	September 30, 2012			
Retail	\$23,233	\$23,312	\$(79)	—	% \$22,770	\$23,302	\$(532)	(2)	%
Office	21,799	19,104	2,695	14	10,734	10,510	224	2	
Multifamily	3,839	3,635	204	6	3,839	3,635	204	6	
Mixed-Use	13,534	12,259	1,275	10	13,534	12,259	1,275	10	
	\$62,405	\$58,310	\$4,095	7	% \$50,877	\$49,706	\$1,171	2	%

For this table and tables following, the same-store portfolio excludes: City Center Bellevue acquired on August 21, (1)2012; Geary Marketplace acquired on December 19, 2012, Torrey Reserve Campus and Lloyd District Portfolio due to significant redevelopment activity during the period and land held for development.

Same-store retail rental revenue decreased \$0.5 million for the three months ended September 30, 2013 compared to the three months ended September 30, 2012. This decrease was primarily related to a decrease in the average percentage leased for retail properties during the third quarter of 2013, mainly at Lomas Santa Fe Plaza, due to the expiration of the Ross Dress for Less lease on January 31, 2013. Additionally, the decrease is attributed to a decrease in cost reimbursements during the third quarter of 2013 mainly related to the decrease in real estate tax expense. For total retail rental revenue, these decreases were slightly offset by an increase in rental revenues of approximately \$0.4 million related to Geary Marketplace, which we acquired on December 19, 2012.

Office rental revenue increased \$2.7 million for the three months ended September 30, 2013 compared to the three months ended September 30, 2012. This increase was due to the acquisition of City Center Bellevue on August 21, 2012, which contributed additional rental revenue of \$2.7 million for the three months ended September 30, 2013. Same-store office rental revenue increased due to the expiration of above-market leases at The Landmark at One Market and an increase in average percentage leased at First & Main.

The increase in multifamily rental revenue was primarily due to an increase in average occupancy of 98.2% during the three months ended September 30, 2013 compared to 97.8% during the three months ended September 30, 2012.

The increase in mixed-use rental revenue was due to an increase in hotel revenues as a result of higher revenue per available room of \$294 for the three months ended September 30, 2013 compared to \$266 for the three months ended September 30, 2012.

Other property income. Other property income increased \$0.5 million, or 19%, to \$2.9 million for the three months ended September 30, 2013 compared to \$2.5 million for the three months ended September 30, 2012. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio				
	Three Months Ended		Change	%	Three Months Ended		Change	%	
	September 30, 2013	September 30, 2012			September 30, 2013	September 30, 2012			
Retail	\$291	\$382	\$(91)	(24)	% \$290	\$382	\$(92)	(24)	%
Office	865	482	383	79	105	112	(7)	(6)	
Multifamily	316	271	45	17	316	271	45	17	
Mixed-Use	1,441	1,320	121	9	1,441	1,320	121	9	
	\$2,913	\$2,455	\$458	19	% \$2,152	\$2,085	\$67	3	%

Retail other property income decreased \$0.1 million for the three months ended September 30, 2013 compared to the three months ended September 30, 2012 primarily due to lease termination fees paid by tenants at Lomas Santa Fe Plaza and Solana Beach Towne Centre during 2012.

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Office other property income increased \$0.4 million for the three months ended September 30, 2013 compared to the three months ended September 30, 2012. This increase was due to the acquisition of City Center Bellevue on August 21, 2012, which had additional other property income of \$0.2 million for the three months ended September 30, 2013. Multifamily other property income increased \$0.1 million for the three months ended September 30, 2013 compared to the three months ended September 30, 2012 primarily due to an increase in utility recoveries from residents, which was consistent with the increase in utility expenses at the multifamily properties during the third quarter of 2013. The increase in mixed-use other property income was due to an increase in parking income, principally as a result of an increase in the overnight hotel guest parking rate from \$30/day to \$35/day effective January 2013, and an increase in sales of food and beverages and other services provided to hotel guests during the three months ended September 30, 2013 compared to the three months ended September 30, 2012.

Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased by \$0.6 million, or 3%, to \$23.2 million for the three months ended September 30, 2013, compared to \$22.6 million for the three months ended September 30, 2012. This increase in total property expenses was attributable primarily to the factors discussed below.

