

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

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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	92130
(Address of Principal Executive Offices)	(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. 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.)

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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
ASSETS		
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
TOTAL ASSETS	\$2,196,776	\$2,259,864
LIABILITIES AND EQUITY		
LIABILITIES:		
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)		
EQUITY:		
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
TOTAL LIABILITIES AND EQUITY	\$2,196,776	\$2,259,864

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
REVENUE:				
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
EXPENSES:				
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
OPERATING INCOME	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
NET INCOME	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)
NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, INC. STOCKHOLDERS	\$10,394	\$9,094	\$13,013	\$22,000
EARNINGS PER COMMON SHARE				
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
DIVIDENDS DECLARED PER COMMON SHARE	\$0.27	\$0.26	\$0.81	\$0.78
COMPREHENSIVE INCOME				
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)
Balance at September 30, 2018	47,222,121	\$ 473	\$ 920,324	\$(122,293)	\$ 13,915	\$ 3,072	\$ 815,491

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,	
	2018	2017
OPERATING ACTIVITIES		
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
Net cash provided by operating activities	118,913	125,655
INVESTING ACTIVITIES		
Acquisition of real estate	—	(278,141)
Capital expenditures	(31,666)	(34,757)
Leasing commissions	(5,127)	(3,742)
Net cash used in investing activities	(36,793)	(316,640)
FINANCING ACTIVITIES		
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)	—
Net cash (used in) provided by financing activities	(107,936)	240,565
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:

	Nine Months Ended September 30,	
	2018	2017
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
ASSETS		
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
TOTAL ASSETS	\$2,196,776	\$2,259,864
LIABILITIES AND CAPITAL		
LIABILITIES:		
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)		
CAPITAL:		
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
TOTAL LIABILITIES AND CAPITAL	\$2,196,776	\$2,259,864

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
REVENUE:				
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
EXPENSES:				
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
OPERATING INCOME	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
NET INCOME	14,271	12,505	17,993	30,401
Net income attributable to restricted shares	(71)	(60)	(215)	(181)
NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, L.P.	\$14,200	\$12,445	\$17,778	\$30,220
EARNINGS PER UNIT - BASIC				
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
EARNINGS PER UNIT - DILUTED				
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
DISTRIBUTIONS PER UNIT	\$0.27	\$0.26	\$0.81	\$0.78
COMPREHENSIVE INCOME				
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 ⁽¹⁾		General Partner's Capital ⁽²⁾		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)
Balance at September 30, 2018	17,177,608	\$(2,107)	47,222,121	\$798,504	\$ 19,094	\$815,491

(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)

	Nine Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
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
Net cash provided by operating activities	118,913	125,655
INVESTING ACTIVITIES		
Acquisition of real estate	—	(278,141)
Capital expenditures	(31,666)	(34,757)
Leasing commissions	(5,127)	(3,742)
Net cash used in investing activities	(36,793)	(316,640)
FINANCING ACTIVITIES		
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)	—
Net cash (used in) provided by financing activities	(107,936)	240,565
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:

	Nine Months Ended September 30,	
	2018	2017
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.

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	Waikale 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):

	Nine Months Ended	
	September 30,	
	2018	2017
Supplemental cash flow information		
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
Supplemental schedule of noncash investing and financing activities		
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, December 31,	
	2018	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, 2018	December 31, 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 ⁽¹⁾⁽²⁾	—	73,744	6.09	%	July 1, 2018
One Beach Street ⁽¹⁾	21,900	21,900	3.94	%	April 1, 2019
Torrey Reserve—North Court ⁽³⁾	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 ⁽³⁾	10,559	10,721	5.91	%	June 1, 2020
Solana Beach Towne Centre ⁽³⁾	35,196	35,737	5.91	%	June 1, 2020
City Center Bellevue ⁽¹⁾	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)			
Total Secured Notes Payable Outstanding	\$204,818	\$279,550			

(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 ⁽¹⁾	January 9, 2019
Senior Guaranteed Notes, Series A	150,000	150,000	4.04 % ⁽²⁾	October 31, 2021
Term Loan B	100,000	100,000	Variable ⁽³⁾	March 1, 2023
Term Loan C	50,000	50,000	Variable ⁽⁴⁾	March 1, 2023
Senior Guaranteed Notes, Series F	100,000	100,000	3.78 % ⁽⁵⁾	July 19, 2024
Senior Guaranteed Notes, Series B	100,000	100,000	4.45 %	February 2, 2025
Senior Guaranteed Notes, Series C	100,000	100,000	4.50 %	April 1, 2025
Senior Guaranteed Notes, Series D	250,000	250,000	4.29 % ⁽⁶⁾	March 1, 2027
Senior Guaranteed Notes, Series E	100,000	100,000	4.24 % ⁽⁷⁾	May 23, 2029
	1,050,000	1,050,000		
Debt issuance costs, net of accumulated amortization of \$6,616 and \$5,866, respectively	(4,365)	(4,530)		
Total Unsecured Notes Payable	\$1,045,635	\$1,045,470		

(1) The Operating Partnership has entered into an interest rate swap agreement that is intended to fix the interest rate associated with Term Loan A at approximately 3.08% through its maturity date and extension options, subject to adjustments based on our consolidated leverage ratio.

(2) The Operating Partnership entered into a one-month forward-starting seven years swap contract on August 19, 2014, which was settled on September 19, 2014 at a gain of approximately \$1.6 million. The forward-starting seven-year swap contract was deemed to be a highly effective cash flow hedge, accordingly, the effective interest rate is approximately 3.88% per annum.

(3) The Operating Partnership has entered into an interest rate swap agreement that is intended to fix the interest rate associated with Term Loan B at approximately 3.15% through its maturity date, subject to adjustments based on our consolidated leverage ratio. Effective March 1, 2018, the effective interest rate associated with Term Loan B is approximately 2.75%, subject to adjustments based on our consolidated leverage ratio.

(4) The Operating Partnership has entered into an interest rate swap agreement that is intended to fix the interest rate associated with Term Loan C at approximately 3.14% through its maturity date, subject to adjustments based on our consolidated leverage ratio. Effective March 1, 2018, the effective interest rate associated with Term Loan C is approximately 2.74%, subject to adjustments based on our consolidated leverage ratio.

(5) The Operating Partnership entered into a treasury lock contract on May 31, 2017, which was settled on June 23, 2017 at a loss of approximately \$0.5 million.

(6) The treasury lock contract was deemed to be a highly effective cash flow hedge, accordingly, the effective interest rate is approximately 3.85% per annum.

(7) The Operating Partnership entered into forward-starting interest rate swap contracts on March 29, 2016 and April 7, 2016, which were settled on January 18, 2017 at a gain of approximately \$10.4 million. The forward-starting interest rate swap contracts were deemed to be a highly effective cash flow hedge, accordingly, the effective interest rate is approximately 3.87% per annum.

(8) The Operating Partnership entered into a treasury lock contract on April 25, 2017, which was settled on May 11, 2017 at a gain of approximately \$0.7 million.

(9) The treasury lock contract was deemed to be a highly effective cash flow hedge, accordingly, the effective interest rate is approximately 4.18% per annum.

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.

