

Edgar Filing: American Assets Trust, Inc. - Form 10-Q

American Assets Trust, Inc.

Form 10-Q

November 02, 2018

8000000.010.010.0050.0050.0050prime rateEurodollarfederal funds

rate1360002530000.101.51.75P12YP15YP13YP14Yfalsefalse--12-31--12-31Q3Q3201820182018-09-302018-09-3010-Q10-Q

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**AMERICAN ASSETS TRUST, INC.**

(Exact Name of Registrant as Specified in its Charter)

Commission file number: 001-35030

**AMERICAN ASSETS TRUST, L.P.**

(Exact Name of Registrant as Specified in its Charter)

Commission file number: 333-202342-01

Maryland (American Assets Trust, Inc.)	27-3338708 (American Assets Trust, Inc.)
Maryland (American Assets Trust, L.P.)	27-3338894 (American Assets Trust, L.P.)
(State or other jurisdiction of incorporation or organization)	(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.

American Assets Trust, Inc.	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
American Assets Trust, L.P.	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

(American Assets Trust, L.P. became subject to filing requirements under Section 13 of the Securities Exchange Act of 1934, as amended, upon effectiveness of its Registration Statement on Form S-3 on February 6, 2015 and has filed all required reports subsequent to that date.)

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Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

American Assets Trust, Inc.  Yes  No

American Assets Trust, L.P.  Yes  No

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

American Assets Trust, Inc.

Large Accelerated Filer  Accelerated Filer

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

Emerging growth company

American Assets Trust, L.P.

Large Accelerated Filer  Accelerated Filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

American Assets Trust, Inc.  Yes  No

American Assets Trust, L.P.  Yes  No

American Assets Trust, Inc. had 47,222,121 shares of common stock, par value \$0.01 per share, outstanding as of November 2, 2018.

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**EXPLANATORY NOTE**

This report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2018 of American Assets Trust, Inc., a Maryland corporation, and American Assets Trust, L.P., a Maryland limited partnership, of which American Assets Trust, Inc. is the parent company and sole general partner. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our” or “the company” refer to American Assets Trust, Inc. together with its consolidated subsidiaries, including American Assets Trust, L.P. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “our Operating Partnership” or “the Operating Partnership” refer to American Assets Trust, L.P. together with its consolidated subsidiaries.

American Assets Trust, Inc. operates as a real estate investment trust, or REIT, and is the sole general partner of the Operating Partnership. As of September 30, 2018, American Assets Trust, Inc. owned an approximate 73.2% partnership interest in the Operating Partnership. The remaining 26.8% partnership interests are owned by non-affiliated investors and certain of our directors and executive officers. As the sole general partner of the Operating Partnership, American Assets Trust, Inc. has full, exclusive and complete authority and control over the Operating Partnership’s day-to-day management and business, can cause it to enter into certain major transactions, including acquisitions, dispositions and refinancings, and can cause changes in its line of business, capital structure and distribution policies.

The company believes that combining the quarterly reports on Form 10-Q of American Assets Trust, Inc. and the Operating Partnership into a single report will result in the following benefits:

- better reflects how management and the analyst community view the business as a single operating unit;
- enhance investors' understanding of American Assets Trust, Inc. and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- greater efficiency for American Assets Trust, Inc. and the Operating Partnership and resulting savings in time, effort and expense; and
- greater efficiency for investors by reducing duplicative disclosure by providing a single document for their review.

Management operates American Assets Trust, Inc. and the Operating Partnership as one enterprise. The management of American Assets Trust, Inc. and the Operating Partnership are the same.

There are a few differences between American Assets Trust, Inc. and the Operating Partnership, which are reflected in the disclosures in this report. We believe it is important to understand the differences between American Assets Trust, Inc. and the Operating Partnership in the context of how American Assets Trust, Inc. and the Operating Partnership operate as an interrelated consolidated company. American Assets Trust, Inc. is a REIT, whose only material asset is its ownership of partnership interests of the Operating Partnership. As a result, American Assets Trust, Inc. does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time to time and guaranteeing certain debt of the Operating Partnership. American Assets Trust, Inc. itself does not hold any indebtedness. The Operating Partnership holds substantially all the assets of the company, directly or indirectly holds the ownership interests in the company’s real estate ventures, conducts the operations of the business and is structured as a partnership with no publicly-traded equity. Except for net proceeds from public equity issuances by American Assets Trust, Inc., which are generally contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the company’s business through the Operating Partnership’s operations, by the Operating Partnership’s direct or indirect incurrence of indebtedness or through the issuance of operating partnership units.