Rental Expenses. Rental expenses increased \$1.0 million, or 6%, to \$17.4 million for the three months ended September 30, 2013, compared to \$16.5 million for the three months ended September 30, 2012. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended		Change	%	Three Months Ended		Change	%
	September 30, 2013	September 30, 2012			September 30, 2013	September 30, 2012		
Retail	\$3,604	\$3,717	\$(113)	(3)%	\$3,580	\$3,706	\$(126)	(3)%
Office	4,603	4,016	587	15	2,230	2,092	138	7
Multifamily	1,116	1,065	51	5	1,116	1,065	51	5
Mixed-Use	8,107	7,680	427	6	8,107	7,680	427	6
	\$17,430	\$16,478	\$952	6%	\$15,033	\$14,543	\$490	3%

Retail rental expenses decreased \$0.1 million for the three months ended September 30, 2013 compared to the three months ended September 30, 2012 primarily due to a decrease in bad debt for a tenant at Alamo Quarry Market and parking lot maintenance expenses for Del Monte Center and Carmel Mountain Plaza during the third quarter of 2013, which was minimally offset by the acquisition of Geary Marketplace on December 19, 2012 and lease termination fees received at Lloyd District Portfolio.

Office rental expenses increased \$0.6 million for the three months ended September 30, 2013 compared to the three months ended September 30, 2012 as a result of the acquisition of City Center Bellevue on August 21, 2012, which had additional rental expenses of \$0.6 million for the three months ended September 30, 2013.

Multifamily rental expenses increased \$0.1 million for the three months ended September 30, 2013 compared to the three months ended September 30, 2012 primarily due to an increase in utility expenses at the multifamily properties during the third quarter of 2013.

The increase in mixed-use rental expenses was due to an increase in management fees and excise taxes at both the hotel and retail portions of Waikiki Beach Walk during the three months ended September 30, 2013 compared to the three months ended September 30, 2012. Additionally, room, food and beverage expenses increased at the hotel portion of Waikiki Beach Walk during the third quarter of 2013 due to increased cost of supplies.

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Real Estate Taxes. Real estate taxes decreased \$0.3 million, or 5%, to \$5.8 million for the three months ended September 30, 2013 compared to \$6.1 million for the three months ended September 30, 2012. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio			Same-Store Portfolio				
	Three Months Ended		Change	%	Three Months Ended		Change	%
	September 30, 2013	September 30, 2012			September 30, 2013	September 30, 2012		
Retail	\$2,841	\$3,111	\$(270)	(9)%	\$2,752	\$3,087	\$(335)	(11)%
Office	2,033	2,038	(5)	—	1,116	1,086	30	3
Multifamily	409	493	(84)	(17)%	409	493	(84)	(17)%
Mixed-Use	485	452	33	7	485	452	33	7
	\$5,768	\$6,094	\$(326)	(5)%	\$4,762	\$5,118	\$(356)	(7)%

Retail real estate taxes decreased for the three months ended September 30, 2013 compared to the three months ended September 30, 2012, primarily due to the payment of additional real estate taxes for fiscal year 2011 during the third quarter of 2012 as a result of supplemental tax bills from the California taxing authority. Similar supplemental tax bills were not received during the three months ended September 30, 2013. This decrease was partially offset by additional taxes incurred at Geary Marketplace, which was acquired on December 19, 2012.

Multifamily real estate taxes decreased for the three months ended September 30, 2013 primarily due to the payment of additional real estate taxes for fiscal year 2011 during the third quarter of 2012 as a result of supplemental tax bills from the California taxing authority. Similar supplemental tax bills were not received during the three months ended September 30, 2013.

Property Operating Income

Property operating income increased \$3.9 million, or 10%, to \$42.1 million for the three months ended September 30, 2013, compared to \$38.2 million for the three months ended September 30, 2012. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio			Same-Store Portfolio				
	Three Months Ended		Change	%	Three Months Ended		Change	%
	September 30, 2013	September 30, 2012			September 30, 2013	September 30, 2012		
Retail	\$17,079	\$16,866	\$213	1%	\$16,728	\$16,891	\$(163)	(1)%
Office	16,028	13,532	2,496	18	7,493	7,444	49	1
Multifamily	2,630	2,348	282	12	2,630	2,348	282	12
Mixed-Use	6,383	5,447	936	17	6,383	5,447	936	17
	\$42,120	\$38,193	\$3,927	10%	\$33,234	\$32,130	\$1,104	3%

The increase in retail property operating income was primarily due to the acquisition of Geary Marketplace on December 19, 2012. The decrease in same-store retail property operating income was due to a decrease in the average percentage leased, less cost reimbursements during the three months ended September 30, 2013 and lease termination fees received during the three months ended September 30, 2012.

The increase in office property operating income was primarily due to the acquisition of City Center Bellevue on August 21, 2012.