Amended Term Loan Agreement

On January 9, 2018, we entered into the Third Amendment to the Term Loan Agreement (as so amended, the "Term Loan Agreement"), which maintains the seven years \$150 million unsecured term loan (referred to herein as Term Loan B and Term Loan C) to the Operating Partnership that matures on March 1, 2023 (the "\$150mm Term Loan"). Effective as of March 1, 2018, borrowings under the Term Loan Agreement with respect to the \$150mm Term Loan bear interest at floating rates equal to, at the Operating Partnership's option, either (1) LIBOR, plus a spread which ranges from 1.20% to 1.70% based on the Operating Partnership's consolidated leverage ratio, or (2) a base rate equal to the highest of (a) 0%, (b) the prime rate, (c) the federal funds rate plus 50 bps or (d) the Eurodollar rate plus 100 bps, in each case plus a spread which ranges from 0.70% to 1.35% based on the Operating Partnership's consolidated leverage ratio. Additionally, the Operating Partnership may elect for

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borrowings to bear interest based on a ratings-based pricing grid as per the Operating Partnership's then-applicable investment grade debt ratings under the terms set forth in the Term Loan Agreement.

Second Amended and Restated Credit Facility

On January 9, 2018, we entered into a second amended and restated credit agreement (the "Second Amended and Restated Credit Facility"). The Second Amended and Restated Credit Facility provides for aggregate, unsecured borrowing of \$450 million, consisting of a revolving line of credit of \$350 million (the "Revolver Loan") and a term loan of \$100 million (the "Term Loan A"). The Second Amended and Restated Credit Facility has an accordion feature that may allow us to increase the availability thereunder up to an additional \$350 million, subject to meeting specified requirements and obtaining additional commitments from lenders. At September 30, 2018, there was \$22 million outstanding under the Revolver Loan with approximately \$1.8 million of debt issuance costs, net.

Borrowings under the Second Amended and Restated Credit Agreement initially bear interest at floating rates equal to, at our option, either (1) LIBOR, plus a spread which ranges from (a) 1.05% to 1.50% (with respect to the Revolver Loan) and (b) 1.30% to 1.90% (with respect to Term Loan A), in each case based on our consolidated leverage ratio, or (2) a base rate equal to the highest of (a) the prime rate, (b) the federal funds rate plus 50 bps or (c) LIBOR plus 100 bps, plus a spread which ranges from (i) 0.10% to 0.50% (with respect to the Revolver Loan) and (ii) 0.30% to 0.90% (with respect to Term Loan A), in each case based on our consolidated leverage ratio. For the nine months ended September 30, 2018, the weighted average interest rate on the Revolver Loan was 3.08%.

The Revolver Loan initially matures on January 9, 2022, subject to our option to extend the Revolver Loan up to two times, with each such extension for a six months period. The Term Loan A matures on January 9, 2019 with no further extension options. The foregoing extension options are exercisable by us subject to the satisfaction of certain conditions.

Additionally, the Second Amended and Restated Credit Facility includes a number of customary financial covenants, including:

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

• A maximum secured leverage ratio (defined as total secured debt to secured total asset value) of 40%,

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

• A minimum unsecured interest coverage ratio of 1.75x,

• A maximum unsecured leverage ratio of 60%, and

• Recourse indebtedness at any time cannot exceed 15% of total asset value.

The Second Amended and Restated Credit Facility provides that our annual distributions may not exceed the greater of (1) 95% of our funds from operation ("FFO") or (2) the amount required for us to (a) qualify and maintain our REIT status and (b) avoid the payment of federal or state income or excise tax. If certain events of default exist or would result from a distribution, we may be precluded from making distributions other than those necessary to qualify and maintain our status as a REIT.

As of September 30, 2018, the Operating Partnership was in compliance with the financial covenants in the Second Amended and Restated Credit Facility.

NOTE 8. PARTNERS' CAPITAL OF AMERICAN ASSETS TRUST, L.P.

Noncontrolling interests in our Operating Partnership are interests in the Operating Partnership that are not owned by us. Noncontrolling interests consisted of 17,177,608 common units (the "noncontrolling common units"), and represented approximately 26.8% of the ownership interests in our Operating Partnership at September 30, 2018.

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.

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During the nine months ended September 30, 2018, 17,372 common units were converted into shares of our common stock.

Earnings Per Unit of the Operating Partnership

Basic earnings per unit (“EPU”) of the Operating Partnership is computed by dividing income applicable to unitholders by the weighted average Operating Partnership units outstanding, as adjusted for the effect of participating securities. Operating Partnership units granted in equity-based payment transactions that have non-forfeitable dividend equivalent rights are considered participating securities prior to vesting. The impact of unvested Operating Partnership unit awards on EPU has been calculated using the two-class method whereby earnings are allocated to the unvested Operating Partnership unit awards based on distributions and the unvested Operating Partnership units’ participation rights in undistributed earnings.

The calculation of diluted EPU for the three months ended September 30, 2018 and 2017 does not include the weighted average of 262,605 and 231,977 unvested Operating Partnership units, respectively, as these equity securities are either considered contingently issuable or the effect of including these equity securities was anti-dilutive to income from continuing operations and net income attributable to the unitholders. The calculation of diluted EPU for the nine months ended September 30, 2018 and 2017 does not include the weighted average of 265,762 and 232,041 unvested Operating Partnership units, respectively.

NOTE 9. EQUITY OF AMERICAN ASSETS TRUST, INC.***Stockholders' Equity***

On May 27, 2015, we entered into an at-the-market (“ATM”) equity program with five 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 \$250.0 million. On March 2, 2018, we amended certain of these equity programs, terminated one such program and entered into a new equity program with one new sales agent. The sales of shares of our common stock made through the ATM equity program, as amended, are made in “at-the-market” offerings as defined in Rule 415 of the Securities Act of 1933, as amended. During the nine months ended September 30, 2018, no shares of common stock were sold through the ATM equity program.

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 line of credit or other debt financing obligations, fund potential acquisition opportunities and/or for general corporate purposes. As of September 30, 2018, we had the capacity to issue up to an additional \$176.2 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.

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, 2018:

Period	Amount per Share/Unit	Period Covered	Dividend Paid Date
First Quarter 2018	\$ 0.27	January 1, 2018 to March 31, 2018	March 29, 2018
Second Quarter 2018	\$ 0.27	April 1, 2018 to June 30, 2018	June 28, 2018
Third Quarter 2018	\$ 0.27	July 1, 2018 to September 30, 2018	September 27, 2018

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 revenue recognition and compensation expense and in the basis of depreciable assets and estimated useful lives used to compute depreciation.

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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)*****Stock-Based Compensation***

We follow the FASB guidance related to stock compensation which establishes financial accounting and reporting standards for stock-based employee compensation plans, including all arrangements by which employees receive shares of stock or other equity instruments of the employer. The guidance also defines a fair value-based method of accounting for an employee stock option or similar equity instrument.

The following table summarizes the activity of restricted stock awards during the nine months ended September 30, 2018:

	Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2018	268,768	\$29.89
Granted	5,320	\$37.58
Vested	(6,719)	\$37.90
Forfeited	(5,000)	\$29.76
Nonvested at September 30, 2018	262,369	\$29.85

We recognize noncash compensation expense ratably over the vesting period, and accordingly, we recognized \$0.7 million and \$0.6 million in noncash compensation expense for the three month periods ended September 30, 2018 and 2017, respectively, which is included in general and administrative expense on the consolidated statements of comprehensive income. We recognized \$2.2 million and \$1.9 million in noncash compensation expense for the nine months ended September 30, 2018 and 2017, respectively. Unrecognized compensation expense was \$2.0 million at September 30, 2018.