Noncontrolling interests and stockholders’ equity and partners’ capital are the main areas of difference between the consolidated financial statements of American Assets Trust, Inc. and those of American Assets Trust, L.P. The

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partnership interests in the Operating Partnership that are not owned by American Assets Trust, Inc. are accounted for as partners' capital in the Operating Partnership's financial statements and as noncontrolling interests in American Assets Trust, Inc.'s financial statements. To help investors understand the significant differences between the company and the Operating Partnership, this report presents the following separate sections for each of American Assets Trust, Inc. and the Operating Partnership:

• consolidated financial statements;

• the following notes to the consolidated financial statements:

Debt;

Equity/Partners' Capital; and

Earnings Per Share/Unit; and

Liquidity and Capital Resources in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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This report also includes separate Item 4. Controls and Procedures sections and separate Exhibit 31 and 32 certifications for each of American Assets Trust, Inc. and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of American Assets Trust, Inc. have made the requisite certifications and American Assets Trust, Inc. and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

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**AMERICAN ASSETS TRUST, INC. AND AMERICAN ASSETS TRUST, L.P.  
 QUARTERLY REPORT ON FORM 10-Q  
 FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

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

	September 30, 2018 (unaudited)	December 31, 2017
<b>ASSETS</b>		
Real estate, at cost		
Operating real estate	\$2,540,319	\$2,536,474
Construction in progress	60,375	68,272
Held for development	9,392	9,392
	2,610,086	2,614,138
Accumulated depreciation	(574,519 )	(537,431 )
Net real estate	2,035,567	2,076,707
Cash and cash equivalents	56,220	82,610
Restricted cash	9,918	9,344
Accounts receivable, net	8,345	9,869
Deferred rent receivables, net	40,305	38,973
Other assets, net	46,421	42,361
<b>TOTAL ASSETS</b>	<b>\$2,196,776</b>	<b>\$2,259,864</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Secured notes payable, net	\$204,818	\$279,550
Unsecured notes payable, net	1,045,635	1,045,470
Unsecured line of credit, net	20,235	—
Accounts payable and accrued expenses	54,575	38,069
Security deposits payable	8,748	6,570
Other liabilities and deferred credits, net	47,274	46,061
Total liabilities	1,381,285	1,415,720
Commitments and contingencies (Note 11)		
<b>EQUITY:</b>		
American Assets Trust, Inc. stockholders' equity		
Common stock, \$0.01 par value, 490,000,000 shares authorized, 47,222,121 and 47,204,588 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	473	473
Additional paid-in capital	920,324	919,066
Accumulated dividends in excess of net income	(122,293 )	(97,280 )
Accumulated other comprehensive income	13,915	11,451
Total American Assets Trust, Inc. stockholders' equity	812,419	833,710
Noncontrolling interests	3,072	10,434
Total equity	815,491	844,144
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$2,196,776</b>	<b>\$2,259,864</b>

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



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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>REVENUE:</b>				
Rental income	\$78,079	\$78,135	\$231,172	\$221,100
Other property income	4,428	4,204	17,090	12,137
Total revenue	82,507	82,339	248,262	233,237
<b>EXPENSES:</b>				
Rental expenses	21,383	21,177	62,685	60,877
Real estate taxes	8,787	8,535	25,961	23,975
General and administrative	5,176	4,958	16,139	15,171
Depreciation and amortization	19,886	21,192	86,033	63,360
Total operating expenses	55,232	55,862	190,818	163,383
<b>OPERATING INCOME</b>	27,275	26,477	57,444	69,854
Interest expense	(12,879 )	(13,873 )	(39,387 )	(39,856 )
Other (expense) income, net	(125 )	(99 )	(64 )	403
<b>NET INCOME</b>	14,271	12,505	17,993	30,401
Net income attributable to restricted shares	(71 )	(60 )	(215 )	(181 )
Net income attributable to unitholders in the Operating Partnership	(3,806 )	(3,351 )	(4,765 )	(8,220 )
<b>NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, INC. STOCKHOLDERS</b>	\$10,394	\$9,094	\$13,013	\$22,000
<b>EARNINGS PER COMMON SHARE</b>				
Earnings per common share, basic	\$0.22	\$0.19	\$0.28	\$0.47
Weighted average shares of common stock outstanding - basic	46,959,752	46,898,086	46,945,095	46,650,403
Earnings per common share, diluted	\$0.22	\$0.19	\$0.28	\$0.47
Weighted average shares of common stock outstanding - diluted	64,137,366	64,093,066	64,133,584	64,081,697
<b>DIVIDENDS DECLARED PER COMMON SHARE</b>	\$0.27	\$0.26	\$0.81	\$0.78
<b>COMPREHENSIVE INCOME</b>				
Net income	\$14,271	\$12,505	\$17,993	\$30,401
Other comprehensive income (loss) - unrealized income (loss) on swap derivative during the period	567	87	4,303	(1,427 )
Reclassification of amortization of forward-starting swap included in interest expense	(320 )	(319 )	(959 )	(794 )
Comprehensive income	14,518	12,273	21,337	28,180
Comprehensive income attributable to non-controlling interest	(3,872 )	(3,263 )	(5,645 )	(7,447 )
Comprehensive income attributable to American Assets Trust, Inc.	\$10,646	\$9,010	\$15,692	\$20,733

