

American Assets Trust, Inc.
Form 10-Q
August 03, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from to

Commission file number: 001-35030

AMERICAN ASSETS TRUST, INC.

(Exact Name of Registrant as Specified in its Charter)

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Maryland
(State of Organization)

27-3338708
(IRS Employer

Identification No.)

11455 El Camino Real, Suite 200,

San Diego, California
(Address of Principal Executive Offices)

92130
(Zip Code)

(858) 350-2600
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 August 3, 2012 was 39,293,171.

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AMERICAN ASSETS TRUST, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2012

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

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

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

Table of Contents**American Assets Trust, Inc.****Consolidated Statements of Operations****(Unaudited)****(In Thousands, Except Shares and Per Share Data)**

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

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

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

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American Assets Trust, Inc.

Consolidated Statement of Equity

(Unaudited)

(In Thousands, Except Share Data)

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

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

Table of Contents**American Assets Trust, Inc.****Consolidated Statements of Cash Flows****(Unaudited)****(In Thousands)**

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

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

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

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements

June 30, 2012

(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

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

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

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

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

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

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

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

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

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

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

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

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

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

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

Retail

Carmel Country Plaza

Carmel Mountain Plaza

South Bay Marketplace

Rancho Carmel Plaza

Lomas Santa Fe Plaza

Solana Beach Towne Centre

Del Monte Center

The Shops at Kalakaua

Waialele Center

Alamo Quarry Market

Office

Torrey Reserve Campus

Solana Beach Corporate Centre

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160 King Street

The Landmark at One Market

One Beach Street

First & Main

Lloyd District Portfolio

Multifamily

Loma Palisades

Imperial Beach Gardens

Mariner s Point

Santa Fe Park RV Resort

Mixed-Use

Waikiki Beach Walk Retail and Embassy Suites™ Hotel

Held for Development and Construction in Progress

Solana Beach Corporate Centre Land

Solana Beach Highway 101 Land

Sorrento Pointe Land

Torrey Reserve Land

Lloyd District Portfolio Land

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

Basis of Presentation

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

All significant intercompany transactions and balances are eliminated in consolidation.

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

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

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

Consolidated Statements of Cash Flows Supplemental Disclosures

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

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

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

Significant Accounting Policies

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

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

Segment Information

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

Reclassifications

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

Recent Accounting Pronouncements

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

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

NOTE 2. REAL ESTATE

Acquisitions

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

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****June 30, 2012****(Unaudited)**

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

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

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

Pro Forma Financial Information

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

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

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

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

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****June 30, 2012****(Unaudited)****NOTE 3. ACQUIRED IN-PLACE LEASES AND ABOVE/BELOW MARKET LEASES**

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

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

NOTE 4. MARKETABLE SECURITIES

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

NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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3. Level 3 Inputs unobservable inputs

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

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

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

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****June 30, 2012****(Unaudited)**

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

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

NOTE 6. OTHER ASSETS

Other assets consist of the following (in thousands):

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

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

NOTE 7. OTHER LIABILITIES AND DEFERRED CREDITS

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

June 30, 2012

December 31, 2011

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

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

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****June 30, 2012****(Unaudited)****NOTE 8. DEBT**

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

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

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

(2) Maturity Date is the earlier of the loan maturity date under the loan agreement, or the Anticipated Repayment Date as specifically defined in the loan agreement, which is the date after which substantial economic penalties apply if the loan has not been paid off.

(3) Principal payments based on a 20-year amortization schedule.

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(4) Interest only.

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

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

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

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

Credit Facility

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

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

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

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

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

a maximum secured leverage ratio (defined as total secured indebtedness to secured total asset value) of 50%,

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

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

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

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

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

NOTE 9. EQUITY

Noncontrolling Interests

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

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

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****June 30, 2012****(Unaudited)****Dividends**

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

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

Taxability of Dividends

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

Stock-Based Compensation

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

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

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

For the performance-based stock awards, the fair value of the awards was estimated using a Monte Carlo Simulation model. Our stock price, along with the stock prices of a group of peer REITs, is assumed to follow the Multivariate Geometric Brownian Motion Process. Multivariate Geometric Brownian Motion is a common assumption when modeling in financial markets, as it allows the modeled quantity (in this case, the

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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.

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****June 30, 2012****(Unaudited)**

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

	Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2012	628,712	\$ 15.43
Granted	2,000	12.26
Vested	(2,600)	20.50
Forfeited	(2,253)	12.52
Nonvested at June 30, 2012	625,859	\$ 15.50

We recognize noncash compensation expense ratably over the vesting period, and accordingly, we recognized \$1.4 million and \$1.2 million in noncash compensation expense for the six months ended June 30, 2012 and 2011, respectively, which is included in general and administrative expense on the consolidated statements of operations. Unrecognized compensation expense was \$5.6 million at June 30, 2012.

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 six months ended June 30, 2012, we had a weighted average of approximately 626,274 and 626,771 unvested shares outstanding, respectively, which are considered participating securities. Therefore, we have allocated our earnings for basic and diluted EPS between common shares and unvested shares.

Diluted EPS is calculated by dividing the net income applicable to common stockholders for the period by the weighted average number of common and dilutive instruments outstanding during the period using the treasury stock method. For the three and six months ended June 30, 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. Since we were in a net loss position for the six months ended June 30, 2011, all potentially dilutive instruments were anti-dilutive and have been excluded from our computation of weighted average dilutive shares outstanding.

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Numerator				
Income from continuing operations	\$ 2,624	\$ (7)	\$ 5,495	\$ 13,259
Less: Net income attributable to restricted shares	(131)	(132)	(263)	(218)
Plus: Loss from continuing operations attributable to Predecessor's noncontrolling interests in consolidated real estate entities				2,454
Less: Income from continuing operations attributable to Predecessor's controlled owners' equity				(17,009)
Less: (Income) loss from continuing operations attributable to unitholders in the Operating Partnership	(804)	46	(1,687)	488
Income (loss) from continuing operations attributable to American Assets Trust, Inc. common stockholders - basic	1,689	(93)	3,545	(1,026)
Plus: Results from discontinued operations attributable to American Assets Trust, Inc. common stockholders		312		547
Net income (loss) attributable to common stockholders - basic	\$ 1,689	\$ 219	\$ 3,545	\$ (479)
Income (loss) from continuing operations attributable to American Assets Trust, Inc. common stockholders - basic	\$ 1,689	\$ (93)	\$ 3,545	\$ (1,026)
Plus: Income from continuing operations attributable to unitholders in the Operating Partnership	804	(46)	1,687	
Income (loss) from continuing operations attributable to common stockholders - diluted	2,493	(139)	5,232	(1,026)
Plus: Results from discontinued operations attributable to American Assets Trust, Inc. common stockholders		312		547
Plus: Results from discontinued operations attributable to unitholders in the Operating Partnership		150		
Net income (loss) attributable to common stockholders - diluted	\$ 2,493	\$ 323	\$ 5,232	\$ (479)
Denominator				
Weighted average common shares outstanding - basic	38,659,155	38,655,084	38,658,162	34,810,932
	18,396,089	18,396,089	18,396,347	

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Effect of dilutive securities conversion of Operating Partnership units

Weighted average common shares outstanding diluted	57,055,244	57,051,173	57,054,509	34,810,932
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Earnings (loss) per common share basic

Continuing operations	\$ 0.04	\$ 0.01	\$ 0.09	\$ (0.03)
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Discontinued operations		0.01		0.02
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	\$ 0.04	\$ 0.01	\$ 0.09	\$ (0.01)
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Earnings (loss) per common share diluted

Continuing operations	\$ 0.04	\$ 0.01	\$ 0.09	\$ (0.03)
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Discontinued operations		0.01		0.02
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	\$ 0.04	\$ 0.01	\$ 0.09	\$ (0.01)
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Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****June 30, 2012****(Unaudited)****NOTE 10. COMMITMENTS AND CONTINGENCIES***Legal*

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

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

Commitments

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

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 June 30, 2012 (in thousands):

Year Ending December 31,	
2012 (six months ending December 31, 2012)	\$ 1,231
2013	2,502
2014	2,569
2015	2,636
2016	1,709
Thereafter	3,701 ⁽¹⁾
Total	\$ 14,348

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

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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

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Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

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 \$5.5 million based on operating performance through June 30, 2012.