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. The weighted average unvested shares outstanding, which are considered participating securities, were 262,605 and 231,977 for the three months ended September 30, 2018 and 2017, respectively and 265,762 and 232,041 for the nine months ended September 30, 2018 and 2017, respectively. 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 months ended September 30, 2018 and 2017, diluted shares exclude incentive restricted stock as these awards are considered contingently issuable. Additionally, the unvested restricted stock awards subject to time vesting are anti-dilutive for all periods presented, and accordingly, have been excluded from the weighted average common shares used to compute diluted EPS.

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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,	
	2018	2017	2018	2017
NUMERATOR				
Net income from operations	\$ 14,271	\$ 12,505	\$ 17,993	\$ 30,401
Less: Net income attributable to restricted shares	(71)	(60)	(215)	(181)
Less: Income from operations attributable to unitholders in the Operating Partnership	(3,806)	(3,351)	(4,765)	(8,220)
Net income attributable to common stockholders—basic	\$ 10,394	\$ 9,094	\$ 13,013	\$ 22,000
Income from operations attributable to American Assets Trust, Inc. common stockholders—basic	\$ 10,394	\$ 9,094	\$ 13,013	\$ 22,000
Plus: Income from operations attributable to unitholders in the Operating Partnership	3,806	3,351	4,765	8,220
Net income attributable to common stockholders—diluted	\$ 14,200	\$ 12,445	\$ 17,778	\$ 30,220
DENOMINATOR				
Weighted average common shares outstanding—basic	46,959,752	46,898,086	46,945,093	46,650,403
Effect of dilutive securities—conversion of Operating Partnership units	17,177,608	7,194,980	17,188,489	7,431,294
Weighted average common shares outstanding—diluted	64,137,360	54,093,066	64,133,584	54,081,697
Earnings per common share, basic	\$ 0.22	\$ 0.19	\$ 0.28	\$ 0.47
Earnings per common share, diluted	\$ 0.22	\$ 0.19	\$ 0.28	\$ 0.47

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 is included in our consolidated balance sheets of \$0.1 million as of September 30, 2018 and December 31, 2017, respectively, in relation to real estate asset basis differences of property subject to state taxes based on income and certain prepaid expenses of our TRS.

Income tax expense is recorded in other (expense) income, net on our consolidated statements of comprehensive income. For the three and nine months ended September 30, 2018, we recorded income tax expense of \$0.2 million and \$0.3 million, respectively. For the three and nine months ended September 30, 2017, we recorded income tax expense of \$0.2 million and a income tax benefit of \$0.0 million, respectively.

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.

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

Commitments

At the Landmark at One Market, we lease (the "Annex Lease"), as lessee, a building adjacent to the Landmark at One Market under an operating lease effective through June 30, 2021, which we have the option to extend until 2031 by way of two five years 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.

Current minimum annual payments under the leases are as follows, as of September 30, 2018 (in thousands):

Year Ending December 31,

2018 (three months ending December 31, 2018)	\$827
2019	3,347
2020	3,422
2021	3,460 ⁽¹⁾
2022	2,613
Thereafter	22,210
Total	\$35,879

⁽¹⁾ Lease payments on the Annex Lease will be equal to fair rental value from July 2021 through the end of the extended lease term. In the table above, we have shown the option lease payments for this period based on the stated rate for the month of June 2021 of \$217,744.

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 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.

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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 \$7.5 million based on operating performance through September 30, 2018.

Our Del Monte Center property has ongoing environmental remediation related to ground water contamination. The environmental issue existed at purchase and remains in remediation. The final stages of the remediation will include routine, long term ground monitoring by the appropriate regulatory agency over the next five years to seven years. The work performed is financed through an escrow account funded by the seller upon purchase of the Del Monte Center. 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.

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. Fourteen 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. Tenants in the retail industry accounted for 31.6% of total revenues for the nine months ended September 30, 2018. 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. Furthermore, tenants in the office industry accounted for 34.3% of total revenues for the nine months ended September 30, 2018. This makes us susceptible to demand for office rental space and subject to the risks associated with an investment in real estate with a concentration of tenants in the office industry. For the nine months ended September 30, 2018 and 2017, no tenant accounted for more than 10% of our total rental revenue.

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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 years 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, 2018, 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,	
2018 (three months ending December 31, 2018)	\$41,615
2019	169,384
2020	155,799
2021	133,430
2022	114,083
Thereafter	323,583
Total	\$937,894

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

NOTE 13. COMPONENTS OF RENTAL INCOME AND EXPENSE

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Minimum rents				
Retail	\$19,034	\$19,520	\$58,236	\$56,598
Office	24,061	23,494	71,507	69,829
Multifamily	11,866	11,473	35,073	28,957
Mixed-use	2,703	2,671	8,268	7,813
Cost reimbursement	8,405	8,838	25,238	24,854
Percentage rent	633	700	1,424	1,611
Hotel revenue	10,960	11,006	30,273	30,216
Other	417	433	1,153	1,222
Total rental income	\$78,079	\$78,135	\$231,172	\$221,100

Minimum rents include \$1.2 million and \$0.0 million for the three months ended September 30, 2018 and 2017, respectively, and \$(2.4) million and \$(0.3) million for the nine months ended September 30, 2018 and 2017, 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 \$0.8 million and \$0.8 million for the three months ended September 30, 2018 and 2017, respectively, and \$2.2 million and \$2.5 million for the nine months ended September 30, 2018 and 2017, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Rental operating	\$8,997	\$8,625	\$26,399	\$25,135
Hotel operating	6,302	6,233	18,329	18,530
Repairs and maintenance	3,163	3,202	9,553	8,717
Marketing	482	506	1,397	1,404
Rent	816	774	2,416	2,325
Hawaii excise tax	1,094	1,231	3,096	3,201
Management fees	529	606	1,495	1,565
Total rental expenses	\$21,383	\$21,177	\$62,685	\$60,877

NOTE 14. OTHER (EXPENSE) INCOME, NET

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest and investment income	\$46	\$111	\$209	\$371
Income tax (expense) benefit	(171)	(210)	(277)	32
Other non-operating income	—	—	4	—
Total other (expense) income, net	\$(125)	\$(99)	\$(64)	\$403

NOTE 15. RELATED PARTY TRANSACTIONS

Through July 1, 2018, we maintained a workers' compensation insurance policy with Insurance Company of the West, a California corporation ("ICW"), which is an insurance company majority owned and controlled by Ernest Rady, our Chief Executive Officer, President and Chairman of the Board. The workers' compensation policy was renewed on July 1, 2016 and the premium was approximately \$0.2 million for the period from July 1, 2016 through July 1, 2017. We renewed this policy with ICW during the second quarter of 2017 and the premium was approximately \$0.2 million for the period from July 1, 2017 through July 1, 2018. We did not renew this policy with ICW during the second quarter of 2018 and commencing July 1, 2018, we entered into a workers' compensation policy with an unaffiliated third-party insurer.