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

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

	American Assets Trust, Inc. Stockholders' Equity					Noncontrolling	
	Common Shares		Additional Paid-in Capital	Accumulated Dividends in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Interests - Unitholders in the Total	
	Shares	Amount				Operating Partnership	Total
Balance at December 31, 2017	47,204,588	\$ 473	\$ 919,066	\$(97,280 )	\$ 11,451	\$ 10,434	\$ 844,144
Net income	—	—	—	13,228	—	4,765	17,993
Issuance of restricted stock	5,320	—	—	—	—	—	—
Forfeiture of restricted stock	(5,000 )	—	—	—	—	—	—
Conversion of operating partnership units	17,372	—	(916 )	—	—	916	—
Dividends declared and paid	—	—	—	(38,241 )	—	(13,923 )	(52,164 )
Stock-based compensation	—	—	2,180	—	—	—	2,180
Shares withheld for employee taxes	(159 )	—	(6 )	—	—	—	(6 )
Other comprehensive income - change in value of interest rate swaps	—	—	—	—	3,166	1,137	4,303
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(702 )	(257 )	(959 )
<b>Balance at September 30, 2018</b>	<b>47,222,121</b>	<b>\$ 473</b>	<b>\$ 920,324</b>	<b>\$(122,293 )</b>	<b>\$ 13,915</b>	<b>\$ 3,072</b>	<b>\$ 815,491</b>

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



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

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 17,993	\$ 30,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	153	(2,233 )
Depreciation and amortization	86,033	63,360
Amortization of debt issuance costs and debt fair value adjustments	1,165	2,625
Stock-based compensation expense	2,180	1,917
Settlement of derivative instruments	—	10,667
Other noncash interest expense	(959 )	(794 )
Other, net	4	1,665
Changes in operating assets and liabilities		
Change in accounts receivable	1,001	211
Change in other assets	(12 )	(547 )
Change in accounts payable and accrued expenses	8,292	17,299
Change in security deposits payable	2,178	622
Change in other liabilities and deferred credits	885	462
<b>Net cash provided by operating activities</b>	<b>118,913</b>	<b>125,655</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of real estate	—	(278,141 )
Capital expenditures	(31,666 )	(34,757 )
Leasing commissions	(5,127 )	(3,742 )
<b>Net cash used in investing activities</b>	<b>(36,793 )</b>	<b>(316,640 )</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of secured notes payable	(74,843 )	(166,781 )
Proceeds from unsecured line of credit	35,000	173,000
Repayment of unsecured line of credit	(13,000 )	(193,000 )
Proceeds from unsecured notes payable	—	450,000
Debt issuance costs	(2,687 )	(2,557 )
Proceeds from issuance of common stock, net	(236 )	30,075
Dividends paid to common stock and unitholders	(52,164 )	(50,172 )
Shares withheld for employee taxes	(6 )	—
<b>Net cash (used in) provided by financing activities</b>	<b>(107,936)</b>	<b>240,565</b>
Net decrease (increase) in cash and cash equivalents	(25,816 )	49,580
Cash, cash equivalents and restricted cash, beginning of period	91,954	54,751
Cash, cash equivalents and restricted cash, end of period	\$ 66,138	\$ 104,331

