American Assets Trust, Inc.
Form 10-Q
November 08, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-35030

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). x Yes o 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	x		Accelerated Filer	o
Non-Accelerated Filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o

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

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

Table of Contents

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

PART 1. FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Consolidated Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012	3
	Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2013 and 2012	4
	Consolidated Statement of Equity (unaudited) for the nine months ended September 30, 2013	5
	Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2013 and 2012	6
	Notes to Consolidated Financial Statements (unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	43
Item 4.	Controls and Procedures	44
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	45
Item 1A.	Risk Factors	45
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	45
Item 3.	Defaults Upon Senior Securities	45
Item 4.	Mine Safety Disclosures	45
Item 5.	Other Information	45
Item 6.	Exhibits	45
SIGNATURES		46

Table of Contents

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

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

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

Table of Contents

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

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

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

Table of Contents

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

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

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

Table of Contents

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

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

We are a vertically integrated and self-administered REIT with approximately 117 employees providing substantial in-house expertise in asset management, property management, property development, leasing, tenant improvement construction, acquisitions, repositioning, redevelopment and financing.

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

Retail

Carmel Country Plaza
Carmel Mountain Plaza
South Bay Marketplace
Rancho Carmel Plaza
Lomas Santa Fe Plaza
Solana Beach Towne Centre
Del Monte Center
Geary Marketplace
The Shops at Kalakaua
Waikele Center
Alamo Quarry Market

Office

Torrey Reserve Campus
Solana Beach Corporate Centre
The Landmark at One Market
One Beach Street
First & Main
Lloyd District Portfolio
City Center Bellevue

Multifamily

Loma Palisades
Imperial Beach Gardens
Mariner's Point
Santa Fe Park RV Resort

Mixed-Use

Waikiki Beach Walk Retail and Embassy Suites™ Hotel

Held for Development and Construction in Progress

Solana Beach Corporate Centre – Land
Solana Beach – Highway 101 – Land
Sorrento Pointe – Land
Torrey Reserve – Land
Lloyd District Portfolio – Land

7

Basis of Presentation

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

All significant intercompany transactions and balances are eliminated in consolidation.

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

The accompanying consolidated financial statements of the Company have been prepared in accordance with the rules applicable to Form 10-Q and include all information and footnotes required for interim financial statement presentation, but do not include all disclosures required under accounting principles generally accepted in the United States ("GAAP") for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments, except as otherwise noted) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the audited consolidated financial statements and notes therein included in the Company's annual report on Form 10-K for the year ended December 31, 2012.

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

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

Consolidated Statements of Cash Flows—Supplemental Disclosures

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

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

Significant Accounting Policies

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

Segment Information

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

Reclassifications

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

Recent Accounting Pronouncements

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

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

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

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

NOTE 3. MARKETABLE SECURITIES

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

NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

NOTE 5. OTHER ASSETS

Other assets consist of the following (in thousands):

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

NOTE 6. OTHER LIABILITIES AND DEFERRED CREDITS

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

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

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

Table of Contents

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

NOTE 7. DEBT

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

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

(1) Principal payments based on a 30-year amortization schedule.
(2) Loan was prepaid, without penalty or premium, on October 8, 2013 (see Note 17).
(3) Interest only.
(4) 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.
(5) Loan was interest only through August 2012. Beginning in September 2012, principal payments are based on a 30-year amortization schedule.

Certain loans require us to comply with various financial covenants. As of September 30, 2013, we were in compliance with these financial covenants.

Credit Facility

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

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

On March 7, 2011, the credit facility was amended to allow us or our Operating Partnership to purchase GNMA securities with maturities of up to 30 years. On January 10, 2012, the credit facility was amended a second time to (1) extend the maturity date to January 10, 2016 (with a one-year extension option), (2) decrease the applicable interest rates and (3) modify certain financial covenants contained therein. On September 7, 2012, the credit facility was amended a third time to allow our consolidated total secured indebtedness to be up to 55% of our secured total asset value for the period commencing upon the date that a material acquisition (generally, greater than $100 million) is consummated through and including the last day of the third fiscal quarter that follows such date.