During the first quarter of 2018, we signed a lease agreement with EDisability, LLC, an entity majority owned and controlled by Mr. Rady, for office space at Torrey Reserve Campus. Rent commenced on June 1, 2018 for an initial lease term of five years at an average annual rental rate of \$0.2 million. Rental revenue recognized on the lease will be included in rental income on the statements of comprehensive 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 for both the nine months ended September 30, 2018 and 2017, are included in rental expenses on the statements of comprehensive income.

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<i>Total Retail</i>				
Property revenue	\$25,925	\$26,547	\$78,497	\$76,292
Property expense	(7,062)	(6,934)	(21,011)	(20,419)
Segment profit	18,863	19,613	57,486	55,873
<i>Total Office</i>				
Property revenue	27,251	26,653	85,073	79,002
Property expense	(8,243)	(7,874)	(24,598)	(23,720)
Segment profit	19,008	18,779	60,475	55,282
<i>Total Multifamily</i>				
Property revenue	12,848	12,410	37,894	31,324
Property expense	(5,157)	(5,281)	(15,174)	(12,574)
Segment profit	7,691	7,129	22,720	18,750
<i>Total Mixed-Use</i>				
Property revenue	16,483	16,729	46,798	46,619
Property expense	(9,708)	(9,623)	(27,863)	(28,139)
Segment profit	6,775	7,106	18,935	18,480
Total segments' profit	\$52,337	\$52,627	\$159,616	\$148,385

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Total segments' profit	\$52,337	\$52,627	\$159,616	\$148,385
General and administrative	(5,176)	(4,958)	(16,139)	(15,171)
Depreciation and amortization	(19,886)	(21,192)	(86,033)	(63,360)
Interest expense	(12,879)	(13,873)	(39,387)	(39,856)
Other (expense) income, net	(125)	(99)	(64)	403
Net income	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)
Net income attributable to American Assets Trust, Inc. stockholders	\$10,394	\$9,094	\$13,013	\$22,000

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

	September 30, 2018	December 31, 2017
Net Real Estate		
Retail	\$629,484	\$658,654
Office	813,623	813,121
Multifamily	414,983	424,044
Mixed-Use	177,477	180,888
	\$2,035,567	\$2,076,707
Secured Notes Payable ⁽¹⁾		
Retail	\$35,196	\$35,737
Office	169,851	170,408
Multifamily	—	73,744
Mixed-Use	—	—
	\$205,047	\$279,889

(1) Excludes debt issuance costs of \$0.2 million and \$0.3 million for each of the periods ending September 30, 2018 and December 31, 2017, respectively.

Capital expenditures for each segment for the three and nine months ended September 30, 2018 and 2017 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Capital Expenditures ⁽¹⁾				
Retail	\$3,221	\$3,803	\$8,678	\$7,849
Office	9,407	10,555	24,293	25,715
Multifamily	536	1,953	3,020	4,521
Mixed-Use	219	211	802	414
	\$13,383	\$16,522	\$36,793	\$38,499

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

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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 17. SUBSEQUENT EVENT

On November 2, 2018, we entered into an office lease agreement with Google LLC (“Google”), as tenant, at the Landmark at One Market for approximately 235,574 rentable square feet (the “Landmark Lease”). The initial term for the Landmark Lease is anticipated to commence on January 1, 2019 with an anticipated initial expiration date of December 31, 2029, subject to two options to extend for a period of five years each. Portions of the premises leased to Google under the Landmark Lease are anticipated to be delivered to Google in separate tranches, on January 1, 2019 and July 1, 2019. The annual base rent under the Landmark Lease (calculated in accordance with GAAP) is anticipated to be approximately \$14.4 million in 2019 and \$23.6 million each subsequent year of the initial lease term. Additionally, on November 2, 2018, we entered into an office sublease agreement with Google, as subtenant, for approximately 17,624 rentable square feet at the Annex (the “Annex Sublease”), a six-story building adjacent to Landmark at One Market, in which we are a tenant under a long-term master lease with an affiliate of the Paramount Group (“Paramount”). The initial term for the Landmark Lease is anticipated to commence on July 1, 2019 with an anticipated initial expiration date of December 31, 2029, subject to two conditional options to extend for a period of five years each. The premises leased to Google under the Annex Sublease is anticipated to be delivered to Google on July 1, 2019. The Annex Sublease is conditioned upon Paramount's consent. The annual base rent under the Annex Sublease (calculated in accordance with GAAP) is anticipated to be approximately \$0.6 million in 2019 and \$1.3 million each subsequent year of the initial lease term.

In connection with the foregoing and subject to certain conditions, we agreed to pay Salesforce.com, Inc. (“Salesforce”) a lease termination fee in the aggregate amount of approximately \$2.9 million for the early surrender of certain of the premises currently leased by Salesforce at Landmark at One Market and the Annex. The useful life of assets related to the Salesforce lease and sublease at Landmark at One Market and the Annex, respectively, will be adjusted to reflect the remaining lease terms.

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

Forward-Looking Statements

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

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

- *adverse economic or real estate developments in our markets;*
- *our failure to generate sufficient cash flows to service our outstanding indebtedness;*
- *defaults on, early terminations of or non-renewal of leases by tenants, including significant tenants;*
- *difficulties in identifying properties to acquire and completing acquisitions;*
- *difficulties in completing dispositions;*
- *our failure to successfully operate acquired properties and operations;*
- *our inability to develop or redevelop our properties due to market conditions;*
- *fluctuations in interest rates and increased operating costs;*
- *risks related to joint venture arrangements;*
- *our failure to obtain necessary outside financing;*
- *on-going litigation;*
- *general economic conditions;*
- *financial market fluctuations;*
- *risks that affect the general retail, office, multifamily and mixed-use environment;*
- *the competitive environment in which we operate;*
- *decreased rental rates or increased vacancy rates;*
- *conflicts of interests with our officers or directors;*
- *lack or insufficient amounts of insurance;*
- *environmental uncertainties and risks related to adverse weather conditions and natural disasters;*
- *other factors affecting the real estate industry generally;*
- *limitations imposed on our business and our ability to satisfy complex rules in order for us to continue to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes; and*
- *changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs.*

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors,

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new information, data or methods, future events or other changes. For a further discussion of these and other factors, see the section entitled "Item 1A. Risk Factors" contained herein and in our annual report on Form 10-K for the year ended December 31, 2017.

Overview

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

We are a full service, vertically integrated and self-administered REIT that owns, operates, acquires and develops high quality retail, office, multifamily and mixed-use properties in attractive, high-barrier-to-entry markets in Southern California, Northern California, Oregon, Washington, Texas and Hawaii. As of September 30, 2018, our portfolio was comprised of twelve retail shopping centers; eight office properties; a mixed-use property consisting of a 369-room all-suite hotel and a retail shopping center; and six multifamily properties. Additionally, as of September 30, 2018, we owned land at three of our properties that we classified as held for development and/or construction in progress. Our core markets include San Diego; the San Francisco Bay Area; Portland, Oregon; Bellevue, Washington; and Oahu, Hawaii. We are a Maryland corporation formed on July 16, 2010 to acquire the entities owning various controlling and noncontrolling interests in real estate assets owned and/or managed by Ernest S. Rady or his affiliates, including the Ernest Rady Trust U/D/T March 13, 1983, or the Rady Trust, and did not have any operating activity until the consummation of our initial public offering on January 19, 2011. Our Company, as the sole general partner of our Operating Partnership, has control of our Operating Partnership and owned 73.2% of our Operating Partnership as of September 30, 2018. Accordingly, we consolidate the assets, liabilities and results of operations of our Operating Partnership.