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same amounts shown in the consolidated statement of cash flows:

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 56,220	\$ 94,207

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Restricted cash	9,918	10,124
Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows	\$66,138	\$104,331

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

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**American Assets Trust, L.P.**  
**Consolidated Balance Sheets**  
**(In Thousands, Except Unit Data)**

	September 30, 2018 (unaudited)	December 31, 2017
<b>ASSETS</b>		
Real estate, at cost		
Operating real estate	\$2,540,319	\$2,536,474
Construction in progress	60,375	68,272
Held for development	9,392	9,392
	2,610,086	2,614,138
Accumulated depreciation	(574,519 )	(537,431 )
Net real estate	2,035,567	2,076,707
Cash and cash equivalents	56,220	82,610
Restricted cash	9,918	9,344
Accounts receivable, net	8,345	9,869
Deferred rent receivables, net	40,305	38,973
Other assets, net	46,421	42,361
<b>TOTAL ASSETS</b>	<b>\$2,196,776</b>	<b>\$2,259,864</b>
<b>LIABILITIES AND CAPITAL</b>		
<b>LIABILITIES:</b>		
Secured notes payable, net	\$204,818	\$279,550
Unsecured notes payable, net	1,045,635	1,045,470
Unsecured line of credit, net	20,235	—
Accounts payable and accrued expenses	54,575	38,069
Security deposits payable	8,748	6,570
Other liabilities and deferred credits	47,274	46,061
Total liabilities	1,381,285	1,415,720
Commitments and contingencies (Note 11)		
<b>CAPITAL:</b>		
Limited partners' capital, 17,177,608 and 17,194,980 units issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	(2,107 )	6,135
General partner's capital, 47,222,121 and 47,204,588 units issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	798,504	822,259
Accumulated other comprehensive income	19,094	15,750
Total capital	815,491	844,144
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>\$2,196,776</b>	<b>\$2,259,864</b>

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

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**American Assets Trust, L.P.**  
**Consolidated Statements of Comprehensive Income**  
**(Unaudited)**  
**(In Thousands, Except Shares and Per Unit Data)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>REVENUE:</b>				
Rental income	\$78,079	\$78,135	\$231,172	\$221,100
Other property income	4,428	4,204	17,090	12,137
Total revenue	82,507	82,339	248,262	233,237
<b>EXPENSES:</b>				
Rental expenses	21,383	21,177	62,685	60,877
Real estate taxes	8,787	8,535	25,961	23,975
General and administrative	5,176	4,958	16,139	15,171
Depreciation and amortization	19,886	21,192	86,033	63,360
Total operating expenses	55,232	55,862	190,818	163,383
<b>OPERATING INCOME</b>	27,275	26,477	57,444	69,854
Interest expense	(12,879 )	(13,873 )	(39,387 )	(39,856 )
Other (expense) income, net	(125 )	(99 )	(64 )	403
<b>NET INCOME</b>	14,271	12,505	17,993	30,401
Net income attributable to restricted shares	(71 )	(60 )	(215 )	(181 )
<b>NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, L.P.</b>	\$14,200	\$12,445	\$17,778	\$30,220
<b>EARNINGS PER UNIT - BASIC</b>				
Earnings per unit, basic	\$0.22	\$0.19	\$0.28	\$0.47
Weighted average units outstanding - basic	64,137,366	64,093,066	64,133,584	64,081,697
<b>EARNINGS PER UNIT - DILUTED</b>				
Earnings per unit, diluted	\$0.22	\$0.19	\$0.28	\$0.47
Weighted average units outstanding - diluted	64,137,366	64,093,066	64,133,584	64,081,697
<b>DISTRIBUTIONS PER UNIT</b>	\$0.27	\$0.26	\$0.81	\$0.78
<b>COMPREHENSIVE INCOME</b>				
Net income	\$14,271	\$12,505	\$17,993	\$30,401
Other comprehensive income (loss) - unrealized income (loss) on swap derivative during the period	567	87	4,303	(1,427 )
Reclassification of amortization of forward-starting swap included in interest expense	(320 )	(319 )	(959 )	(794 )
Comprehensive income	14,518	12,273	21,337	28,180
Comprehensive income attributable to Limited Partners	(3,872 )	(3,263 )	(5,645 )	(7,447 )
Comprehensive income attributable to General Partner	\$10,646	\$9,010	\$15,692	\$20,733