We have a property management agreement with Langley Investment Properties, Inc. (Langley) pursuant to which Langley manages and operates Lloyd District Portfolio, and we pay 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 has an initial term that expires on June 30, 2013, with three one-year renewal options, exercisable by us in our sole discretion. The property management agreement may not be terminated by us or by Langley without cause during the initial term.

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 the Formation Transactions, we entered into tax protection agreements with certain limited partners of our Operating Partnership. These agreements provide that if we dispose of any interest with respect to Carmel Country Plaza, Carmel Mountain Plaza, Del Monte Center, Loma Palisades, Lomas Santa Fe Plaza, Waialele Center or the ICW Plaza portion of Torrey Reserve Campus, in a taxable transaction during the period from the closing of the 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 the 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).

Concentrations of Credit Risk

Our properties are located in Southern California, Northern California, Hawaii, Oregon and Texas. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social factors affecting the markets in which the tenants operate.

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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 38.4% of total revenues for the six months ended June 30, 2012. 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 six months ended June 30, 2012 and 2011, no tenant accounted for more than 10% of our total rental revenue.

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****June 30, 2012****(Unaudited)****NOTE 11. 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 June 30, 2012, minimum future rentals from noncancelable operating leases before any reserve for uncollectible amounts and assuming no early lease terminations, at our office and retail properties and the retail portion of our mixed-use property are as follows for the years/period ending December 31 (in thousands):

Year Ending December 31,	
2012 (six months ending December 31, 2012)	\$ 68,983
2013	133,841
2014	112,883
2015	99,185
2016	82,491
Thereafter	197,411
Total	\$ 694,794

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.

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****June 30, 2012****(Unaudited)****NOTE 12. COMPONENTS OF RENTAL INCOME AND EXPENSE**

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Minimum rents				
Retail	\$ 16,772	\$ 16,244	\$ 32,847	\$ 32,215
Office	17,856	12,849	35,226	24,901
Multifamily	3,252	3,251	6,527	6,288
Mixed-use	2,252	2,237	4,535	4,036
Cost reimbursement	6,557	6,488	13,476	12,557
Percentage rent	434	364	726	635
Hotel revenue	7,461	6,819	15,125	12,264
Other	380	364	822	686
Total rental income	\$ 54,964	\$ 48,616	\$ 109,284	\$ 93,582

Minimum rents include \$2.0 million and \$1.2 million for the three months ended June 30, 2012 and 2011, respectively, and \$4.0 million and \$1.3 million for the six months ended June 30, 2012 and 2011, respectively, to recognize minimum rents on a straight-line basis. In addition, minimum rents include \$(0.2) million and \$(0.4) million for the three months ended June 30, 2012 and 2011, respectively, and \$(0.7) million and \$(0.8) million for the six months ended June 30, 2012 and 2011, respectively, to recognize the net amortization of above and below market leases.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Rental operating	\$ 6,100	\$ 5,133	\$ 11,961	\$ 9,716
Hotel operating	5,156	4,768	10,112	8,651
Repairs and maintenance	2,424	1,959	4,572	3,576
Marketing	264	520	570	859
Rent	627	816	1,241	1,599
Hawaii excise tax	895	774	1,757	1,488
Management fees	486	352	982	644
Total rental expenses	\$ 15,952	\$ 14,322	\$ 31,195	\$ 26,533

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****June 30, 2012****(Unaudited)****NOTE 13. OTHER INCOME (EXPENSE)**

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Income tax expense	\$ (215)	\$ (129)	\$ (393)	\$ (380)
Loss from real estate joint ventures				(188)
Acquisition related expenses		(127)	(15)	(244)
Fee income from real estate joint ventures				44
Interest and investment income (loss)	65	786	152	697
Total other income (expense)	\$ (150)	\$ 530	\$ (256)	\$ (71)

NOTE 14. RELATED PARTY TRANSACTIONS

Prior to the Offering and Formation Transactions, we acted as the manager for certain unconsolidated real estate joint ventures and earned fees for these services (excluding Waikiki Beach Walk). Each unconsolidated joint venture (excluding Waikiki Beach Walk) had a master management agreement with additional agreements covering property management, construction management, acquisition, disposition and leasing and asset management. Certain unconsolidated joint ventures also reimbursed us for monthly maintenance and facilities management services provided to the properties owned by the unconsolidated joint ventures. Subsequent to the Formation Transactions, we no longer earn fees from unconsolidated joint ventures. Fees earned by us from the unconsolidated joint ventures prior to the Formation Transactions are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Property management fees	\$	\$	\$	\$ 38
Maintenance reimbursements				6
Total fee income from real estate joint ventures	\$	\$	\$	\$ 44

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

We received unsecured loans on January 15, 2008, from certain of the entities that own Del Monte Center for \$12.0 million, the proceeds of which were used to fund construction at the property. The notes bore interest at 10.0% and required monthly principal and interest payments until maturity on March 1, 2013. The notes were repaid using proceeds from the Offering or were settled as part of the Formation Transactions.

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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 \$1.1 million and \$1.2 million for the six months ended June 30, 2012 and 2011, respectively, is included in rental income. Additionally, we leased space to Insurance Company of the West at Valencia Corporate Center until the sale of Valencia Corporate Center on August 30, 2011, and rental revenue recognized on these leases of \$0.9 million for the six months ended June 30, 2011, is included in discontinued operations.

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 \$0.5 million and \$0.4 million were made for the six months ended June 30, 2012 and 2011, respectively, and are included in rental expenses on the statement of operations.