Critical Accounting Policies

We identified certain critical accounting policies that affect certain of our more significant estimates and assumptions used in preparing our consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2017. We have not made any material changes to these policies during the periods covered by this report, other than those described in Footnote 1.

Same-store

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

While there is judgment surrounding changes in designations, we typically reclassify significant development, redevelopment or expansion properties into same-store properties once they are stabilized. Properties are deemed stabilized typically at the earlier of (i) reaching 90% occupancy or (ii) four quarters following a property's inclusion in operating real estate. We typically remove properties from same-store properties when the development, redevelopment or expansion has or is expected to have a significant impact on the property's annualized base rent, occupancy and operating income within the calendar year. Our evaluation of significant impact related to development, redevelopment or expansion activity is based on quantitative and qualitative measures including, but not

limited to the following: the total budgeted cost of planned construction activity compared to the property's annualized base rent, occupancy and property operating income within the calendar year; percentage of development, redevelopment or expansion square footage to total property square footage; and the ability to maintain historic occupancy and rental rates. In consideration of these measures, we generally remove properties from same-store properties when we see a decline in a property's annualized base rent, occupancy and operating income within the calendar year as a direct result of ongoing redevelopment, development or expansion activity. Acquired properties are classified

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into same-store properties once we have owned such properties for the entirety of comparable period(s) and the properties are not under significant development or expansion.

Below is a summary of our same-store composition for the three and nine months ended September 30, 2018 and 2017. For the three months ended September 30, 2018, Hassalo on Eighth - Retail and Hassalo on Eighth - Multifamily were reclassified to same-store properties when compared to the designations for the three months ended September 30, 2017 as the entities became stabilized after their respective construction periods. Furthermore, Pacific Ridge Apartments was reclassified to same-store properties as it was acquired on April 28, 2017 and is comparable for the three months ended September 30, 2018. Waikele Center was transferred out of same-store properties due to significant redevelopment activity and Gateway Marketplace was classified as a non-same-store property as it was acquired on July 6, 2017, when compared to the designations for the three months ended September 30, 2017. Torrey Point was placed into operations and became available for occupancy in August 2018 and will be classified as a non-same-store property until it becomes stabilized and comparable.

For the nine months ended September 30, 2018, Torrey Reserve Campus, Hassalo on Eighth - Retail and Hassalo on Eighth - Multifamily were reclassified to same-store properties when compared to the designations for the nine months ended September 30, 2017 as the entities became stabilized after their respective construction periods. Pacific Ridge Apartments and Gateway Marketplace were classified as non-same-store properties as they were acquired on April 28, 2017 and July 6, 2017, respectively, when compared to the designations for the nine months ended September 30, 2018. Additionally, Waikele Center was transferred out of same-store properties due to significant redevelopment activity for the nine months ended September 30, 2018. Torrey Point was placed into operations and became available for occupancy in August 2018 and will be classified as a non-same-store property until it becomes stabilized and comparable.

In our determination of same-store and redevelopment same-store properties for the nine months ended September 30, 2018, Waikele Center has been identified as a same-store redevelopment property due to significant construction activity. Retail same-store net operating income increased approximately 3.6% for the nine months ended September 30, 2018 compared to the same period in 2017. Retail redevelopment same-store net operating income increased approximately 0.4% for the nine months ended September 30, 2018 compared to the same period in 2017.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Same-Store	24	22	23	21
Non-Same Store	3	4	4	5
Total Properties	27	26	27	26
Redevelopment Same-Store	25	N/A	24	22
Total Development Properties	3	4	3	4

Outlook

We seek growth in earnings, funds from operations and cash flows primarily through a combination of the following: growth in our same-store portfolio, growth in our portfolio from property development and redevelopments and expansion of our portfolio through property acquisitions. Our properties are located in some of the nation's most dynamic, high-barrier-to-entry markets primarily in Southern California, Northern California, Oregon, Washington

and Hawaii, which allow us to take advantage of redevelopment opportunities that enhance our operating performance through renovation, expansion, reconfiguration and/or retensing. We evaluate our properties on an ongoing basis to identify these types of opportunities.

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

We continue to review acquisition opportunities in our primary markets that would complement our portfolio and provide long-term growth opportunities. Some of our acquisitions do not initially contribute significantly to earnings growth; however, we believe they provide long-term re-leasing growth, redevelopment opportunities and other strategic opportunities. Any growth from acquisitions is contingent upon our ability to find properties that meet our qualitative standards at prices that meet

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our financial hurdles. Changes in interest rates may affect our success in achieving earnings growth through acquisitions by affecting both the price that must be paid to acquire a property, as well as our ability to economically finance a property acquisition. Generally, our acquisitions are initially financed by available cash, mortgage loans and/or borrowings under our revolving line of credit, which may be repaid later with funds raised through the issuance of new equity or new long-term debt.

Leasing

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

During the three months ended September 30, 2018, we signed 16 retail leases for a total of 122,381 square feet of retail space including 64,585 square feet of comparable space leases (leases for which there was a prior tenant), at an average rental rate increase on a cash and GAAP basis of 18.8% and 21.7%, respectively. New retail leases for comparable spaces were signed for 959 square feet at an average rental rate increase on a cash and GAAP basis of 33.3% and 40.0%, respectively. Renewals for comparable retail spaces were signed for 63,626 square feet at an average rental rate increase on a cash and GAAP basis of 17.4% and 20.0%, respectively.

During the three months ended September 30, 2018, we signed 13 office leases for a total of 114,367 square feet of office space including 95,279 square feet of comparable space leases, at an average rental rate increase on a cash and GAAP basis of 11.0% and 12.6%, respectively. New office leases for comparable spaces were signed for 83,147 square feet at an average rental rate increase on a cash and GAAP basis of 10.9% and 11.7%, respectively. Renewals for comparable office spaces were signed for 12,132 square feet at an average rental rate increase on a cash and GAAP basis of 11.5% and 18.3%, respectively. Tenant improvements and incentives were \$72.01 per square foot of office space for comparable new leases for the three months ended September 30, 2018, mainly attributed to tenants at Lloyd District Portfolio.

The rental increases associated with comparable spaces generally include all leases signed in arms-length transactions reflecting market leverage between landlords and tenants during the period. The comparison between average rent for expiring leases and new leases is determined by including minimum rent and percentage rent paid on the expiring lease and minimum rent and, in some instances, projections of first lease year percentage rent, to be paid on the new lease. In some instances, management exercises judgment as to how to most effectively reflect the comparability of spaces reported in this calculation. The change in rental income on comparable space leases is impacted by numerous factors including current market rates, location, individual tenant creditworthiness, use of space, market conditions when the expiring lease was signed, capital investment made in the space and the specific lease structure. Tenant improvements and incentives include the total dollars committed for the improvement of a space as it relates to a specific lease, but may also include base-building costs (i.e. expansion, escalators or new entrances) which are required to make the space leasable. Incentives include amounts paid to tenants as an inducement to sign a lease that do not represent building improvements.