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

- a maximum leverage ratio (defined as total indebtedness net of certain unrestricted cash and cash equivalents to total asset value) of 60%,
- a minimum fixed charge coverage ratio (defined as consolidated earnings before interest, taxes, depreciation and amortization to consolidated fixed charges) of 1.50x,
- a maximum secured leverage ratio (defined as total secured indebtedness to secured total asset value) of up to 55% in certain circumstances,
- a minimum tangible net worth equal to at least 75% of our tangible net worth at January 19, 2011, plus 85% of the net proceeds of any additional equity issuances (other than additional equity issuances in connection with any dividend reinvestment program), and
- a $35.0 million limit on the maximum principal amount of recourse indebtedness we may have outstanding at any time, other than under the credit facility.

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

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

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

NOTE 8. EQUITY

Stockholders' Equity

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

Noncontrolling Interests

Noncontrolling interests in our Operating Partnership are interests in the Operating Partnership that are not owned by us. Noncontrolling interests consisted of 17,959,109 common units (the "noncontrolling common units"), and represented approximately 31% of the ownership interests in our Operating Partnership at September 30, 2013. Common units and shares of our common stock have essentially the same economic characteristics in that common units and shares of our common stock share equally in the total net income or loss distributions of our Operating Partnership. Investors who own common units have the right to cause our Operating Partnership to redeem any or all of their common units for cash equal to the then-current market value of one share of our common stock, or, at our election, shares of our common stock on a one-for-one basis.

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

Dividends

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

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

Taxability of Dividends

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

Stock-Based Compensation

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

We granted each of our non-employee directors restricted shares of our common stock pursuant to the 2011 Plan, either concurrently with the closing of our initial public offering or at the time the director was formally appointed to our board of directors (the "Board"). In addition, on the date of each annual meeting of our stockholders, each non-employee director who continues to serve on the Board following such annual meeting will be granted restricted shares of our common stock pursuant to the 2011 Plan. These awards of restricted stock will vest ratably as to one-third of the shares granted on each of the first three anniversaries of the date of grant, subject to the director's continued service on our Board pursuant to our independent director compensation policy.

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

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

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

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

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

Earnings Per Share

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

Diluted EPS is calculated by dividing the net income applicable to common stockholders for the period by the weighted average number of common and dilutive instruments outstanding during the period using the treasury stock method. For the three and nine months ended September 30, 2013 and 2012, diluted shares exclude incentive restricted stock as these awards are considered contingently issuable. Additionally, the unvested restricted stock awards subject to time vesting are anti-dilutive for all periods presented, and accordingly, have been excluded from the weighted average common shares used to compute diluted EPS.

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

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

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

NOTE 9. DISCONTINUED OPERATIONS

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

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

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

NOTE 10. INCOME TAXES

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

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

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

NOTE 11. COMMITMENTS AND CONTINGENCIES

Legal

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

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

properties due to certain matters relating to the operation of the properties by the tenant.

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

Commitments
At The Landmark at One Market, we lease, as lessee, a building adjacent to The Landmark under an operating lease effective through June 30, 2016, which we have the option to extend until 2026 by way of two five-year extension options.
At Waikiki Beach Walk, we sublease a portion of the building of which Quiksilver is currently in possession, under an operating lease effective through December 31, 2021, which we have the option to extend at fair rental value in the event the sublessor extends its lease for the space with the master landlord. The lease payments under the lease will increase by approximately 3.4% annually through 2017 and, thereafter, will be equal to fair rental value, as defined in the lease, through lease expiration.
Current minimum annual payments under the leases are as follows, as of September 30, 2013 (in thousands):