Table of Contents**American Assets Trust, Inc.****Notes to Consolidated Financial Statements (Continued)****June 30, 2012****(Unaudited)****NOTE 15. SEGMENT REPORTING**

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<i>Total Retail</i>				
Property revenue	\$ 22,452	\$ 22,077	\$ 44,143	\$ 43,429
Property expense	(6,094)	(6,007)	(11,820)	(11,452)
Segment profit	16,358	16,070	32,323	31,977
<i>Total Office</i>				
Property revenue	19,705	14,169	39,181	27,432
Property expense	(6,505)	(5,110)	(12,651)	(8,820)
Segment profit	13,200	9,059	26,530	18,612
<i>Total Multifamily</i>				
Property revenue	3,509	3,492	7,051	6,785
Property expense	(1,565)	(1,426)	(2,879)	(2,587)
Segment profit	1,944	2,066	4,172	4,198

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<i>Total Mixed-Use</i>				
Property revenue	12,143	11,362	24,472	20,337
Property expense	(7,732)	(7,231)	(15,233)	(13,084)
Segment profit	4,411	4,131	9,239	7,253
Total segments profit	\$ 35,913	\$ 31,326	\$ 72,264	\$ 62,040

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Total segments profit	\$ 35,913	\$ 31,326	\$ 72,264	\$ 62,040
General and administrative	(3,992)	(3,866)	(7,757)	(7,052)
Depreciation and amortization	(14,671)	(13,934)	(29,924)	(26,089)
Interest expense	(14,476)	(14,063)	(28,832)	(27,054)
Early extinguishment of debt				(25,867)
Loan transfer and consent fees				(9,019)
Gain on acquisition				46,371
Other income (expense), net	(150)	530	(256)	(71)
Income (loss) from continuing operations	2,624	(7)	5,495	13,259
Discontinued operations				
Results from discontinued operations		462		792
Net income	2,624	455	5,495	14,051
Net income attributable to restricted shares	(131)	(132)	(263)	(218)
Net loss attributable to Predecessor's noncontrolling interests in consolidated real estate entities				2,458
Net income attributable to Predecessor's controlled owners' equity				(16,995)
Net (income) loss attributable to unitholders in the Operating Partnership	(804)	(104)	(1,687)	225
Net income (loss) attributable to American Assets Trust, Inc. stockholders	\$ 1,689	\$ 219	\$ 3,545	\$ (479)

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

	June 30, 2012	December 31, 2011
Net Real Estate		
Retail	\$ 655,587	\$ 655,450
Office	580,634	551,955
Multifamily	36,947	37,187
Mixed-Use	205,563	208,089
	\$ 1,478,731	\$ 1,452,681
Secured Notes Payable ⁽¹⁾		

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Retail	\$	399,044	\$	400,320
Office		348,193		327,331
Multifamily		101,444		101,444
Mixed-Use		130,310		130,310
	\$	978,991	\$	959,405

(1) Excludes unamortized fair market value adjustments of \$(14.5) million and \$(15.9) million as of June 30, 2012 and December 31, 2011, respectively.

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American Assets Trust, Inc.

Notes to Consolidated Financial Statements (Continued)

June 30, 2012

(Unaudited)

Capital expenditures for each segment for the three and six months ended June 30, 2012 and 2011 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Capital Expenditures ⁽¹⁾				
Retail	\$ 4,012	\$ 495	\$ 7,442	\$ 947
Office	2,633	1,645	5,356	2,112
Multifamily	285	83	523	137
Mixed-Use	68	35	145	130
	\$ 6,998	\$ 2,258	\$ 13,466	\$ 3,326

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

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NOTE 16. SUBSEQUENT EVENTS

On July 30, 2012, we entered into an agreement to acquire City Center Bellevue, a 27-story LEED-EB Gold certified office tower, consisting of approximately 497,000 square feet, located at 500 108th Avenue NE in Bellevue, Washington. The purchase price for City Center Bellevue, excluding closing costs, is approximately \$229 million, which we anticipate paying using a combination of cash on hand and funds drawn against our existing credit facility. The acquisition is subject to customary closing conditions and we can offer no assurance that it will close on the terms described herein, or at all.

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

Forward-Looking Statements

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

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

adverse economic or real estate developments in our markets;

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

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

difficulties in identifying properties to acquire and completing acquisitions;

our failure to successfully operate acquired properties and operations;

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

fluctuations in interest rates and increased operating costs;

risks related to joint venture arrangements;

our failure to obtain necessary outside financing;

on-going litigation;

general economic conditions;

financial market fluctuations;

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

the competitive environment in which we operate;

decreased rental rates or increased vacancy rates;

conflicts of interests with our officers or directors;

lack or insufficient amounts of insurance;

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

other factors affecting the real estate industry generally;

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

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

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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, in our annual report on Form 10-K for the year ended December 31, 2011 and in our Quarterly Report on Form 10-Q for the quarter ended March 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 primarily in Southern California, Northern California, Oregon and Hawaii. As of June 30, 2012, our portfolio is comprised of ten 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 June 30, 2012, we owned land at five of our properties that we classified as held for development. Our core markets include San Diego, the San Francisco Bay Area, Portland, Oregon and Oahu, Hawaii. We are a Maryland corporation formed on July 16, 2010 to acquire the entities owning various controlling and noncontrolling interests in real estate assets owned and/or managed by Ernest S. Rady or his affiliates, including the Ernest Rady Trust U/D/T March 13, 1983, or the Rady Trust, and did not have any operating activity until the consummation of our initial public offering and the related acquisition of our Predecessor (as defined below) on January 19, 2011. After the completion of our initial public offering and the Formation Transactions (as defined below) on January 19, 2011, our operations have been carried on through our Operating Partnership. Our Company, as the sole general partner of our Operating Partnership, has control of our Operating Partnership and owned 67.8% of our Operating Partnership as of June 30, 2012. Accordingly, we consolidate the assets, liabilities and results of operations of our Operating Partnership.

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

As noted above, since our initial public offering and the Formation Transactions occurred on January 19, 2011, the results of operations and financial condition for the entities acquired by us in connection with our initial public offering and related Formation Transactions are not included in certain historical financial statements. Our results of operations for the six months ended June 30, 2011 reflect the results of operation and financial condition for our Predecessor together with the entities we acquired at the time of our initial public offering, namely, the Waikiki Beach Walk entities and the Solana Beach Centre entities, as well as entities acquired subsequent to our initial public offering. The results of operations for each of the acquisitions are included in our consolidated statements of operations only from the date of acquisition.

Acquisitions

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

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, 2011. We have not made any material changes to these policies during the periods covered by this report.

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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 \$1.7 million and \$0.1 million for the three months ended June 30, 2012 and June 30, 2011, respectively. We capitalized external and internal costs related to both development and redevelopment activities combined of \$3.6 million and \$0.2 million, for the six months ended June 30, 2012 and June 30, 2011, respectively.

We capitalized external and internal costs related to other property improvements of \$5.2 million and \$0.1 million, respectively, for the three months ended June 30, 2012 and \$2.0 million and none, respectively, for the three months ended June 30, 2011. We capitalized external and internal costs related to other property improvements of \$9.7 million and \$0.1 million, respectively, for the six months ended June 30, 2012 and \$3.5 million and none, respectively, for the six months ended June 30, 2011.

The amount of capitalized internal costs for salaries and related benefits for development and redevelopment activities and other property improvements were \$0.1 million for both the three and six months ended June 30, 2012. For the year ended December 31, 2011, we did not allocate salaries or related personnel costs to any assets and there was no payroll that was capitalized or deferred because we had no projects under active development, redevelopment, or construction other than ongoing tenant improvements. Additionally, the amount of time devoted by internal personnel to pre-construction activities in 2011 was immaterial.

Results of Operations

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

Comparison of the three months ended June 30, 2012 to the three months ended June 30, 2011

The following summarizes our consolidated results of operations for the three months ended June 30, 2012 compared to our consolidated results of operations for the three months ended June 30, 2011. As of June 30, 2012, our operating portfolio was comprised of 22 retail, office, multifamily and mixed-use properties with an aggregate of approximately 5.4 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 June 30, 2012, we owned land at five of our properties that we classified as held for development and/or construction in progress. As of June 30, 2011, our operating portfolio was comprised of 21 properties with an aggregate of approximately 4.8 million rentable square feet of retail and office space, including the retail portion of our mixed-use property, and 922 residential units (including 122 RV spaces) and a 369-room hotel; we also owned land at three of our properties that we classified as held for development.