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



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**American Assets Trust, L.P.**  
**Consolidated Statement of Partners' Capital**  
**(Unaudited)**  
**(In Thousands, Except Unit Data)**

	Limited Partners' Capital <sup>(1)</sup>		General Partner's Capital <sup>(2)</sup>		Accumulated Other Comprehensive Income (Loss)	Total Capital
	Units	Amount	Units	Amount		
Balance at December 31, 2017	17,194,980	\$6,135	47,204,588	\$822,259	\$ 15,750	\$844,144
Net income	—	4,765	—	13,228	—	17,993
Conversion of operating partnership units	(17,372 )	916	17,372	(916 )	—	—
Issuance of restricted units	—	—	5,320	—	—	—
Forfeiture of restricted units	—	—	(5,000 )	—	—	—
Distributions	—	(13,923 )	—	(38,241 )	—	(52,164 )
Stock-based compensation	—	—	—	2,180	—	2,180
Units withheld for employee taxes	—	—	(159 )	(6 )	—	(6 )
Other comprehensive income - change in value of interest rate swap	—	—	—	—	4,303	4,303
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(959 )	(959 )
<b>Balance at September 30, 2018</b>	<b>17,177,608</b>	<b>\$(2,107 )</b>	<b>47,222,121</b>	<b>\$798,504</b>	<b>\$ 19,094</b>	<b>\$815,491</b>

(1) Consists of limited partnership interests held by third parties.

(2) Consists of general partnership interests held by American Assets Trust, Inc.

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

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**American Assets Trust, L.P.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited, In Thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 17,993	\$ 30,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	153	(2,233 )
Depreciation and amortization	86,033	63,360
Amortization of debt issuance costs and debt fair value adjustments	1,165	2,625
Stock-based compensation expense	2,180	1,917
Settlement of derivative instruments	—	10,667
Other noncash interest expense	(959 )	(794 )
Other, net	4	1,665
Changes in operating assets and liabilities		
Change in accounts receivable	1,001	211
Change in other assets	(12 )	(547 )
Change in accounts payable and accrued expenses	8,292	17,299
Change in security deposits payable	2,178	622
Change in other liabilities and deferred credits	885	462
<b>Net cash provided by operating activities</b>	<b>118,913</b>	<b>125,655</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of real estate	—	(278,141 )
Capital expenditures	(31,666 )	(34,757 )
Leasing commissions	(5,127 )	(3,742 )
<b>Net cash used in investing activities</b>	<b>(36,793 )</b>	<b>(316,640 )</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of secured notes payable	(74,843 )	(166,781 )
Proceeds from unsecured line of credit	35,000	173,000
Repayment of unsecured line of credit	(13,000 )	(193,000 )
Proceeds from unsecured notes payable	—	450,000
Debt issuance costs	(2,687 )	(2,557 )
Contributions from American Assets Trust, Inc.	(236 )	30,075
Distributions	(52,164 )	(50,172 )
Shares withheld for employee taxes	(6 )	—
<b>Net cash (used in) provided by financing activities</b>	<b>(107,936)</b>	<b>240,565</b>
Net (decrease) increase in cash and cash equivalents	(25,816 )	49,580
Cash, cash equivalents and restricted cash, beginning of period	91,954	54,751
Cash, cash equivalents and restricted cash, end of period	\$ 66,138	\$ 104,331

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same amounts shown in the consolidated statement of cash flows:

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 56,220	\$ 94,207
Restricted cash	9,918	10,124

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Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows \$66,138 \$104,331  
The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**American Assets Trust, Inc. and American Assets Trust, L.P.****Notes to Consolidated Financial Statements****September 30, 2018****(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 full service, vertically integrated, and self-administered REIT with approximately 196 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, 2018, we owned or had a controlling interest in 27 office, retail, multifamily and mixed-use operating properties, the operations of which we consolidate. Additionally, as of September 30, 2018, we owned land at three 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	Gateway Marketplace	Alamo Quarry Market
Carmel Mountain Plaza	Del Monte Center	Hassalo on Eighth - Retail
South Bay Marketplace	Geary Marketplace	
Lomas Santa Fe Plaza	The Shops at Kalakaua	
Solana Beach Towne Centre	Waialele Center	

*Office*

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

*Multifamily*

Loma Palisades	Hassalo on Eighth - Residential
Imperial Beach Gardens	
Mariner's Point	
Santa Fe Park RV Resort	
Pacific Ridge Apartments	

*Mixed-Use*

Waikiki Beach Walk Retail and Embassy Suites™ Hotel

*Held for Development and/or Construction in Progress*

Solana Beach Corporate Centre – Land  
Solana Beach – Highway 101 – Land

Lloyd District Portfolio – Construction in Progress

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Table of Contents**American Assets Trust, Inc. and American Assets Trust, L.P.****Notes to Consolidated Financial Statements—(Continued)****September 30, 2018****(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.

