

American Assets Trust, Inc.  
Form 10-Q  
November 06, 2015  
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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, 2015

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) (858) 350-2600 (Registrant's Telephone Number, Including Area Code)	92130 (Zip Code)
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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.             Yes    No  
American Assets Trust, L.P.            Yes    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.)

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

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the preceding 12 months (or for such shorter period that the Registrant was required to submit and post 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 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):

American Assets Trust, Inc.

Large Accelerated Filer  Accelerated Filer

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

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 45,346,302 shares of common stock, par value \$0.01 per share, outstanding as of November 6, 2015.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2015 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, 2015, American Assets Trust, Inc. owned an approximate 71.6% partnership interest in the Operating Partnership. The remaining 28.4% 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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 FOR THE QUARTER ENDED SEPTEMBER 30, 2015

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## PART 1 - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

American Assets Trust, Inc.

Consolidated Balance Sheets

(In Thousands, Except Share Data)

	September 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Real estate, at cost		
Operating real estate	\$ 1,994,925	\$ 1,931,698
Construction in progress	229,212	195,736
Held for development	9,423	9,390
	2,233,560	2,136,824
Accumulated depreciation	(396,464	) (361,424
Net real estate	1,837,096	1,775,400
Cash and cash equivalents	40,158	59,357
Restricted cash	25,208	10,994
Accounts receivable, net	8,151	6,727
Deferred rent receivables, net	37,714	35,883
Other assets, net	47,748	53,401
<b>TOTAL ASSETS</b>	<b>\$ 1,996,075</b>	<b>\$ 1,941,762</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Secured notes payable	\$ 579,449	\$ 812,811
Unsecured notes payable	450,000	250,000
Unsecured line of credit	25,000	—
Accounts payable and accrued expenses	50,806	50,861
Security deposits payable	5,781	5,521
Other liabilities and deferred credits, net	52,526	55,993
Total liabilities	1,163,562	1,175,186
Commitments and contingencies (Note 12)		
<b>EQUITY:</b>		
American Assets Trust, Inc. stockholders' equity		
Common stock, \$0.01 par value, 490,000,000 shares authorized, 45,349,121 and 43,701,669 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	454	437
Additional paid-in capital	863,515	795,065
Accumulated dividends in excess of net income	(60,976	) (60,291
Accumulated other comprehensive (loss) income	(1,030	) 92
Total American Assets Trust, Inc. stockholders' equity	801,963	735,303
Noncontrolling interests	30,550	31,273
Total equity	832,513	766,576
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,996,075</b>	<b>\$ 1,941,762</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,	
	2015	2014	2015	2014
<b>REVENUE:</b>				
Rental income	\$67,471	\$63,593	\$193,776	\$182,868
Other property income	3,818	3,750	10,317	10,654
Total revenue	71,289	67,343	204,093	193,522
<b>EXPENSES:</b>				
Rental expenses	18,985	17,374	52,810	50,494
Real estate taxes	6,676	5,899	18,710	17,054
General and administrative	6,357	4,682	16,161	13,929
Depreciation and amortization	15,761	16,352	46,154	50,902
Total operating expenses	47,779	44,307	133,835	132,379
<b>OPERATING INCOME</b>	<b>23,510</b>	<b>23,036</b>	<b>70,258</b>	<b>61,143</b>
Interest expense	(11,258)	(13,325)	(34,250)	(40,396)
Gain on sale of real estate	7,121	—	7,121	—
Other income (expense), net	(347)	(621)	(440)	352
<b>NET INCOME</b>	<b>19,026</b>	<b>9,090</b>	<b>42,689</b>	<b>21,099</b>
Net income attributable to restricted shares	(32)	(95)	(115)	(259)
Net income attributable to unitholders in the Operating Partnership	(5,432)	(2,578)	(12,277)	(6,108)
<b>NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, INC. STOCKHOLDERS</b>	<b>\$13,562</b>	<b>\$6,417</b>	<b>\$30,297</b>	<b>\$14,732</b>
<b>EARNINGS PER COMMON SHARE</b>				
Earnings per common share, basic	\$0.30	\$0.15	\$0.69	\$0.35
Weighted average shares of common stock outstanding - basic	44,998,281	42,539,019	44,176,007	41,653,229
Earnings per common share, diluted	\$0.30	\$0.15	\$0.69	\$0.35
Weighted average shares of common stock outstanding - diluted	62,897,797	60,444,276	62,076,238	59,559,944
<b>DIVIDENDS DECLARED PER COMMON SHARE</b>	<b>\$0.2325</b>	<b>\$0.2200</b>	<b>\$0.6975</b>	<b>\$0.6600</b>
<b>COMPREHENSIVE INCOME</b>				
Net income	\$19,026	\$9,090	\$42,689	\$21,099
Other comprehensive income (loss) - unrealized gain (loss) on swap derivative during the period	(908)	2,439	(1,394)	882
Reclassification of amortization of forward-starting swap included in interest expense	(57)	—	(173)	—
Comprehensive income	18,061	11,529	41,122	21,981
Comprehensive income attributable to non-controlling interest	(5,155)	(3,300)	(11,829)	(6,366)
	\$12,906	\$8,229	\$29,293	\$15,615

Comprehensive income attributable to American Assets  
Trust, Inc.