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The following table sets forth selected data from our consolidated statements of operations for the three months ended June 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended June 30,		Change	%
	2012	2011		
Revenues				
Rental income	\$ 54,964	\$ 48,616	\$ 6,348	13%
Other property income	2,845	2,484	361	15
Total property revenues	57,809	51,100	6,709	13
Expenses				
Rental expenses	15,952	14,322	1,630	11
Real estate taxes	5,944	5,452	492	9
Total property expenses	21,896	19,774	2,122	11
Total property income	35,913	31,326	4,587	15
General and administrative	(3,992)	(3,866)	(126)	3
Depreciation and amortization	(14,671)	(13,934)	(737)	5
Interest expense	(14,476)	(14,063)	(413)	3
Other income (expense), net	(150)	530	(680)	(128)
Total other, net	(33,289)	(31,333)	(1,956)	6
Income (loss) from continuing operations	2,624	(7)	2,631	(37,586)
Discontinued operations				
Results from discontinued operations		462	(462)	(100)
Net income	2,624	455	2,169	477
Net income attributable to restricted shares	(131)	(132)	1	(1)
Net (income) loss attributable to unitholders in the Operating Partnership	(804)	(104)	(700)	673
Net income (loss) attributable to American Assets Trust, Inc. stockholders	\$ 1,689	\$ 219	\$ 1,470	671%

Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased \$6.7 million, or 13%, to \$57.8 million for the three months ended June 30, 2012 compared to \$51.1 million for the three months ended June 30, 2011. The percentage leased was as follows for each segment as of June 30, 2012 and 2011:

	Percentage Leased ⁽¹⁾ June 30,	
	2012	2011
Retail	96.2%	94.0%
Office	95.0	94.7
Multifamily	97.7	97.7
Mixed-Use ⁽²⁾	93.9%	97.6%

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- (1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of June 30, 2012 or June 30, 2011, as applicable.
 - (2) Includes the retail portion of the mixed-use property only.
- The increase in total property revenue is attributable primarily to the factors discussed below.

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Rental revenues. Rental revenue includes minimum base rent, cost reimbursements, percentage rents and other rents. Rental revenue increased \$6.4 million, or 13%, to \$55.0 million for the three months ended June 30, 2012 compared to \$48.6 million for the three months ended June 30, 2011. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio ⁽¹⁾			
	Three Months Ended				Three Months Ended			
	June 30,				June 30,			
	2012	2011	Change	%	2012	2011	Change	%
Retail	\$ 22,135	\$ 21,686	\$ 449	2%	\$ 22,121	\$ 21,686	\$ 435	2%
Office	18,740	13,576	5,164	38	14,783	13,522	1,261	9
Multifamily	3,254	3,256	(2)		3,254	3,256	(2)	
Mixed-Use	10,835	10,098	737	7	10,835	10,098	737	7
	\$ 54,964	\$ 48,616	\$ 6,348	13%	\$ 50,993	\$ 48,562	\$ 2,431	5%

(1) For this table and tables following, the same-store portfolio excludes: Lloyd District Portfolio acquired on July 1, 2011; One Beach Street acquired on January 24, 2012; and land held for development.

On a same-store basis, retail rental revenue increased \$0.4 million for the three months ended June 30, 2012 compared to the three months ended June 30, 2011. This increase was primarily due to the increase in the average percentage leased and additional cost reimbursements.

The increase in office rental revenue was primarily caused by the acquisition of Lloyd District Portfolio on July 1, 2011 and One Beach Street on January 24, 2012, which had rental revenue of \$2.8 million and \$1.1 million, respectively, for the three months ended June 30, 2012. Same-store office rental revenue increased \$1.3 million for the three months ended June 30, 2012 compared to the three months ended June 30, 2011 primarily due to an increase at The Landmark at One Market for the salesforce.com lease and an increase at First & Main for the Portland Energy Conservation lease, offset by a reduction in revenue at 160 King Street with the expiration of the DLA Piper lease on February 28, 2012.

The increase in mixed-use rental revenue was due to increased tourist travel to Hawaii leading to higher hotel revenue, with average occupancy for the three months ended June 30, 2012 of 88.7% compared to 87.0% for the three months ended June 30, 2011 and revenue per available room of \$222 and \$204 for the three months ended June 30, 2012 and June 30, 2011, respectively.

Other property income. Other property income increased \$0.3 million, or 15%, to \$2.8 million for the three months ended June 30, 2012, compared to \$2.5 million for the three months ended June 30, 2011. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended				Three Months Ended			
	June 30,				June 30,			
	2012	2011	Change	%	2012	2011	Change	%
Retail	\$ 317	\$ 391	\$ (74)	(19)%	\$ 316	\$ 391	\$ (75)	(19)%
Office	965	593	372	63	617	592	25	4
Multifamily	255	236	19	8	255	236	19	8
Mixed-Use	1,308	1,264	44	3	1,308	1,264	44	3
	\$ 2,845	\$ 2,484	\$ 361	15%	\$ 2,496	\$ 2,483	\$ 13	1%

Retail other property income decreased \$0.1 million for the three months ended June 30, 2012 compared to the three months ended June 30, 2011. The decrease was primarily due to a lease termination fee of \$0.1 million paid by a tenant at Del Monte Center during the three months ended June 30, 2011.

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The increase in office other property income was primarily caused by the acquisition of Lloyd District Portfolio on July 1, 2011, which had parking income of \$0.4 million for the three months ended June 30, 2012.

The other property income for our mixed-use segments represents Hawaii general excise tax reimbursements, parking income related to retail tenants and guests and sales of food and beverages and other services provided to hotel guests. The increase in mixed-use other property income is attributed to the increase in average occupancy for the three months ended June 30, 2012.

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Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased by \$2.1 million, or 11%, to \$21.9 million for the three months ended June 30, 2012, compared to \$19.8 million for the three months ended June 30, 2011. This increase in total property expenses is attributable primarily to the factors discussed below.

Rental Expenses. Rental expenses increased \$1.6 million, or 11%, to \$16.0 million for the three months ended June 30, 2012, compared to \$14.3 million for the three months ended June 30, 2011. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended				Three Months Ended			
	June 30,				June 30,			
	2012	2011	Change	%	2012	2011	Change	%
Retail	\$ 3,298	\$ 3,402	\$ (104)	(3)%	\$ 3,298	\$ 3,400	\$ (102)	(3)%
Office	4,308	3,150	1,158	37	2,919	3,150	(231)	(7)
Multifamily	1,064	990	74	7	1,064	990	74	7
Mixed-Use	7,282	6,780	502	7	7,282	6,780	502	7
	\$ 15,952	\$ 14,322	\$ 1,630	11%	\$ 14,563	\$ 14,320	\$ 243	2%

The decrease in retail rental expenses was due to lower rental expenses for the three months ended June 30, 2012, offset by higher premiums on our insurance policies during the second quarter.