The accompanying consolidated financial statements of the Company and the Operating Partnership 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 and Operating Partnership's annual report on Form 10-K for the year ended December 31, 2017.

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, number of units, square footage, employee numbers or percentages of beneficial ownership of our shares 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):

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Supplemental cash flow information</b>		
Total interest costs incurred	\$40,602	\$41,009
Interest capitalized	\$1,215	\$1,153
Interest expense	\$39,387	\$39,856
Cash paid for interest, net of amounts capitalized	\$39,674	\$33,720
Cash paid for income taxes	\$337	\$296
<b>Supplemental schedule of noncash investing and financing activities</b>		
Accounts payable and accrued liabilities for construction in progress	\$7,381	\$(3,019)
Accrued leasing commissions	\$865	\$1,410
Reduction to capital for prepaid offering costs	\$236	\$129

***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, 2017. Except for the adoption of the accounting standards during the first quarter of 2018 as discussed below, there have been no changes to our significant accounting policies during the nine months ended September 30, 2018.

***Segment Information***

Segment information is prepared on the same basis that our chief operating decision maker 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

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**American Assets Trust, Inc. and American Assets Trust, L.P.**

**Notes to Consolidated Financial Statements—(Continued)**

**September 30, 2018**

**(Unaudited)**

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.

***Recent Accounting Pronouncements***

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-2, *Leases (Topic 842)*, which provides the principles for the recognition, measurement, presentation and disclosure of leases. This ASU significantly changes the accounting for leases by requiring lessees to recognize assets and liabilities for leases greater than 12 months on their balance sheet. The lessor model stays substantially the same; however, there were modifications to conform lessor accounting with the lessee model, eliminate real estate specific guidance, further define certain lease and non-lease components, and change the definition of initial direct costs of leases requiring significantly more leasing related costs to be expensed upfront.

The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. We plan to adopt the provisions of ASU No. 2016-2 effective January 1, 2019 using the modified retrospective approach. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows lessors to elect a practical expedient by class of underlying assets to not separate non-lease components from the lease component if certain conditions are met. The lessor's practical expedient election would be limited to circumstances in which the non-lease components otherwise would be accounted for under the new revenue guidance and both (i) the timing and pattern of transfer are the same for the non-lease component and the related lease component and (ii) the lease component would be classified as an operating lease. The Company expects to elect the practical expedient which would allow the Company the ability to combine the lease and non-lease components if the underlying asset meets the criteria above. ASU 2018-11 also includes an optional transition method in addition to the existing requirements for transition to the new standard by recognizing a cumulative effect adjustment to the opening balance sheet of retained earnings in the period of adoption. Consequently, a company's reporting for the comparative periods presented in the financial statements would continue to be in accordance with current GAAP (Topic 840). The Company plans to elect this practical expedient as well.

While we continue to evaluate the impact this pronouncement will have on our consolidated financial statements, we expect that the real estate leases designated as operating leases in Note 11 - Commitments and Contingencies, will be recognized as right-of-use assets and corresponding lease liabilities on our consolidated balance sheets upon adoption. The Company is currently assessing the potential changes to its accounting and whether such changes will have a material impact on its consolidated financial statements and condensed notes to its consolidated financial statements, as well as its business processes, controls and systems.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for U.S. GAAP and International Financial Reporting Standards. The pronouncement is effective for reporting periods beginning after December 15, 2017. We adopted the provisions of the ASU effective January 1, 2018 using the modified retrospective approach. As discussed above, leases are specifically excluded from this and will be governed by the applicable lease codification.

We evaluated the revenue recognition for all contracts within this scope under existing accounting standards and under the new revenue recognition ASU and confirmed that there were no differences in the amounts recognized or the pattern of recognition. This evaluation included revenues from the hotel portion of our mixed-use property, parking income and excise taxes charged to customers. Therefore, the adoption of this ASU did not result in an adjustment to our retained earnings on January 1, 2018.