The leases signed in 2018 generally become effective over the following year, though some may not become effective until 2019 and beyond. Further, there is risk that some new tenants will not ultimately take possession of their space and that tenants for both new and renewal leases may not pay all of their contractual rent due to operating, financing

or other matters. However, we believe that these increases do provide information about the tenant/landlord relationship and the potential fluctuations we may achieve in rental income over time.

Through the remainder of 2018, we believe our leasing volume will be in-line with our historical averages and result in overall positive increases in rental income. However, changes in rental income associated with individual signed leases on comparable spaces may be positive or negative, and we can provide no assurance that the rents on new leases will continue to increase at the above disclosed levels, if at all.

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

We capitalized external and internal costs related to both development and redevelopment activities combined of \$5.7 million and \$1.4 million for the three months ended September 30, 2018 and 2017, respectively. We capitalized external and internal costs related to both development and redevelopment activities combined of \$8.1 million and \$8.7 million for the nine months ended September 30, 2018 and 2017, respectively.

We capitalized external and internal costs related to other property improvements combined of \$14.2 million and \$8.4 million for the three months ended September 30, 2018 and 2017, respectively. We capitalized external and internal costs related to other property improvements combined of \$30.9 million and \$23.0 million for the nine months ended September 30, 2018 and 2017, respectively.

Interest costs on developments and major redevelopments are capitalized as part of developments and redevelopments not yet placed in service. Capitalization of interest commences when development activities and expenditures begin and end upon completion, which is when the asset is ready for its intended use as noted above. We make judgments as to the time period over which to capitalize such costs and these assumptions have a direct impact on net income because capitalized costs are not subtracted in calculating net income. If the time period for capitalizing interest is extended, however, more interest is capitalized, thereby decreasing interest expense and increasing net income during that period. We capitalized interest costs related to development activities of \$0.3 million and \$0.4 million for the three months ended September 30, 2018 and 2017, respectively. We capitalized interest costs related to development activities of \$1.2 million and \$1.2 million for the nine months ended September 30, 2018 and 2017, respectively.

Results of Operations

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

Comparison of the three months ended September 30, 2018 to the three months ended September 30, 2017

The following summarizes our consolidated results of operations for the three months ended September 30, 2018 compared to our consolidated results of operations for the three months ended September 30, 2017. As of September 30, 2018, our operating portfolio was comprised of 27 retail, office, multifamily and mixed-use properties with an aggregate of approximately 5.8 million rentable square feet of retail and office space, including the retail portion of our mixed-use property, 2,112 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of September 30, 2018, we owned land at three of our properties that we classified as held for development and/or construction in progress. As of September 30, 2017, our operating portfolio was comprised of 26 retail, office, multifamily and mixed-use properties with an aggregate of approximately 6.1 million rentable square feet of retail and office space, including the retail portion of our mixed-use property, 2,112 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of September 30, 2017, we owned land at four of our properties that we classified as held for development and/or construction in progress.

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The following table sets forth selected data from our unaudited consolidated statements of comprehensive income for the three months ended September 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended		Change	%
	September 30, 2018	2017		
Revenues				
Rental income	\$78,079	\$78,135	\$(56)	— %
Other property income	4,428	4,204	224	5
Total property revenues	82,507	82,339	168	—
Expenses				
Rental expenses	21,383	21,177	206	1
Real estate taxes	8,787	8,535	252	3
Total property expenses	30,170	29,712	458	2
Total property income	52,337	52,627	(290)	(1)
General and administrative	(5,176)	(4,958)	(218)	4
Depreciation and amortization	(19,886)	(21,192)	1,306	(6)
Interest expense	(12,879)	(13,873)	994	(7)
Other (expense) income, net	(125)	(99)	(26)	26
Net income	14,271	12,505	1,766	14
Net income attributable to restricted shares	(71)	(60)	(11)	18
Net income attributable to unitholders in the Operating Partnership	(3,806)	(3,351)	(455)	14
Net income attributable to American Assets Trust, Inc. stockholders	\$10,394	\$9,094	\$1,300	14 %

Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased \$0.2 million, or 0%, to \$82.5 million for the three months ended September 30, 2018 compared to \$82.3 million for the three months ended September 30, 2017. The percentage leased was as follows for each segment as of September 30, 2018 and 2017:

	Percentage Leased	
	(1)	
	September 30,	
	2018	2017
Retail	98.5 %	97.0 %
Office	91.4 %	89.9 %
Multifamily	92.3 %	91.3 %
Mixed-Use ⁽²⁾	95.9 %	93.7 %

(1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of September 30, 2018 or September 30, 2017, as applicable.

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

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

Rental revenues. Rental revenue includes minimum base rent, cost reimbursements, percentage rents and other rents. Rental revenue decreased \$0.1 million, or 0%, to \$78.1 million for the three months ended September 30, 2018 compared to \$78.1 million for the three months ended September 30, 2017. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio(1)			
	Three Months Ended		Change	%	Three Months Ended		Change	%
	September 30, 2018	September 30, 2017			September 30, 2018	September 30, 2017		
Retail	\$25,377	\$26,191	\$(814)	(3)%	\$20,933	\$20,588	\$345	2 %
Office	25,887	25,385	502	2	25,796	25,314	482	2
Multifamily	11,907	11,519	388	3	11,907	11,519	388	3
Mixed-Use	14,908	15,040	(132)	(1)	14,908	15,040	(132)	(1)
	\$78,079	\$78,135	\$(56)	—%	\$73,544	\$72,461	\$1,083	1 %

For this table and tables following, the same-store portfolio includes the Forever 21 building at Del Monte Center which we acquired on September 1, 2017 after previously owning the underlying land. The same-store portfolio excludes: (i) Gateway Marketplace as it was acquired on July 6, 2017; (ii) Waikēle Center due to significant redevelopment activity; (iii) Torrey Point, which was placed into operations and became available for occupancy in August 2018 and (iv) land held for development.

Total retail rental revenue decreased \$0.8 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to the expiration of the Kmart lease at Waikēle Center on June 30, 2018. Same-store retail rental revenue increased \$0.3 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to higher annualized base rents at Alamo Quarry Market and Carmel Mountain Plaza.

Total office rental revenue increased \$0.5 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to the higher annualized base rents at The Landmark at One Market and One Beach Street.

Total multifamily rental revenue increased \$0.4 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to an increase in average occupancy at Pacific Ridge Apartments during the quarter. The increase in rental revenue is also attributed to higher average base rent per unit of \$1,837 for the three months ended September 30, 2018 compared to \$1,787 for the three months ended September 30, 2017.

Total mixed-use revenue decreased \$0.1 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to a decrease in occupancy for the three months ended September 30, 2018 for the hotel portion of our mixed-use property. The decrease in mixed-use revenue is also attributed to a decrease in percentage rent retail tenants at our mixed-use property.