The increase in office rental expenses was primarily caused by the acquisition of Lloyd District Portfolio on July 1, 2011 and One Beach Street on January 24, 2012, which had rental expenses of \$1.1 million and \$0.2 million, respectively, for the three months ended June 30, 2012. Additionally, we incurred higher premiums on our insurance policies, which is offset by lower rent expense for rental of the Annex at The Landmark at One Market.

The increase in multifamily rental expenses is due to an increase in marketing expense in order to attract new tenants during the quarter.

The mixed-use rental expenses increased as the result of additional expenses attributed to the increase in average occupancy for the three months ended June 30, 2012.

Real Estate Taxes. Real estate tax expense increased \$0.5 million, or 9%, to \$5.9 million for the three months ended June 30, 2012 compared to \$5.5 million for the three months ended June 30, 2011. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended				Three Months Ended			
	June 30,				June 30,			
	2012	2011	Change	%	2012	2011	Change	%
Retail	\$ 2,796	\$ 2,605	\$ 191	7%	\$ 2,773	\$ 2,605	\$ 168	6%
Office	2,197	1,960	237	12	1,807	1,934	(127)	(7)
Multifamily	501	436	65	15	501	436	65	15
Mixed-Use	450	451	(1)		450	451	(1)	
	\$ 5,944	\$ 5,452	\$ 492	9%	\$ 5,531	\$ 5,426	\$ 105	2%

Real estate taxes increased \$0.5 million during the three months ended June 30, 2012, primarily due to the receipt of 2011 supplemental tax bills from the California taxing authority for Southern California properties during the second quarter of 2012. Approximately \$0.4 million of the additional tax expense is recoverable from our commercial tenants. The remaining \$0.1 million is related to our multifamily portfolio, which will not be reimbursed.

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Retail real estate taxes increased \$0.2 million for the three months ended June 30, 2012 compared to the three months ended June 30, 2011. The increase was primarily caused by additional real estate tax accruals of approximately \$0.2 million for Carmel Mountain Plaza based on supplemental tax bills from the California taxing authority received during the second quarter, which was billed to the tenants during the second quarter.

The increase in office real estate taxes was primarily caused by the acquisition of Lloyd District Portfolio on July 1, 2011 and One Beach Street on January 24, 2012, which had real estate taxes of \$0.3 million and \$0.1 million, respectively, for the three months ended June 30, 2012 offset by \$0.2 million decrease in supplemental real estate taxes primarily at First & Main.

The increase in multifamily real estate taxes was primarily due to additional real estate tax accruals of \$0.1 million for Loma Palisades based on supplemental tax bills from the California taxing authority received during the second quarter, which will not be reimbursed.

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Property operating income increased \$4.6 million, or 15%, to \$35.9 million for the three months ended June 30, 2012, compared to \$31.3 million for the three months ended June 30, 2011. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended				Three Months Ended			
	June 30,				June 30,			
	2012	2011	Change	%	2012	2011	Change	%
Retail	\$ 16,358	\$ 16,070	\$ 288	2%	\$ 16,366	\$ 16,072	\$ 294	2%
Office	13,200	9,059	4,141	46	10,674	9,030	1,644	18
Multifamily	1,944	2,066	(122)	(6)	1,944	2,066	(122)	(6)
Mixed-Use	4,411	4,131	280	7	4,411	4,131	280	7
	\$ 35,913	\$ 31,326	\$ 4,587	15%	\$ 33,395	\$ 31,299	\$ 2,096	7%

On a same-store basis, the retail property operating income increased \$0.3 million for the three months ended June 30, 2012 compared to the three months ended June 30, 2011, primarily due to an increase in the percentage leased for the retail properties.

The increase in office property operating income was primarily caused by the acquisition of Lloyd District Portfolio on July 1, 2011 and One Beach Street on January 24, 2012, which had property operating income of \$1.7 million and \$0.8 million, respectively, for the three months ended June 30, 2012. On a same-store basis, office property income increased \$1.6 million for the three months ended June 30, 2012 compared to the three months ended June 30, 2011 primarily due to an increase in rental revenue at The Landmark at One Market and First & Main.

The decrease in multifamily property operating income was primarily due to lower occupancy throughout the second quarter, an increase in marketing expense in order to attract new tenants, and additional real estate tax accruals based on receipt of supplemental tax bills from the California taxing authority received during the second quarter.

The mixed-use property operating income increased due to increased tourist travel to Hawaii leading to higher hotel operating income as a result of higher average occupancy for the three months ended June 30, 2012 compared to the three months ended June 30, 2011.

Other

Depreciation and amortization. Depreciation and amortization expense increased \$0.7 million, or 5%, to \$14.7 million for the three months ended June 30, 2012, compared to \$13.9 million for the three months ended June 30, 2011. This increase was primarily due to depreciation and amortization attributable to the acquired properties.

Interest expense. Interest expense increased \$0.4 million, or 3%, to \$14.5 million for the three months ended June 30, 2012 compared to \$14.1 million for the three months ended June 30, 2011. This increase was primarily due to interest expense on the senior mortgage loans obtained on First & Main on June 1, 2011 and One Beach on March 29, 2012, offset by an increase in capitalized interest of \$0.2 million and a decrease in utilization fees on our revolving line of credit from the amendment of the line of credit in January 2012.

Other income (expense), net. Other expense, net increased \$0.7 million, or 128%, to net expenses of \$(0.2) million for the three months ended June 30, 2012, compared to net expenses \$0.5 million for the three months ended June 30, 2011, primarily due to a decrease in income from our marketable securities. Other income (expense), net is comprised of interest and investment income, acquisition related expenses and income tax expense related to our taxable REIT subsidiary, which operates the hotel portion of our mixed-use property.

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

Comparison of the Six Months Ended June 30, 2012 to the Six Months Ended June 30, 2011

The following table summarizes our consolidated results of operations for the six months ended June 30, 2012 compared to our consolidated results of operations for the six months ended June 30, 2011. As of June 30, 2012, our operating portfolio was comprised of 22 retail, office,

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multifamily and mixed-use properties with an aggregate of approximately 5.4 million rentable square feet of retail and office space, including the retail portion of our mixed-use property, 922 residential units

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(including 122 RV spaces) and a 369-room hotel. Additionally, as of June 30, 2012, we owned land at five of our properties that we classified as held for development and/or construction in progress. As of June 30, 2011, our operating portfolio was comprised of 21 properties with an aggregate of approximately 4.8 million rentable square feet of retail and office space, including the retail portion of our mixed-use property, and 922 residential units (including 122 RV spaces) and a 369-room hotel; we also owned land at three of our properties that we classified as held for development.