Table of Contents**American Assets Trust, Inc. and American Assets Trust, L.P.****Notes to Consolidated Financial Statements—(Continued)****September 30, 2018****(Unaudited)****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, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
In-place leases	\$ 41,134	\$ 54,206
Accumulated amortization	(34,364 )	(45,835 )
Above market leases	11,963	21,262
Accumulated amortization	(11,293 )	(20,084 )
Acquired lease intangible assets, net	\$ 7,440	\$ 9,549
Below market leases	\$ 65,260	\$ 67,423
Accumulated accretion	(37,808 )	(37,241 )
Acquired lease intangible liabilities, net	\$ 27,452	\$ 30,182

**NOTE 3. 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. 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.

We measure the fair value of our deferred compensation liability, which is included in other liabilities and deferred credits on the consolidated balance sheet, on a recurring basis using Level 2 inputs. 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.

The fair value of the interest rate swap agreements are based on the estimated amounts we would receive or pay to terminate the contract at the reporting date and are determined using interest rate pricing models and interest rate related observable inputs. The effective portion of changes in the fair value of the derivatives that are designated as cash flow hedges are being recorded in accumulated other comprehensive income and will be subsequently reclassified into earnings during the period in which the hedged forecasted transaction affects earnings.

We incorporate credit valuation adjustments to appropriately reflect both our own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of non-performance risk, we considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of

September 30, 2018 we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative position and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivative. As a result, we have determined that our derivative valuation in its entirety is classified in Level 2 of the fair value hierarchy.



Table of Contents**American Assets Trust, Inc. and American Assets Trust, L.P.****Notes to Consolidated Financial Statements—(Continued)****September 30, 2018****(Unaudited)**

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, 2018			December 31, 2017		
	Level 1	Level 2	Level 3 Total	Level 1	Level 2	Level 3 Total
Deferred compensation liability	\$1,350	\$—	\$1,350	\$1,156	\$—	\$1,156
Interest rate swap asset	\$9,384	\$—	\$9,384	\$5,091	\$—	\$5,091
Interest rate swap liability	\$—	\$—	\$—	\$10	\$—	\$10

The fair value of our secured notes payable and unsecured senior guaranteed notes are 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 4.4% to 5.2%.

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. The carrying values of our revolving line of credit and term loan set forth below are deemed to be at fair value since the outstanding debt is directly tied to monthly LIBOR contracts. 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, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Secured notes payable, net	\$204,818	\$205,792	\$279,550	\$286,156
Unsecured term loans, net	\$248,653	\$250,000	\$248,839	\$250,000
Unsecured senior guaranteed notes, net	\$796,982	\$773,982	\$796,631	\$802,699
Unsecured line of credit, net	\$20,235	\$22,000	\$—	\$—

**NOTE 4. DERIVATIVE AND HEDGING ACTIVITIES**

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish these objectives, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The following is a summary of the terms of our outstanding interest rate swaps as of September 30, 2018 (dollars in thousands):

Swap Counterparty	Notional Amount	Effective Date	Maturity Date	Fair Value
Bank of America, N.A.	\$100,000	1/9/2014	1/9/2019	\$152
U.S. Bank N.A.	\$100,000	3/1/2016	3/1/2023	\$6,135
Wells Fargo Bank, N.A.	\$50,000	5/2/2016	3/1/2023	\$3,097

The effective portion of changes in the fair value of the derivatives that are designated as cash flow hedges are being recorded in accumulated other comprehensive income and will be subsequently reclassified into earnings during the period in which the hedged forecasted transaction affects earnings for as long as hedged cash flows remain probable. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivative. This analysis reflects the contractual terms of the derivative, including the period to maturity, counter party credit risk and uses observable market-based inputs,

including interest rate curves, and implied volatilities. The fair value of the interest rate swap is determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

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**American Assets Trust, Inc. and American Assets Trust, L.P.**  
**Notes to Consolidated Financial Statements—(Continued)**  
**September 30, 2018**  
**(Unaudited)**