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

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

We have management agreements with Outrigger Hotels & Resorts or an affiliate thereof ("Outrigger") pursuant to which Outrigger manages each of the retail and hotel portions of the Waikiki Beach Walk property. Under the management agreement with Outrigger relating to the retail portion of Waikiki Beach Walk (the "retail management agreement"), we pay Outrigger a monthly management fee of 3.0% of net revenues from the retail portion of Waikiki Beach Walk. Pursuant to the terms of the retail management agreement, if the agreement is terminated in certain instances, including our election not to repair damage or destruction at the property, a condemnation or our failure to make required working capital infusions, we would be obligated to pay Outrigger a termination fee equal to the sum of the management fees paid for the two calendar months immediately preceding the termination date. The retail management agreement may not be terminated by us or by Outrigger without cause. Under our management agreement with Outrigger relating to the hotel portion of Waikiki Beach Walk (the "hotel management agreement"), we pay Outrigger a monthly management fee of 6.0% of the hotel's gross operating profit, as well as 3.0% of the hotel's gross revenues; provided that the aggregate management fee payable to Outrigger for any year shall not exceed 3.5% of the hotel's gross revenues for such fiscal year. Pursuant to the terms of the hotel management agreement, if the agreement is terminated in certain instances, including upon a transfer by us of the hotel or upon a default by us under the hotel management agreement, we would be required to pay a cancellation fee calculated by multiplying (1) the management fees for the previous 12 months by (2) (a) eight, if the agreement is terminated in the first 11 years of its term, or (b) four, three, two or one, if the agreement is terminated in the twelfth, thirteenth, fourteenth or fifteenth year, respectively, of its term. The hotel management agreement may not be terminated by us or by Outrigger without cause.
A wholly owned subsidiary of our Operating Partnership, WBW Hotel Lessee LLC, entered into a franchise license agreement with Embassy Suites Franchise LLC, the franchisor of the brand "Embassy Suites™," to obtain the non-exclusive right to operate the hotel under the Embassy Suites™ brand for 20 years. The franchise license agreement provides that WBW Hotel Lessee LLC must comply with certain management, operational, record keeping,

accounting, reporting and marketing standards and procedures. In connection with this agreement, we are also subject to the terms of a product improvement plan pursuant to which we expect to undertake certain actions to ensure that our hotel's infrastructure is maintained in compliance with the franchisor's brand standards. In addition, we must pay to Embassy Suites Franchise LLC a monthly franchise royalty fee equal to 4.0% of the hotel's gross room revenue through December 2021 and 5.0% of the hotel's gross room revenue thereafter, as well as a monthly program fee equal to 4.0% of the hotel's gross room revenue. If the franchise license is terminated due to our failure to make required improvements or to otherwise comply with its terms, we may be liable to the franchisor for a termination payment, which could be as high as $6.2 million based on operating performance through September 30, 2013.

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

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

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

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

Concentrations of Credit Risk

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

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

NOTE 12. OPERATING LEASES

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

As of September 30, 2013, minimum future rentals from noncancelable operating leases, before any reserve for uncollectible amounts and assuming no early lease terminations, at our office and retail properties and the retail portion of our mixed-use property are as follows (in thousands):

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

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

NOTE 13. COMPONENTS OF RENTAL INCOME AND EXPENSE

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

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

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

20

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

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

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

NOTE 14. OTHER INCOME (EXPENSE), NET

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

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

NOTE 15. RELATED PARTY TRANSACTIONS

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

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

NOTE 16. SEGMENT REPORTING

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

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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total Retail				
Property revenue	$23,524	$23,694	$69,175	$67,837
Property expense	(6,445)	(6,828)	(17,476)	(18,648)
Segment profit	17,079	16,866	51,699	49,189
Total Office				
Property revenue	22,664	19,586	67,598	55,500
Property expense	(6,636)	(6,054)	(19,656)	(17,430)
Segment profit	16,028			