The increase in multifamily property operating income was primarily due to higher occupancy for the three months ended September 30, 2013 compared to the three months ended September 30, 2012. The increase is also attributed to payment of additional real estate taxes for fiscal year 2011 during the third quarter of 2012 as a result of supplemental tax bills from the California taxing authority.

The increase in mixed-use property operating income was primarily due to higher revenue per available room throughout the three months ended September 30, 2013 compared to the three months ended September 30, 2012.

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Other

Depreciation and Amortization. Depreciation and amortization expense increased \$0.6 million, or 3%, to \$16.6 million for the three months ended September 30, 2013, compared to \$16.1 million for the three months ended September 30, 2012. This increase was primarily due to depreciation and amortization expense attributable to properties acquired subsequent to September 30, 2012.

Interest Expense. Interest expense increased \$0.5 million, or 4%, to \$14.8 million for the three months ended September 30, 2013, compared to \$14.2 million for the three months ended September 30, 2012. This increase was primarily due to interest expense on the senior mortgage loan issued with respect to City Center Bellevue on October 10, 2012.

Other Income(Expense), Net. Other expense, net increased \$0.4 million, or 5338%, to \$0.4 million for the three months ended September 30, 2013, compared to other income, net of \$0.1 million for the three months ended September 30, 2012, primarily due to an increase in income tax expense.

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

Comparison of the Nine Months Ended September 30, 2013 to the Nine Months Ended September 30, 2012

The following summarizes our consolidated results of operations for the nine months ended September 30, 2013 compared to our consolidated results of operations for the nine months ended September 30, 2012.

The following table sets forth selected data from our unaudited consolidated statements of income for the nine months ended September 30, 2013 and 2012 (dollars in thousands):

	Nine Months Ended		Change	%	
	September 30, 2013	2012			
Revenues					
Rental income	\$181,332	\$165,058	\$16,274	10	%
Other property income	9,080	7,287	1,793	25	
Total property revenues	190,412	172,345	18,067	10	
Expenses					
Rental expenses	50,402	46,802	3,600	8	
Real estate taxes	16,044	17,078	(1,034)	(6))
Total property expenses	66,446	63,880	2,566	4	
Total property income	123,966	108,465	15,501	14	
General and administrative	(12,658)	(11,530)	(1,128)	(10))
Depreciation and amortization	(50,614)	(45,277)	(5,337)	(12))
Interest expense	(44,244)	(42,176)	(2,068)	(5))
Other income (expense), net	(763)	(355)	(408)	(115))
Total other, net	(108,279)	(99,338)	(8,941)	(9))
Income from continuing operations	15,687	9,127	6,560	72	
Discontinued operations					
Results from discontinued operations	—	653	(653)	(100))
Net income	15,687	9,780	5,907	60	
Net income attributable to restricted shares	(397)	(396)	(1)	(—))
Net income attributable to unitholders in the Operating Partnership	(4,752)	(3,022)	(1,730)	(57))
Net income (loss) attributable to American Assets Trust, Inc. stockholders	\$10,538	\$6,362	\$4,176	66	%

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Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased \$18.1 million, or 10%, to \$190.4 million for the nine months ended September 30, 2013 compared to \$172.3 million for the nine months ended September 30, 2012. The percentage leased was as follows for each segment as of September 30, 2013 and 2012:

	Percentage Leased ⁽¹⁾			
	September 30,		2012	
	2013		2012	
Retail	95.6	%	96.9	%
Office	91.4	%	93.7	% ⁽²⁾
Multifamily	96.7	%	96.2	%
Mixed-Use ⁽³⁾	97.9	%	97.4	%

⁽¹⁾ The percentage leased includes the square footage under lease, including leases which may not have commenced as of September 30, 2013 or September 30, 2012, as applicable.

⁽²⁾ Excludes 160 King Street, which was sold on December 4, 2012.

⁽³⁾ Includes the retail portion of the mixed-use property only.

The increase in total property revenue was 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 \$16.3 million, or 10%, to \$181.3 million for the nine months ended September 30, 2013 compared to \$165.1 million for the nine months ended September 30, 2012. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio ⁽¹⁾					
	Nine Months Ended		Change	%	Nine Months Ended		Change	%		
	September 30,	September 30,			September 30,	September 30,				Change
	2013	2012			2013	2012			%	
Retail	\$68,165	\$66,831	\$1,334	2	% \$66,752	\$66,792	\$(40))	—	%
Office	64,660	53,890	10,770	20	29,608	28,905	703		2	
Multifamily	11,112	10,167	945	9	11,112	10,167	945		9	
Mixed-Use	37,395	34,170	3,225	9	37,395	34,170	3,225		9	
	\$181,332	\$165,058	\$16,274	10	% \$144,867	\$140,034	\$4,833		3	%

For this table and tables following, the same-store portfolio excludes: One Beach Street acquired on January 24, 2012; City Center Bellevue acquired on August 21, 2012; Geary Marketplace acquired on December 19, 2012, ⁽¹⁾ Torrey Reserve Campus and Lloyd District Portfolio due to significant redevelopment activity during the period and land held for development.