The following table sets forth selected data from our consolidated/combined statements of operations for the six months ended June 30, 2012 and 2011 (dollars in thousands):

	Six Months Ended June 30,		Change	%
	2012	2011		
Revenues				
Rental income	\$ 109,284	\$ 93,582	\$ 15,702	17%
Other property income	5,563	4,401	1,162	26
Total property revenues	114,847	97,983	16,864	17
Expenses				
Rental expenses	31,195	26,533	4,662	18
Real estate taxes	11,388	9,410	1,978	21
Total property expenses	42,583	35,943	6,640	18
Total property income	72,264	62,040	10,224	16
General and administrative	(7,757)	(7,052)	(705)	10
Depreciation and amortization	(29,924)	(26,089)	(3,835)	15
Interest expense	(28,832)	(27,054)	(1,778)	7
Early extinguishment of debt		(25,867)	25,867	(100)
Loan transfer and consent fees		(9,019)	9,019	(100)
Gain on acquisition		46,371	(46,371)	(100)
Other income (expense), net	(256)	(71)	(185)	261
Total other, net	(66,769)	(48,781)	(17,988)	37
Income from continuing operations	5,495	13,259	(7,764)	(59)
Discontinued operations				
Results from discontinued operations		792	(792)	(100)
Net income	5,495	14,051	(8,556)	(61)
Net income attributable to restricted shares	(263)	(218)	(45)	21
Net loss attributable to Predecessor's noncontrolling interests in consolidated real estate entities		2,458	(2,458)	(100)
Net loss attributable to Predecessor's controlled owners' equity		(16,995)	16,995	(100)
Net (income) loss attributable to unitholders in the Operating Partnership	(1,687)	225	(1,912)	(850)
Net income (loss) attributable to American Assets Trust, Inc. stockholders	\$ 3,545	\$ (479)	\$ 4,024	(840)%

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Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased \$16.8 million, or 17%, to \$114.8 million for the six months ended June 30, 2012 compared to \$98.0 million for the six months ended June 30, 2011. The percentage leased was as follows for each segment as of June 30, 2012 and 2011:

	Percentage Leased ⁽¹⁾	
	June 30,	
	2012	2011
Retail	96.2%	94.0%
Office	95.0	94.7
Multifamily	97.7	97.7
Mixed-Use ⁽²⁾	93.9%	97.6%

(1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of June 30, 2012 or June 30, 2011, as applicable.

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

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

Rental revenues. Rental revenue includes minimum base rent, cost reimbursements, percentage rents and other rents. Rental revenue increased \$15.7 million, or 17%, to \$109.3 million for the six months ended June 30, 2012 compared to \$93.6 million for the six months ended June 30, 2011. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio ⁽¹⁾			
	Six Months Ended				Six Months Ended			
	June 30,				June 30,			
	2012	2011	Change	%	2012	2011	Change	%
Retail	\$ 43,519	\$ 42,695	\$ 824	2%	\$ 39,351	\$ 39,132	\$ 219	1%
Office	37,322	26,473	10,849	41	20,337	20,318	19	
Multifamily	6,532	6,295	237	4	6,532	6,295	237	4
Mixed-Use	21,911	18,119	3,792	21				
	\$ 109,284	\$ 93,582	\$ 15,702	17%	\$ 66,220	\$ 65,745	\$ 475	1%

(1) For this table and tables following, the same-store portfolio excludes: Solana Beach Towne Centre, Solana Beach Corporate Centre and the Waikiki Beach Walk entities acquired on January 19, 2011; First & Main acquired on March 11, 2011; Lloyd District Portfolio acquired on July 1, 2011; One Beach Street acquired on January 24, 2012; and land held for development.

On a same-store basis, retail rental revenue increased \$0.2 million for the six months ended June 30, 2012 compared to the six months ended June 30, 2011. This increase was due to the increase in the average percentage leased and additional cost reimbursements, offset by decreased rental revenue as a result of the Borders closures. We anticipate that the three former Borders spaces will be re-leased at increased rent in the aggregate, and we have already re-leased two full spaces consistent with that expectation.

The increase in office rental revenue was primarily caused by the acquisition of Lloyd District Portfolio on July 1, 2011 and One Beach Street on January 24, 2012, which had rental revenue of \$5.8 million and \$1.8 million, respectively, for the six months ended June 30, 2012.

Additionally, Solana Beach Corporate Centre and First & Main contributed an additional \$3.1 million in rental revenue during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to the acquisition of these properties during the first quarter of 2011.

The increase in mixed-use rental revenue was due to increased tourist travel to Hawaii leading to higher hotel revenue, with average occupancy for the six months ended June 30, 2012 of 90.4% compared to 87.3% for the six months ended June 30, 2011 and revenue per available room of \$225 and \$204 for the six months ended June 30, 2012 and June 30, 2011, respectively.

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Other property income. Other property income increased \$1.2 million, or 26%, to \$5.6 million for the six months ended June 30, 2012, compared to \$4.4 million for the six months ended June 30, 2011. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Six Months Ended		Change	%	Six Months Ended		Change	%
	June 30,				June 30,			
	2012	2011			2012	2011		
Retail	\$ 624	\$ 734	\$ (110)	(15)%	\$ 616	\$ 733	\$ (117)	(16)%
Office	1,859	959	900	94	832	923	(91)	(10)
Multifamily	519	490	29	6	519	490	29	6
Mixed-Use	2,561	2,218	343	15				
	\$ 5,563	\$ 4,401	\$ 1,162	26%	\$ 1,967	\$ 2,146	\$ (179)	(8)%

Retail other property income decreased \$0.1 million for the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The decrease was primarily due to a lease termination fee of \$0.1 million paid by a tenant at Del Monte Center during the six months ended June 30, 2011.

The increase in office other property income was primarily caused by the acquisition of Lloyd District Portfolio on July 1, 2011, which had parking income of \$0.9 million for the six months ended June 30, 2012.

The increase in mixed-use other property income is attributed to the increase in average occupancy for the six months ended June 30, 2012.

Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased by \$6.6 million, or 18%, to \$42.6 million for the six months ended June 30, 2012, compared to \$35.9 million for the six months ended June 30, 2011. This increase in total property expenses is attributable primarily to the factors discussed below.

Rental Expenses. Rental expenses increased \$4.7 million, or 18%, to \$31.2 million for the six months ended June 30, 2012, compared to \$26.5 million for the six months ended June 30, 2011. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Six Months Ended		Change	%	Six Months Ended		Change	%
	June 30,				June 30,			
	2012	2011			2012	2011		
Retail	\$ 6,447	\$ 6,658	\$ (211)	(3)%	\$ 6,095	\$ 6,292	\$ (197)	(3)%
Office	8,391	5,630	2,761	49	4,322	4,703	(381)	(8)
Multifamily	2,024	1,975	49	2	2,024	1,975	49	2
Mixed-Use	14,333	12,270	2,063	17				
	\$ 31,195	\$ 26,533	\$ 4,662	18%	\$ 12,441	\$ 12,970	\$ (529)	(4)%

The decrease in retail rental expenses was primarily due to lower rent expenses in the retail portfolio for the six months ended June 30, 2012, offset by higher premiums on our insurance policies during the second quarter.

The increase in office rental expenses was primarily caused by the acquisition of Lloyd District Portfolio on July 1, 2011 and One Beach Street on January 24, 2012, which had rental expenses of \$2.3 million and \$0.3 million, respectively, for the six months ended June 30, 2012. Additionally, we incurred higher premiums on our insurance policies, which is offset by lower rent expense for rental of the Annex at The Landmark at One Market.

The mixed-use rental expenses increased as a result of additional expenses attributed to the increase in average occupancy for the six months ended June 30, 2012.