Other property income. Other property income increased \$0.2 million, or 5%, to \$4.4 million for the three months ended September 30, 2018 compared to \$4.2 million for the three months ended September 30, 2017. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended September 30,		Change	%	Three Months Ended September 30,		Change	%
	2018	2017			2018	2017		
Retail	\$548	\$356	\$192	54 %	\$394	\$89	\$305	343 %
Office	1,364	1,268	96	8	1,328	1,299	29	2
Multifamily	941	891	50	6	941	891	50	6
Mixed-Use	1,575	1,689	(114)	(7)	1,575	1,689	(114)	(7)
	\$4,428	\$4,204	\$224	5 %	\$4,238	\$3,968	\$270	7 %

Retail property income increased \$0.2 million for the three months ended September 30, 2018 primarily due to lease termination fees for tenants at Solana Beach Towne Centre and Del Monte Center received during the three months

ended September 30, 2018.

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Mixed-use property income decreased \$0.1 million for the three months ended September 30, 2018 primarily due to a decrease in food and beverage income for the three months ended September 30, 2018 at the hotel portion of our mixed-use property. The decrease in mixed-use property income is also attributed to a decrease in parking income for the retail portion of our mixed-use property.

Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased \$0.5 million, or 2%, to \$30.2 million, for the three months ended September 30, 2018 compared to \$29.7 million for the three months ended September 30, 2017.

Rental Expenses. Rental expenses increased \$0.2 million, or 1%, to \$21.4 million for the three months ended September 30, 2018 compared to \$21.2 million for the three months ended September 30, 2017. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended September 30, 2018		Change %		Three Months Ended September 30, 2018		Change %	
Retail	\$3,654	\$3,456	\$198	6 %	\$2,804	\$2,752	\$52	2 %
Office	5,237	5,064	173	3	5,214	4,950	264	5
Multifamily	3,594	3,756	(162)	(4)	3,594	3,757	(163)	(4)
Mixed-Use	8,898	8,901	(3)	—	8,898	8,901	(3)	—
	\$21,383	\$21,177	\$206	1 %	\$20,510	\$20,360	\$150	1 %

Total retail rental expenses increased \$0.2 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to repairs and maintenance and utility expense during the period.

Office rental expenses increased \$0.2 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to an increase in repairs and maintenance expense during the quarter. The increase in office rental expenses was partially offset by a decrease in bad debt expense for tenants at Torrey Point, which was recorded during the prior period.

Multifamily rental expenses decreased \$0.2 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to the expiration of third party management services associated with the acquisition of the Pacific Ridge Apartments during the fourth quarter of 2017.

Real Estate Taxes. Real estate taxes increased \$0.3 million, or 3%, to \$8.8 million for the three months ended September 30, 2018 compared to \$8.5 million for the three months ended September 30, 2017. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended September 30, 2018		Change %		Three Months Ended September 30, 2018		Change %	
Retail	\$3,408	\$3,478	\$(70)	(2) %	\$2,690	\$2,633	\$57	2 %
Office	3,006	2,810	196	7	2,874	2,741	133	5
Multifamily	1,563	1,525	38	2	1,563	1,525	38	2
Mixed-Use	810	722	88	12	810	722	88	12
	\$8,787	\$8,535	\$252	3 %	\$7,937	\$7,621	\$316	4 %

Office real estate taxes increased \$0.2 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to an increase in tax assessments for our office properties.

Table of Contents*Property Operating Income*

Property operating income decreased \$0.3 million, or (1)%, to \$52.3 million for the three months ended September 30, 2018, compared to \$52.6 million for the three months ended September 30, 2017. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017		Change		% Change	
Retail	\$18,863	\$19,613	\$(750)	(4)%	\$15,833	\$15,292	\$541	4 %
Office	19,008	18,779	229	1	19,036	18,922	114	1
Multifamily	7,691	7,129	562	8	7,691	7,128	563	8
Mixed-Use	6,775	7,106	(331)	(5)	6,775	7,106	(331)	(5)
	\$52,337	\$52,627	\$(290)	(1)%	\$49,335	\$48,448	\$887	2 %

Total retail property operating income decreased \$0.8 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to expiration of the Kmart lease at Waikele Center.

Total office property operating income increased \$0.2 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to higher annualized base rents at The Landmark at One Market and One Beach Street.

Total multifamily property operating income increased \$0.6 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to an increase in occupancy at Pacific Ridge Apartments and decrease in operating expenses during the period.

Total mixed-use property operating income decreased \$0.3 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due a decrease in occupancy at the hotel portion of our mixed-use property.

Other

General and Administrative. General and administrative expenses increased \$0.2 million, or 4%, to \$5.2 million for the three months ended September 30, 2018, compared to \$5.0 million for the three months ended September 30, 2017. This increase was primarily due to an increase in employee-related costs.

Depreciation and Amortization. Depreciation and amortization expense decreased \$1.3 million, or 6%, to \$19.9 million for the three months ended September 30, 2018, compared to \$21.2 million for the three months ended September 30, 2017. This decrease was primarily due to higher depreciation and amortization in the prior period attributable the acquisition of Pacific Ridge Apartments and expiration of tenant improvements at Lloyd District Portfolio during the period.

Interest Expense. Interest expense decreased \$1.0 million, or 7%, to \$12.9 million for the three months ended September 30, 2018, compared to \$13.9 million for the three months ended September 30, 2017. This decrease was primarily due to the repayment of the mortgage loan at Loma Palisades on March 30, 2018.

Other (Expense) Income, Net. Other (Expense) income, net decreased \$0.03 million, or 26%, to \$0.1 million for the three months ended September 30, 2018, compared to \$0.1 million for the three months ended September 30, 2017, primarily due to a decrease in interest and investment income attributed to lower cash balances and a decrease in the corporate tax rate during the period.

Table of Contents**Comparison of the Nine Months Ended September 30, 2018 to the Nine Months Ended September 30, 2017**

The following summarizes our consolidated results of operations for the nine months ended September 30, 2018 compared to our consolidated results of operations for the nine months ended September 30, 2017.

The following table sets forth selected data from our unaudited consolidated statements of income for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

	Nine Months Ended September 30,		Change	%
	2018	2017		
Revenues				
Rental income	\$231,172	\$221,100	\$10,072	5 %
Other property income	17,090	12,137	4,953	41
Total property revenues	248,262	233,237	15,025	6
Expenses				
Rental expenses	62,685	60,877	1,808	3
Real estate taxes	25,961	23,975	1,986	8
Total property expenses	88,646	84,852	3,794	4
Total property income	159,616	148,385	11,231	8
General and administrative	(16,139)	(15,171)	(968)	6
Depreciation and amortization	(86,033)	(63,360)	(22,673)	36
Interest expense	(39,387)	(39,856)	469	(1)
Other income (expense), net	(64)	403	(467)	116
Net income	17,993	30,401	(12,408)	(41)
Net income attributable to restricted shares	(215)	(181)	(34)	19
Net income attributable to unitholders in the Operating Partnership	(4,765)	(8,220)	3,455	(42)
Net income attributable to American Assets Trust, Inc. stockholders	\$13,013	\$22,000	\$(8,987)	(41)%

Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased \$15.0 million, or 6%, to \$248.3 million for the nine months ended September 30, 2018 compared to \$233.2 million for the nine months ended September 30, 2017. The percentage leased was as follows for each segment as of September 30, 2018 and 2017:

	Percentage Leased (1)	
	September 30, 2018	2017
Retail	98.5 %	97.0 %
Office	91.4 %	89.9 %
Multifamily	92.3 %	91.3 %
Mixed-Use (2)	95.9 %	93.7 %

(1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of September 30, 2018 or September 30, 2017, as applicable.