Retail rental revenue increased \$1.3 million for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012. This increase was due to the acquisition of Geary Marketplace on December 19, 2012, which had rental revenue of \$1.4 million for the nine months ended September 30, 2013. Same-store retail rental revenue minimally decreased for the nine months ended September 30, 2013 primarily as a result of a decrease in percentage leased, which was mainly due to the expiration of the Ross Dress for Less lease at Lomas Santa Fe Plaza on January 31, 2013.

Office rental revenue increased \$10.8 million for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012. This increase was due to the acquisition of City Center Bellevue on August 21, 2012, which had additional rental revenues of \$11.3 million for the nine months ended September 30, 2013.

Same-store office rental revenue increased \$0.7 million for the nine months ended September 30, 2013 primarily due to the expiration of above-market leases at The Landmark at One Market and an increase in average percentage leased

at First & Main.

The increase in multifamily rental revenue was primarily due to an increase in average occupancy of 95.7% during the nine months ended September 30, 2013 compared to 92.9% during the nine months ended September 30, 2012.

The increase in mixed-use rental revenue was primarily due to higher revenue per available room of \$268 for the nine months ended September 30, 2013 and \$239 for the nine months ended September 30, 2012.

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Other property income. Other property income increased \$1.8 million, or 25%, to \$9.1 million for the nine months ended September 30, 2013, compared to \$7.3 million for the nine months ended September 30, 2012. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended		Change	%	Nine Months Ended		Change	%
	September 30, 2013	September 30, 2012			September 30, 2013	September 30, 2012		
Retail	\$1,010	\$1,006	\$4	—	\$1,009	\$1,004	\$5	—
Office	2,938	1,610	1,328	82	356	289	67	23
Multifamily	892	790	102	13	892	790	102	13
Mixed-Use	4,240	3,881	359	9	4,240	3,881	359	9
	\$9,080	\$7,287	\$1,793	25	\$6,497	\$5,964	\$533	9

The increase in office other property income was primarily caused by the acquisition of City Center Bellevue on August 21, 2012, which had additional other property income of \$1.6 million, mainly related to parking revenue, for the nine months ended September 30, 2013. This increase was partially offset by capitalized incidental operations at Lloyd District Portfolio and Sorrento Pointe in connection with development activities.

Multifamily other property income increased \$0.1 million for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 primarily due to an increase in utility recoveries from residents, which was consistent with the increase in utility expenses at the multifamily properties during the third quarter of 2013.

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

Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased by \$2.6 million, or 4%, to \$66.4 million for the nine months ended September 30, 2013, compared to \$63.9 million for the nine months ended September 30, 2012. This increase in total property expenses was attributable primarily to the factors discussed below.

Rental Expenses. Rental expenses increased \$3.6 million, or 8%, to \$50.4 million for the nine months ended September 30, 2013, compared to \$46.8 million for the nine months ended September 30, 2012. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended		Change	%	Nine Months Ended		Change	%
	September 30, 2013	September 30, 2012			September 30, 2013	September 30, 2012		
Retail	\$10,092	\$10,164	\$(72)	(1)	\$9,861	\$10,150	\$(289)	(3)
Office	13,599	11,536	2,063	18	5,909	5,627	282	5
Multifamily	3,170	3,089	81	3	3,170	3,089	81	3
Mixed-Use	23,541	22,013	1,528	7	23,541	22,013	1,528	7
	\$50,402	\$46,802	\$3,600	8	\$42,481	\$40,879	\$1,602	4

The decrease in same-store retail rental expenses was primarily due to expenses related to parking lot and landscaping repairs at Del Monte Center that were incurred during the nine months ended September 30, 2012. For total retail rental expenses, this decrease was partially offset by an increase in retail rental expenses due to the acquisition of Geary Marketplace on December 19, 2012, which had rental expenses of \$0.2 million for the nine months ended September 30, 2013.