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Real Estate Taxes. Real estate tax expense increased \$2.0 million, or 21%, to \$11.4 million for the six months ended June 30, 2012 compared to \$9.4 million for the six months ended June 30, 2011. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Six Months Ended		Change	%	Six Months Ended		Change	%
	June 30,				June 30,			
	2012	2011			2012	2011		
Retail	\$ 5,373	\$ 4,794	\$ 579	12%	\$ 4,971	\$ 4,489	\$ 482	11%
Office	4,260	3,190	1,070	34	2,567	2,403	164	7
Multifamily	855	612	243	40	855	612	243	40
Mixed-Use	900	814	86	11				
	\$ 11,388	\$ 9,410	\$ 1,978	21%	\$ 8,393	\$ 7,504	\$ 889	12%

Real estate taxes increased \$0.6 million during the six months ended June 30, 2012, primarily due to the receipt of 2011 supplemental tax bills from the California taxing authority for Southern California properties during the second quarter of 2012. Approximately \$0.4 million of the additional tax expense is recoverable from our commercial tenants. The remaining \$0.1 million is related to our multifamily portfolio, which will not be reimbursed.

Retail real estate taxes increased \$0.6 million for the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The increase was primarily due to additional real estate tax accruals of \$0.3 million at Carmel Mountain Plaza and \$0.2 million at Lomas Santa Fe Plaza based on supplemental tax bills from the California taxing authority received during the second quarter and first quarter of 2012, respectively, which were billed to the tenants on or prior to June 30, 2012.

The increase in office real estate taxes was primarily caused by the acquisition of Lloyd District Portfolio on July 1, 2011 and One Beach Street on January 24, 2012, which had real estate taxes of \$0.6 million and \$0.1 million, respectively, for the six months ended June 30, 2012. Additionally, First & Main contributed an additional \$0.2 million in real estate taxes during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to the acquisition of this property the first quarter of 2011. On a same-store basis, office real estate taxes increased \$0.2 million due to additional tax accruals at Torrey Reserve Campus based on supplemental tax bills from the California taxing authority received during the second quarter, which are recoverable from the tenants.

The increase in multifamily real estate taxes was primarily due to additional real estate tax accruals of \$0.2 million for Loma Palisades based on supplemental tax bills from the California taxing authority received during the second quarter, which will not be reimbursed.

The mixed-use real estate taxes increased as the result of our acquisition of the Waikiki Beach Walk mixed-use site on January 19, 2011, resulting in 18 days of additional expense for the six months ended June 30, 2012.

Property Operating Income

Property operating income increased \$10.2 million, or 16%, to \$72.3 million for the six months ended June 30, 2012, compared to \$62.0 million for the six months ended June 30, 2011. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Six Months Ended		Change	%	Six Months Ended		Change	%
	June 30,				June 30,			
	2012	2011			2012	2011		
Retail	\$ 32,323	\$ 31,977	\$ 346	1%	\$ 28,901	\$ 29,084	\$ (183)	(1)%
Office	26,530	18,612	7,918	43	14,280	14,135	145	1
Multifamily	4,172	4,198	(26)	(1)	4,172	4,198	(26)	(1)
Mixed-Use	9,239	7,253	1,986	27				

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\$ 72,264	\$ 62,040	\$ 10,224	16%	\$ 47,353	\$ 47,417	\$ (64)	%
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On a same-store basis, the retail property operating income decreased \$0.2 million for the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The same-store decrease was primarily due to decreased rental revenue as a result of the Borders closures and increased rental expenses. This decrease was offset by increased rental revenue related to the increase in the average percentage leased and additional cost reimbursements.

The increase in office property operating income was primarily caused by the acquisition of Lloyd District Portfolio on July 1, 2011 and One Beach Street on January 24, 2012, which had property operating income of \$3.6 million and \$1.4 million, respectively, for the six months ended June 30, 2012. Additionally, Solana Beach Corporate Centre and First & Main contributed an additional \$2.6 million in property operating income during the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to the acquisition of these properties during the first quarter of 2011. These increases were offset by increases in rental expenses.

The mixed-use property operating income increased due to an increase in tourist travel to Hawaii and higher average occupancy for the six months ended June 30, 2012 compared to the six months ended June 30, 2011.

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Other

General and administrative. General and administrative expenses increased \$0.7 million, or 10%, to \$7.8 million for the six months ended June 30, 2012, compared to \$7.1 million for the six months ended June 30, 2011. This increase was due primarily to higher personnel costs, along with additional costs for the acquired properties.

Depreciation and amortization. Depreciation and amortization expense increased \$3.8 million, or 15%, to \$29.9 million for the six months ended June 30, 2012, compared to \$26.1 million for the six months ended June 30, 2011. This increase was due primarily to depreciation and amortization attributable to the acquired properties.

Interest expense. Interest expense increased \$1.8 million, or 7%, to \$28.8 million for the six months ended June 30, 2012 compared with \$27.1 million for the six months ended June 30, 2011. This increase was primarily due to interest expense on the senior mortgage loans obtained on First & Main on June 1, 2011 and One Beach Street on March 29, 2012. Additionally, the six months ended June 30, 2012 include interest expense on the properties acquired at the time of our initial public offering for the entire six month period compared to only the period from January 19 through June 30, 2011 for the six months ended June 30, 2011. This was offset by a decrease in utilization fees on our revolving line of credit resulting from the amendment to the line of credit in January 2012 and an increase in capitalized interest of \$0.2 million.

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

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

Gain on acquisition. The gain on acquisition for the six months ended June 30, 2011 relates to the gains recognized on the acquisition of the outside ownership interests in the Solana Beach Centre entities and the Waikiki Beach Walk entities.

Other income (expense), net. Other expense, net increased \$0.2 million, or 261%, to net expenses of \$(0.3) million for the six months ended June 30, 2012, compared to net expenses \$(0.1) million for the six months ended June 30, 2011, primarily due to a decrease in income from our marketable securities. Other income (expense), net is comprised of interest and investment income, acquisition related expenses and income tax expense related to our taxable REIT subsidiary, which operates the hotel portion of our mixed-use property.

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

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 June 30, 2012, we held \$98.6 million in cash and cash equivalents and \$24.3 million in marketable securities that are classified as trading securities.

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

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

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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.

Indebtedness Outstanding

The following table sets forth information as of June 30, 2012, with respect to our indebtedness (dollars in thousands):

Debt	Principal Balance at June 30, 2012	Interest Rate	Annual Debt Service	Maturity Date	Balance at Maturity
Alamo Quarry Market ⁽¹⁾⁽²⁾	\$ 94,999	5.67%	\$ 7,567	January 8, 2014	\$ 91,717
160 King Street ⁽³⁾	30,619	5.68%	3,351	May 1, 2014	27,513
Waialeale Center ⁽⁴⁾	140,700	5.15%	7,360	November 1, 2014	140,700
The Shops at Kalakaua ⁽⁴⁾	19,000	5.45%	1,053	May 1, 2015	19,000
The Landmark at One Market ⁽²⁾⁽⁴⁾	133,000	5.61%	7,558	July 5, 2015	133,000
Del Monte Center ⁽⁴⁾	82,300	4.93%	4,121	July 8, 2015	82,300
First & Main ⁽⁴⁾	84,500	3.97%	3,397	July 1, 2016	84,500
Imperial Beach Gardens ⁽⁴⁾	20,000	6.16%	1,250	September 1, 2016	20,000
Mariners Point ⁽⁴⁾	7,700	6.09%	476	September 1, 2016	7,700
South Bay Marketplace ⁽⁴⁾	23,000	5.48%	1,281	February 10, 2017	23,000
Waikiki Beach Walk Retail ⁽⁴⁾	130,310	5.39%	7,020	July 1, 2017	130,310
Solana Beach Corporate Centre III-IV ⁽⁵⁾	37,330	6.39%	2,736	August 1, 2017	35,136
Loma Palisades ⁽⁴⁾	73,744	6.09%	4,553	July 1, 2018	73,744
One Beach Street ⁽⁴⁾	21,900	3.94%	875	April 1, 2019	21,900
Torrey Reserve North Court ⁽¹⁾	21,793	7.22%	1,836	June 1, 2019	19,443
Torrey Reserve VCI, VCII, VCIII ⁽¹⁾	7,337	6.36%	560	June 1, 2020	6,439
Solana Beach Corporate Centre I-II ⁽¹⁾	11,714	5.91%	855	June 1, 2020	10,169
Solana Beach Towne Centre ⁽¹⁾	39,045	5.91%	2,849	June 1, 2020	33,898
Total	978,991		\$ 58,698		\$ 960,469
Unamortized fair value adjustment	(14,453)				
Debt Balance	\$ 964,538				