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			Accumulated Dividends in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests - Unitholders in the Operating Partnership	Total
	Common Shares						
	Shares	Amount	Additional Paid-in Capital				
Balance at December 31, 2014	43,701,669	\$437	\$795,065	\$ (60,291 )	\$ 92	\$ 31,273	\$766,576
Net income	—	—	—	30,415	—	12,274	42,689
Common shares issued	1,812,451	18	72,818	—	—	—	72,836
Issuance of restricted stock	5,044	—	—	—	—	—	—
Forfeiture of restricted stock	(26,664 )	—	—	—	—	—	—
Conversion of operating partnership units	5,741	—	67	—	—	(67 )	—
Dividends declared and paid	—	—	—	(31,100 )	—	(12,485 )	(43,585 )
Stock-based compensation	—	—	2,137	—	—	—	2,137
Shares withheld for employee taxes	(149,120 )	(1 )	(6,572 )	—	—	—	(6,573 )
Other comprehensive loss - change in value of interest rate swap	—	—	—	—	(999 )	(395 )	(1,394 )
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(123 )	(50 )	(173 )
Balance at September 30, 2015	45,349,121	\$454	\$863,515	\$ (60,976 )	\$ (1,030 )	\$ 30,550	\$832,513

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

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

	Nine Months Ended September 30,	
	2015	2014
<b>OPERATING ACTIVITIES</b>		
Net income	\$42,689	\$21,099
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	(4,206	) (4,360 )
Depreciation and amortization	46,154	50,902
Amortization of debt issuance costs and debt fair value adjustments	3,160	3,046
Gain on sale of real estate	(7,121	) —
Stock-based compensation expense	2,137	2,571
Settlement of forward interest rate swap agreement	—	1,617
Other noncash interest expense	(173	) —
Other, net	(1,074	) (839 )
Changes in operating assets and liabilities		
Change in restricted cash	(1,253	) (1,438 )
Change in accounts receivable	(1,597	) (195 )
Change in other assets	(460	) (168 )
Change in accounts payable and accrued expenses	11,191	7,298
Change in security deposits payable	318	113
Change in other liabilities and deferred credits	278	1,751
Net cash provided by operating activities	90,043	81,397
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(115,156	) (94,877 )
Proceeds from sale of real estate, net of selling costs	12,259	—
Change in restricted cash	(12,961	) (1,272 )
Leasing commissions	(3,242	) (2,805 )
Net cash used in investing activities	(119,100	) (98,954 )
<b>FINANCING ACTIVITIES</b>		
Repayment of secured notes payable	(235,546	) (1,169 )
Proceeds from term loan	—	100,000
Proceeds from unsecured line of credit	60,000	—
Repayment of unsecured line of credit	(35,000	) (93,000 )
Proceeds from issuance of unsecured notes payable	200,000	—
Debt issuance costs	(2,274	) (1,957 )
Proceeds from issuance of common stock, net	72,836	104,148
Dividends paid to common stock and unitholders	(43,585	) (39,988 )
Shares withheld for employee taxes	(6,573	) (4,319 )
Net cash provided by financing activities	9,858	63,715
Net (decrease) increase in cash and cash equivalents	(19,199	) 46,158
Cash and cash equivalents, beginning of period	59,357	48,987
Cash and cash equivalents, end of period	\$40,158	\$95,145

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, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Real estate, at cost		
Operating real estate	\$ 1,994,925	\$ 1,931,698
Construction in progress	229,212	195,736
Held for development	9,423	9,390
	2,233,560	2,136,824
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Net real estate	1,837,096	1,775,400
Cash and cash equivalents	40,158	59,357
Restricted cash	25,208	10,994
Accounts receivable, net	8,151	6,727
Deferred rent receivables, net	37,714	35,883
Other assets, net	47,748	53,401
<b>TOTAL ASSETS</b>	<b>\$ 1,996,075</b>	<b>\$ 1,941,762</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Secured notes payable	\$ 579,449	\$ 812,811
Unsecured notes payable	450,000	250,000
Unsecured line of credit	25,000	—
Accounts payable and accrued expenses	50,806	50,861
Security deposits payable	5,781	5,521
Other liabilities and deferred credits	52,526	55,993
Total liabilities	1,163,562	1,175,186
Commitments and contingencies (Note 12)		
<b>CAPITAL:</b>		
Limited partners' capital, 17,899,516 and 17,905,257 units issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	30,957	31,235
General partner's capital, 45,349,121 and 43,701,669 units issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	802,993	735,211
Accumulated other comprehensive (loss) income	(1,437	) 130
Total capital	832,513	766,576
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>\$ 1,996,075</b>	<b>\$ 1,941,762</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,	
	2015	2014	2015	2014
REVENUE:				