Office rental expenses increased \$2.1 million for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 primarily due to the acquisition of City Center Bellevue on August 21, 2012, which had additional rental expenses of \$2.2 million for the nine months ended September 30, 2013. Same-store office rental

expenses increased \$0.3 million for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 primarily due to an increase in building expenses for our sublease of the Annex at The Landmark at One Market.

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Multifamily rental expenses increased \$0.1 million for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 primarily due to an increase in utility expenses at the multifamily properties during the period.

The increase in mixed-use rental expenses was due to an increase in advertising and management fees at both the hotel and retail portions of Waikiki Beach Walk during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012. Additionally, room and food and beverage expenses increased at the hotel portion of Waikiki Beach Walk during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 due to increased cost of supplies.

Real Estate Taxes. Real estate tax expense decreased \$1.0 million, or 6%, to \$16.0 million for the nine months ended September 30, 2013 compared to \$17.1 million for the nine months ended September 30, 2012. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio			Same-Store Portfolio				
	Nine Months Ended		Change	%	Nine Months Ended		Change	%
	September 30, 2013	September 30, 2012			September 30, 2013	September 30, 2012		
Retail	\$7,384	\$8,484	\$(1,100)	(13)%	\$7,124	\$8,411	\$(1,287)	(15)%
Office	6,057	5,894	163	3	3,134	3,169	(35)	(1)
Multifamily	1,213	1,348	(135)	(10)	1,213	1,348	(135)	(10)
Mixed-Use	1,390	1,352	38	3	1,390	1,352	38	3
	\$16,044	\$17,078	\$(1,034)	(6)%	\$12,861	\$14,280	\$(1,419)	(10)%

Retail real estate taxes decreased \$1.1 million for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 primarily as a result of lower property tax expense at Lomas Santa Fe Plaza and Alamo Quarry Market based on refunds received during 2013 and additional taxes paid during the nine months ended September 30, 2012 as a result of supplemental tax bills from the California taxing authority for fiscal year 2011. The decrease was partially offset by additional real estate tax accruals of \$0.2 million at Geary Marketplace which was acquired on December 19, 2012.

Office real estate taxes increased \$0.2 million for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 primarily due to the acquisition of City Center Bellevue on August 21, 2012, which had additional real estate tax expenses of \$0.6 million for the nine months ended September 30, 2013.

Multifamily real estate taxes decreased \$0.1 million for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 primarily due to the payment of additional real estate taxes for fiscal year 2011 during 2012 as a result of supplemental tax bills from the California taxing authority. Similar supplemental tax bills were not received during the nine months ended September 30, 2013.

Property Operating Income

Property operating income increased \$15.5 million, or 14%, to \$124.0 million for the nine months ended September 30, 2013, compared to \$108.5 million for the nine months ended September 30, 2012. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio			Same-Store Portfolio				
	Nine Months Ended		Change	%	Nine Months Ended		Change	%
	September 30, 2013	September 30, 2012			September 30, 2013	September 30, 2012		
Retail	\$51,699	\$49,189	\$2,510	5	\$50,776	\$49,235	\$1,541	3
Office	47,942	38,070	9,872	26	20,921	20,398	523	3
Multifamily	7,621	6,520	1,101	17	7,621	6,520	1,101	17
Mixed-Use	16,704	14,686	2,018	14	16,704	14,686	2,018	14
	\$123,966	\$108,465	\$15,501	14	\$96,022	\$90,839	\$5,183	6

The increase in retail property operating income was primarily due to the acquisition of Geary Marketplace on December 19, 2012. Same-store retail property operating income increased primarily as a result of lower property tax

expense at Lomas Santa Fe Plaza and Alamo Quarry Market based on refunds received during 2013 and additional taxes paid during the nine months ended September 30, 2012 as a result of supplemental tax bills from the California taxing authority for fiscal year 2011.

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The increase in office property operating income was primarily caused by the acquisition of City Center Bellevue on August 21, 2012. The increase is also attributed to the expiration of above-market leases at The Landmark at One Market and an increase in average percentage leased at First & Main.

The increase in multifamily operating income was primarily caused by an increase in average occupancy during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012.

The increase in mixed-use property operating income was primarily due to higher revenue per available room throughout the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012.

Other

General and Administrative. General and administrative expenses increased \$1.1 million, or 10%, to \$12.7 million for the nine months ended September 30, 2013, compared to \$11.5 million for the nine months ended September 30, 2012. This increase was due primarily to an increase in personnel related costs.