**NOTE 5. OTHER ASSETS**

Other assets consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Leasing commissions, net of accumulated amortization of \$27,877 and \$28,318, respectively	\$ 22,414	\$ 20,633
Interest rate swap asset	9,384	5,091
Acquired above market leases, net	670	1,178
Acquired in-place leases, net	6,770	8,371
Lease incentives, net of accumulated amortization of \$253 and \$136, respectively	1,051	916
Other intangible assets, net of accumulated amortization of \$979 and \$1,115, respectively	190	227
Prepaid expenses and other	5,942	5,945
Total other assets	\$ 46,421	\$ 42,361

**NOTE 6. OTHER LIABILITIES AND DEFERRED CREDITS**

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

	September 30, December 31,	
	2018	2017
Acquired below market leases, net	\$ 27,452	\$ 30,182
Prepaid rent and deferred revenue	8,218	8,429
Interest rate swap liability	—	10
Deferred rent expense and lease intangible	2,284	1,670
Deferred compensation	1,350	1,156
Deferred tax liability	116	123
Straight-line rent liability	7,793	4,428
Other liabilities	61	63
Total other liabilities and deferred credits, net	\$ 47,274	\$ 46,061

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

**NOTE 7. DEBT*****Debt of American Assets Trust, Inc.***

American Assets Trust, Inc. does not hold any indebtedness. All debt is held directly or indirectly by the Operating Partnership; however, American Assets Trust, Inc. has guaranteed the Operating Partnership's obligations under the (i) amended and restated credit facility, (ii) term loans and (iii) senior guaranteed notes. Additionally, American Assets Trust, Inc. has provided carve-out guarantees on certain property-level mortgage debt.

Table of Contents**American Assets Trust, Inc. and American Assets Trust, L.P.****Notes to Consolidated Financial Statements—(Continued)****September 30, 2018****(Unaudited)*****Debt of American Assets Trust, L.P.*****Secured notes payable**

The following is a summary of our total secured notes payable outstanding as of September 30, 2018 and December 31, 2017 (in thousands):

Description of Debt	Principal Balance as of		Stated Interest Rate		Stated Maturity Date
	September 30, 2018	December 31, 2017	as of September 30, 2018		
Loma Palisades <sup>(1)(2)</sup>	—	73,744	6.09	%	July 1, 2018
One Beach Street <sup>(1)</sup>	21,900	21,900	3.94	%	April 1, 2019
Torrey Reserve—North Court <sup>(3)</sup>	19,723	20,023	7.22	%	June 1, 2019
Torrey Reserve—VCI, VCII, VCIII	6,669	6,764	6.36	%	June 1, 2020
Solana Beach Corporate Centre I-II <sup>(3)</sup>	10,559	10,721	5.91	%	June 1, 2020
Solana Beach Towne Centre <sup>(3)</sup>	35,196	35,737	5.91	%	June 1, 2020
City Center Bellevue <sup>(1)</sup>	111,000	111,000	3.98	%	November 1, 2022
	205,047	279,889			
Debt issuance costs, net of accumulated amortization of \$857 and \$1,191, respectively	(229)	(339)			
<b>Total Secured Notes Payable Outstanding</b>	<b>\$204,818</b>	<b>\$279,550</b>			

(1) Interest only.

(2) Loan repaid in full, without premium or penalty, on March 30, 2018.

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

Certain loans require us to comply with various financial covenants. As of September 30, 2018, the Operating Partnership was in compliance with these financial covenants.

Table of Contents**American Assets Trust, Inc. and American Assets Trust, L.P.****Notes to Consolidated Financial Statements—(Continued)****September 30, 2018****(Unaudited)****Unsecured notes payable**

The following is a summary of the Operating Partnership's total unsecured notes payable outstanding as of September 30, 2018 and December 31, 2017 (in thousands):

Description of Debt	Principal Balance as of		Stated Interest Rate as of September 30, 2018	Stated Maturity Date
	September 30, 2018	December 31, 2017		
Term Loan A	\$ 100,000	\$ 100,000	Variable <sup>(1)</sup>	January 9, 2019
Senior Guaranteed Notes, Series A	150,000	150,000	4.04 % <sup>(2)</sup>	October 31, 2021
Term Loan B	100,000	100,000	Variable <sup>(3)</sup>	March 1, 2023
Term Loan C	50,000	50,000	Variable <sup>(4)</sup>	March 1, 2023
Senior Guaranteed Notes, Series F	100,000	100,000	3.78 % <sup>(5)</sup>	July 19, 2024
Senior Guaranteed Notes, Series B	100,000	100,000	4.45 %	