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

(2) Maturity date is the earlier of the loan maturity date under the loan agreement, or the Anticipated Repayment Date as specifically defined in the loan agreement, which is the date after which substantial economic penalties apply if the loan has not been paid off.

(3) Principal payments based on a 20-year amortization schedule.

(4) Interest only.

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

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On March 29, 2012, we entered into a seven-year non-recourse mortgage loan with PNC Bank, National Association with an original principal amount of \$21.9 million. The loan is secured by a first-priority deed of trust on One Beach Street and an assignment of all leases, rents and security deposits relating to One Beach Street. The loan has a maturity date of April 1, 2019, bears interest at a fixed rate per annum of 3.94% and is interest only. Our Operating Partnership provided a non-recourse carve-out guaranty and environmental indemnity. Proceeds of the loan will be used for general corporate purposes, including working capital and future acquisitions.

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

Credit Facility

On January 19, 2011, upon completion of the 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 June 30, 2012, our maximum allowable borrowing amount was \$213.8 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. No amounts have been borrowed on the credit facility to date. We expect to use the credit facility in the future for general corporate purposes, including working capital, the payment of capital expenses, acquisitions and development and redevelopment of properties in our portfolio. The amount available for us to borrow under the credit facility is subject to the net operating income of our properties that form the borrowing base of the credit facility and a minimum implied debt yield of such properties.

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

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

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 50.0%,

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

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events of default exist or would result from a distribution, we may be precluded from making distributions other than those necessary to qualify and maintain our status as a REIT.

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

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

Off-Balance Sheet Arrangements

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

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Cash Flows

Comparison of the six months ended June 30, 2012 to the six months ended June 30, 2011

Cash and cash equivalents were \$98.6 million and \$92.5 million, at June 30, 2012 and 2011, respectively.

Net cash provided by operating activities increased \$6.6 million to \$35.3 million for the six months ended June 30, 2012 compared to \$28.7 million for the six months ended June 30, 2011. The increase is due to the acquisitions of the Solana Beach Centre entities, the Waikiki Beach Walk entities, First & Main, Lloyd District Portfolio and One Beach Street.

Net cash used in investing activities decreased \$198.1 million to \$43.6 million for the six months ended June 30, 2012 compared to \$241.7 million for the six months ended June 30, 2011. The decrease was primarily due to the acquisition of First & Main for \$128.9 million and purchase deposit of \$91.6 million for Lloyd District Portfolio during the six months ended June 30, 2011. The decreases were offset by cash used in the acquisition of One Beach Street of \$32.9 million in January 2012, net of the purchase deposit paid during 2011, an increase in capital expenditures during the six months ended June 30, 2012, and cash acquired through the acquisition of the controlling interest in the Solana Beach Centre entities and the Waikiki Beach Walk entities of \$15.2 million in January 2011.

Net cash (used in) financing activities decreased \$269.5 million to \$(5.9) million for the six months ended June 30, 2012 compared to net cash provided by financing activities of \$263.6 million for the six months ended June 30, 2011. The decrease was primarily due to the proceeds from the issuance of shares of our common stock in connection with our initial public offering, which was partially offset by the repayment of certain indebtedness in connection with the Formation Transactions and payment of dividends during the six months ended June 30, 2011. During the six months ended June 30, 2012, financing activities included \$21.9 million of loan proceeds related to the mortgage loan on One Beach Street, offset by dividends paid and principal payments on outstanding secured notes payable.

Net Operating Income

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

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

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

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

The following is a reconciliation of our NOI to net income for the three and six months ended June 30, 2012 and 2011 computed in accordance with GAAP (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net operating income	\$ 35,913	\$ 31,326	\$ 72,264	\$ 62,040
General and administrative	(3,992)	(3,866)	(7,757)	(7,052)
Depreciation and amortization	(14,671)	(13,934)	(29,924)	(26,089)
Interest expense	(14,476)	(14,063)	(28,832)	(27,054)
Early extinguishment of debt				(25,867)
Loan transfer and consent fees				(9,019)
Gain on acquisition				46,371
Other income (expense), net	(150)	530	(256)	(71)
Income from continuing operations	2,624	(7)	5,495	13,259
Discontinued operations:				
Results from discontinued operations		462		792
Net income	\$ 2,624	\$ 455	\$ 5,495	\$ 14,051

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

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not be comparable to such other REITs' FFO. Accordingly, FFO should be considered only as a supplement to net income as a measure of our performance. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or service indebtedness. FFO also should not be used as a supplement to or substitute for cash flow from operating activities computed in accordance with GAAP.

The following table sets forth a reconciliation of our FFO for the three and six months ended June 30, 2012 to net income, the nearest GAAP equivalent (in thousands, except per share and share data):

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Funds from Operations (FFO)		
Net income	\$ 2,624	\$ 5,495
Plus: Real estate depreciation and amortization	14,671	29,924
Funds from operations	17,295	35,419
Less: Nonforfeitable dividends on incentive restricted stock awards	(88)	(177)
FFO attributable to common stock and units	\$ 17,207	\$ 35,242
FFO per diluted share/unit	\$ 0.30	\$ 0.62
Weighted average number of common shares and units, diluted ⁽¹⁾	57,260,406	57,259,671

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. As of June 30, 2012, 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. At June 30, 2012, our marketable securities consisted of investments in GNMA securities. The market values of these securities tend 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. At June 30, 2012, our GNMA Securities are carried at their fair value of \$24.3 million.

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.

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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 June 2020) have fixed interest rates which limit the risk of fluctuating interest rates. However, interest rate fluctuations may affect the fair value of our fixed rate debt instruments. At June 30, 2012, we had \$979.0 million of fixed rate debt outstanding with an estimated fair value of \$987.9 million. If interest rates at June 30, 2012 had been 1.0% higher, the fair value of those debt instruments on that date would have decreased by approximately \$31.1 million. If interest rates at June 30, 2012 had been 1.0% lower, the fair value of those debt instruments on that date would have increased by approximately \$33.2 million.

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Variable Interest Rate Debt

At June 30, 2012, our only variable interest rate debt is our credit facility, which has not been drawn upon to date.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the rules and regulations of the 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 June 30, 2012, 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 June 30, 2012, 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, 2011 other than as previously disclosed in our quarterly report on Form 10-Q for the quarter ended March 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 June 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statement of Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith.

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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.

August 3, 2012

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

August 3, 2012

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

Officer and Treasurer
(Principal Financial and Accounting

Officer)