Depreciation and Amortization. Depreciation and amortization expense increased \$5.3 million, or 12%, to \$50.6 million for the nine months ended September 30, 2013, compared to \$45.3 million for the nine months ended September 30, 2012. This increase was due primarily to depreciation and amortization expense attributable to properties acquired subsequent to September 30, 2012.

Interest Expense. Interest expense increased \$2.1 million, or 5%, to \$44.2 million for the nine months ended September 30, 2013 compared with \$42.2 million for the nine months ended September 30, 2012. This increase was primarily due to interest expense on the mortgage loans issued with respect to One Beach Street on March 29, 2012 and City Center Bellevue on October 12, 2012.

Other Expense, Net. Other expense, net increased \$0.4 million, or 115%, to \$0.8 million for the nine months ended September 30, 2013, compared to other expense, net of \$0.4 million for the nine months ended September 30, 2012, primarily due to an increase in income tax expense related to Alamo Quarry Market.

Discontinued Operations. Discontinued operations relates to 160 King Street, which was sold on December 4, 2012.

Liquidity and Capital Resources

Analysis of Liquidity and Capital Resources

Due to the nature of our business, we typically generate significant amounts of cash from operations. The cash generated from operations is used for the payment of operating expenses, capital expenditures, debt service and dividends to our stockholders and Operating Partnership unitholders. As of September 30, 2013, we held \$65.7 million in cash and cash equivalents.

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

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

On May 6, 2013, we entered into an ATM equity program with four sales agents in which we may from time to time offer and sell shares of our common stock having an aggregate offering price of up to \$150.0 million. The sales of shares of our common stock made through the ATM equity program are made in “at the market” offerings as defined in Rule 415 of the Securities Act of 1933, as amended. As of September 30, 2013, we issued 718,714 shares of common stock at a weighted average price per share of \$35.09 for gross cash proceeds of \$25.2 million. We intend to use the net proceeds to fund our development or redevelopment activities, repay amounts outstanding from time to time under our revolving credit facility or other debt financing obligations, fund potential acquisition opportunities and/or for general corporate purposes. As of September 30, 2013, we had the capacity to issue up to an additional \$124.8 million in shares of common stock under our ATM equity program. Actual future sales will depend on a variety of factors including, but not limited to, market conditions, the trading price of our common stock and our capital needs. We have no obligation to sell the remaining shares available for sale under the ATM equity program.

Our overall capital requirements for the remainder of 2013 will depend upon acquisition opportunities, the level of improvements and redevelopments on existing properties and the timing and cost of development of the Lloyd District Portfolio. While the amount of future expenditures will depend on numerous factors, we expect to continue to see higher levels of capital investments in our properties under development and redevelopment in 2013 which is the result of an additional 81,500 square feet of office space at Torrey Reserve Campus with expected openings in 2014. Additionally, construction at Lloyd District Portfolio is ongoing and is expected to be complete in 2015, which will result in approximately 47,000 additional square feet of retail space and 657 multi-family units. Over the next two years, we expect to invest approximately \$192 million related to the the Lloyd District Portfolio. Our capital investments will be funded on a short-term basis with cash on hand, cash flow from operations and/or our revolving credit facility. On a long-term basis, our capital investments may be funded with additional long-term debt. 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 capital investments may also be funded by additional equity including shares issued under our ATM equity program. Although there is no intent at this time, if market conditions deteriorate, we may also delay the timing of future development and redevelopment projects as well as limit future acquisitions, reduce our operating expenditures, or re-evaluate our dividend policy.

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Indebtedness Outstanding

The following table sets forth information as of September 30, 2013 with respect to our secured notes payable (dollars in thousands):

Debt	Principal Balance at September 30, 2013	Interest Rate	Annual Debt Service	Maturity Date	Balance at Maturity
Alamo Quarry Market ⁽¹⁾⁽²⁾	\$92,289	5.67	% \$94,057	January 8, 2014	\$91,717
Waialele Center ⁽³⁾	140,700	5.15	% 7,360	November 1, 2014	140,700
The Shops at Kalakaua ⁽³⁾	19,000	5.45	% 1,053	May 1, 2015	19,000
The Landmark at One Market ⁽³⁾⁽⁴⁾	133,000	5.61	% 7,558	July 5, 2015	133,000
Del Monte Center ⁽³⁾	82,300	4.93	% 4,121	July 8, 2015	82,300
First & Main ⁽³⁾	84,500	3.97	% 3,397	July 1, 2016	84,500
Imperial Beach Gardens ⁽³⁾	20,000	6.16	% 1,250	September 1, 2016	20,000
Mariner's Point ⁽³⁾	7,700	6.09	% 476	September 1, 2016	7,700
South Bay Marketplace ⁽³⁾	23,000	5.48	% 1,281	February 10, 2017	23,000
Waikiki Beach Walk—Retail ⁽¹⁾	130,310	5.39	% 7,020	July 1, 2017	130,310
Solana Beach Corporate Centre III-IV ⁽⁵⁾	36,908	6.39	% 2,798	August 1, 2017	35,136
Loma Palisades ⁽³⁾	73,744	6.09	% 4,553	July 1, 2018	73,744
One Beach Street ⁽³⁾	21,900	3.94	% 875	April 1, 2019	21,900
Torrey Reserve—North Court ⁽¹⁾	21,450	7.22	% 1,836	June 1, 2019	19,443
Torrey Reserve—VCI, VCII, VCIII ⁽¹⁾	7,225	6.36	% 560	June 1, 2020	6,439
Solana Beach Corporate Centre I-II ⁽¹⁾	11,516	5.91	% 855	June 1, 2020	10,169
Solana Beach Towne Centre ⁽¹⁾	38,388	5.91	% 2,849	June 1, 2020	33,898
City Center Bellevue ⁽³⁾	111,000	3.98	% 4,479	November 1, 2022	111,000
Total	1,054,930		\$ 146,378		\$1,043,956
Unamortized fair value adjustment	(10,813)				
Total Secured Notes Payable Balance	\$1,044,117				

(1) Principal payments based on a 30-year amortization schedule.

(2) Loan was prepaid, without penalty or premium, on October 8, 2013 (Note 17).

(3) Interest only.

Maturity date is the earlier of the loan maturity date under the loan agreement, or the "Anticipated Repayment Date"
(4) 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.

(5) Loan was interest only through August 2012. Beginning in September 2012, principal payments are based on a 30-year amortization schedule. Annual debt service is for the period October 1, 2012 through September 30, 2013. Certain loans require us to comply with various financial covenants. As of September 30, 2013, we were in compliance with these financial covenants.

Credit Facility

On January 19, 2011, upon completion of our initial public offering, we entered into a revolving credit facility, or the credit facility. A group of lenders for which an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated acts as administrative agent and joint arranger, and an affiliate of Wells Fargo Securities, LLC acts as syndication agent and joint arranger, have provided commitments for a revolving credit facility allowing borrowings of up to \$250 million.

At September 30, 2013, our maximum allowable borrowing amount was \$224.3 million. The credit facility also has an accordion feature that may allow us to increase the availability thereunder up to a maximum of \$400 million, subject to meeting specified requirements and obtaining additional commitments from lenders. We expect to use the credit facility in the future for general corporate purposes, including working capital, the payment of capital expenses, acquisitions and development and redevelopment of properties in our portfolio. The amount available for us to borrow under the credit facility is subject to the net operating income of our properties that form the borrowing base of the credit facility and a minimum implied debt yield of such properties. On October 8, 2013, we prepaid, without penalty or premium, the outstanding mortgage encumbering Alamo Quarry Market with funds drawn against the credit facility (Note 17).

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On March 7, 2011, the credit facility was amended to allow us or our Operating Partnership to purchase GNMA securities with maturities of up to 30 years.

On January 10, 2012, the credit facility was amended to, among other things, (1) extend the maturity date to January 10, 2016 (with a one-year extension option subject to payment of a 0.15% fee), (2) decrease the applicable interest rates and (3) modify certain financial covenants. This amendment provides for an interest rate based on, at our option, either (1) one-, two-, three- or six-month LIBOR, plus, in each case, a spread (ranging from 1.60%-2.20%) based on our consolidated leverage ratio, or (2) a base rate equal to the highest of the (a) prime rate, (b) federal funds rate plus 0.50% or (c) Eurodollar rate plus 1.00%. Such rates are more favorable than those previously contained in the revolving credit facility. In addition, the amendment reduces our secured debt ratio covenant under the credit facility to 50.0%.

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

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

• a maximum leverage ratio (defined as total indebtedness net of certain unrestricted cash and cash equivalents to total asset value) of 60.0%,

• a minimum fixed charge coverage ratio (defined as consolidated earnings before interest, taxes, depreciation and amortization to consolidated fixed charges) of 1.50x,

• a maximum secured leverage ratio (defined as total secured indebtedness to secured total asset value) of up to 55% in certain circumstances,

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

• a \$35.0 million limit on the maximum principal amount of recourse indebtedness we may have outstanding at any time, other than under credit facility.

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

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

As of September 30, 2013, we were in compliance with all the credit facility financial covenants.

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Off-Balance Sheet Arrangements

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

Cash Flows

Comparison of the nine months ended September 30, 2013 to the nine months ended September 30, 2012

Cash and cash equivalents were \$65.7 million and \$34.9 million, at September 30, 2013 and 2012, respectively.

Net cash provided by operating activities increased \$19.1 million to \$74.5 million for the nine months ended September 30, 2013 compared to \$55.4 million for the nine months ended September 30, 2012. The increase in cash from operations was primarily due to the acquisitions of City Center Bellevue during the third quarter of 2012 and Geary Marketplace during the fourth quarter of 2012.

Net cash used in investing activities decreased \$219.8 million to \$35.2 million for the nine months ended September 30, 2013 compared to \$255.0 million for the nine months ended September 30, 2012. The decrease was primarily due to the acquisitions of City Center Bellevue during the third quarter of 2012, and was partially offset by the sale of marketable securities during the third quarter of 2012.

Net cash used in financing activities was \$16.1 million for the nine months ended September 30, 2013 compared to net cash provided by financing activities of \$121.8 million for the nine months ended September 30, 2012. The increase of cash used in financing activities of \$137.9 million was primarily due to proceeds received from our unsecured line of credit during the third quarter of 2012 which were used to the acquire City Center Bellevue. Our use of such proceeds for financing activities was partially offset by proceeds from the sale of our common stock during 2013.

Net Operating Income

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

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

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

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

The following is a reconciliation of our NOI to net income for the three and nine months ended September 30, 2013 and 2012 computed in accordance with GAAP (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net operating income	\$42,120	\$38,193	\$123,966	\$108,465
General and administrative	(4,031)	(3,894)	(12,658)	(11,530)
Depreciation and amortization	(16,648)	(16,094)	(50,614)	(45,277)
Interest expense	(14,764)	(14,247)	(44,244)	(42,176)
Other income (expense), net	(419)	8	(763)	(355)
Income from continuing operations	6,258	3,966	15,687	9,127
Discontinued operations:				
Results from discontinued operations	—	319	—	653
Net income	\$6,258	\$4,285	\$15,687	\$9,780

Funds from Operations

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

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

supplement to or substitute for cash flow from operating activities computed in accordance with GAAP.

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The following table sets forth a reconciliation of our FFO for the three and nine months ended September 30, 2013 to net income, the nearest GAAP equivalent (in thousands, except per share and share data):

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Funds from Operations (FFO)		
Net income	\$6,258	\$15,687
Plus: Real estate depreciation and amortization	16,648	50,614
Funds from operations	22,906	66,301
Less: Nonforfeitable dividends on incentive restricted stock awards	(88	) (265
FFO attributable to common stock and units	\$22,818	\$66,036
FFO per diluted share/unit	\$0.39	\$1.15
Weighted average number of common shares and units, diluted ⁽¹⁾	57,987,760	57,634,269

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 (1) the vesting of the restricted stock awards is dilutive in the computation of FFO per diluted share but is anti-dilutive for the computation of diluted EPS for the period. Diluted shares exclude incentive restricted stock as these awards are considered contingently issuable.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. As of September 30, 2013, we do not hold any derivative financial instruments.

Interest Rate Risk**Marketable Securities**

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

Outstanding Debt

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

Fixed Interest Rate Debt

All of our outstanding debt obligations (maturing at various times through November 2022) 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, 2013, we had \$1,054.9 million of fixed rate debt outstanding with an estimated fair value of \$1,090.2 million. If interest rates at September 30, 2013 had been 1.0% higher, the fair value of those debt instruments on that date would have decreased by approximately \$28.8 million. If interest rates at September 30, 2013 had been 1.0% lower, the fair value of those debt instruments on that date would have increased by approximately \$33.8 million.

Variable Interest Rate Debt

At September 30, 2013, our only variable interest rate debt is our credit facility, which had no balance outstanding at September 30, 2013.

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ITEM 4. CONTROLS AND PROCEDURES

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

We have carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures as of September 30, 2013, the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded, as of September 30, 2013, that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports filed or submitted under the Exchange Act (1) is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and (2) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure. No changes to our internal control over financial reporting were identified in connection with the evaluation referenced above that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No. Description

31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statement of Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements that have been detail tagged.

*Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto authorized.

American Assets Trust, Inc.

November 8, 2013

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

November 8, 2013

/s/ ROBERT F. BARTON
Robert F. Barton
Executive Vice President, Chief Financial
Officer and Treasurer
(Principal Financial and Accounting
Officer)