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

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

Rental revenues. Rental revenue includes minimum base rent, cost reimbursements, percentage rents and other rents. Rental revenue increased \$10.1 million, or 5%, to \$231.2 million for the nine months ended September 30, 2018 compared to \$221.1 million for the nine months ended September 30, 2017. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio(1)			
	Nine Months Ended September 30, 2018		Change	%	Nine Months Ended September 30, 2018		Change	%
Retail	\$77,015	\$75,161			1,854	2 %		
Office	76,756	74,996	1,760	2	76,654	74,800	1,854	2
Multifamily	35,209	29,053	6,156	21	23,195	22,450	745	3
Mixed-Use	42,192	41,890	302	1	42,192	41,890	302	1
	\$231,172	\$221,100	\$10,072	5 %	\$203,682	\$199,137	\$4,545	2 %

For this table and tables following, the same-store portfolio includes the Forever 21 building at Del Monte Center which we acquired on September 1, 2017 after previously owning the underlying land. The same-store portfolio excludes: (i) the Pacific Ridge Apartments as it was acquired April 28, 2017; (ii) Gateway Marketplace as it was acquired on July 6, 2017; (iii) Waikale Center due to significant redevelopment activity; (iv) Torrey Point, which was placed into operations and became available for occupancy in August 2018 and (v) land held for development.

Total retail rental revenue increased \$1.9 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to the acquisition of Gateway Marketplace on July 6, 2017, which had rental revenue of approximately \$1.8 million during the period, offset by a decrease in rental income at Waikale Center attributed to the expiration of the Kmart lease. The increase in total retail rental revenue is also attributed to higher annualized base rents at Lomas Santa Fe Plaza and Del Monte Center.

Total office rental revenue increased \$1.8 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 due to higher annualized base rents during the period, primarily at The Landmark at One Market, Torrey Reserve Campus and One Beach Street. The increase was partially offset by a decrease in annualized base rents at the Lloyd District Portfolio.

Multifamily rental revenue increased \$6.2 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to the acquisition of the Pacific Ridge Apartments on April 28, 2017, which had incremental rental revenue of approximately \$5.4 million for the period. Same-store multifamily rental revenue increased \$0.7 million during the period due to an increase in occupancy and higher average base rent per unit of \$1,789 during the nine months ended September 30, 2018 compared to \$1,746 during the nine months ended September 30, 2017.

Mixed-use rental revenue increased \$0.3 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 due to higher annualized base rents at the retail portion of our mixed-use property.

Other property income. Other property income increased \$5.0 million, or 41%, to \$17.1 million for the nine months ended September 30, 2018 compared to \$12.1 million for the nine months ended September 30, 2017. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended September 30, 2018		Change	%	Nine Months Ended September 30, 2018		Change	%
Retail	\$1,482	\$1,131			\$351	31 %		
Office	8,317	4,006	4,311	108	6,860	4,080	2,780	68
Multifamily	2,685	2,271	414	18	2,199	1,989	210	11
Mixed-Use	4,606	4,729	(123)	(3)	4,606	4,729	(123)	(3)
	\$17,090	\$12,137	\$4,953	41 %	\$14,496	\$11,166	\$3,330	30 %

Total retail other property income increased \$0.4 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to an increase in lease termination fees at Solana Beach Towne Center and Del Monte Center received during the period.

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Total office other property income increased \$4.3 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to lease termination fees for tenants at Lloyd District Portfolio and Torrey Point received during the period.

Total multifamily other property income increased \$0.4 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 due to the acquisition of the Pacific Ridge Apartments on April 28, 2017, which had incremental other property income of approximately \$0.2 million during the period. Same-store multifamily other property income increased \$0.2 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to an increase in parking income during the period.

Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased by \$3.8 million, or 4%, to \$88.6 million for the nine months ended September 30, 2018, compared to \$84.9 million for the nine months ended September 30, 2017. This increase in total property expenses was attributable primarily to the factors discussed below.

Rental Expenses. Rental expenses increased \$1.8 million, or 3%, to \$62.7 million for the nine months ended September 30, 2018, compared to \$60.9 million for the nine months ended September 30, 2017. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended		Change	%	Nine Months Ended		Change	%
	September 30, 2018	September 30, 2017			September 30, 2018	September 30, 2017		
Retail	\$10,702	\$10,412	\$290	3 %	\$8,529	\$8,087	\$442	5 %
Office	15,777	15,411	366	2	15,521	14,984	537	4
Multifamily	10,599	8,973	1,626	18	7,796	7,154	642	9
Mixed-Use	25,607	26,081	(474)	(2)	25,607	26,081	(474)	(2)
	\$62,685	\$60,877	\$1,808	3 %	\$57,453	\$56,306	\$1,147	2 %

Same store retail rental expenses increased \$0.4 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to repairs and maintenance, pest control, and utilities during the period.

Total office rental expenses increased \$0.4 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to an increase in security patrol and bad debt expense during the period.

Total multifamily rental expenses increased \$1.6 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to the acquisition of the Pacific Ridge Apartments on April 28, 2017, which had incremental rental expenses of approximately \$1.0 million during the period. Same-store multifamily rental expenses increased \$0.6 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to an increase in repairs and maintenance expense and personnel compensation expense during the period.

Mixed-use rental expenses decreased \$0.5 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to bad debt expense at the hotel portion of our mixed-use property during the nine months ended September 30, 2017 attributable to a bankruptcy filed by one of the hotel's travel agents.

Real Estate Taxes. Real estate tax expense increased \$2.0 million, or 8%, to \$26.0 million for the nine months ended September 30, 2018 compared to \$24.0 million for the nine months ended September 30, 2017. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended		Change	%	Nine Months Ended		Change	%
	September 30, 2018	September 30, 2017			September 30, 2018	September 30, 2017		
Retail	\$10,309	\$10,007	\$302	3 %	\$7,846	\$7,784	\$62	1 %

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Office	8,821	8,309	512	6	8,573	8,108	465	6
Multifamily	4,575	3,601	974	27	2,616	2,434	182	7
Mixed-Use	2,256	2,058	198	10	2,256	2,058	198	10
	\$25,961	\$23,975	\$1,986	8 %	\$21,291	\$20,384	\$907	4 %

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Total retail real estate taxes increased \$0.3 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to the acquisition of Gateway Marketplace on July 6, 2017, which had incremental real estate taxes of approximately \$0.2 million during the period.

Total office real estate taxes increased \$0.5 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to an increase in the tax assessments for our office properties. Multifamily real estate taxes increased \$1.0 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to the acquisition of the Pacific Ridge Apartments on April 28, 2017, which had incremental real estate taxes of approximately \$0.8 million during the period. The increase is also due to assessed taxes at Hassalo on Eighth - Multifamily, which had incremental real estate tax expense of approximately \$0.1 million during the period.

Property Operating Income

Property operating income increased \$11.2 million, or 8%, to \$159.6 million for the nine months ended September 30, 2018, compared to \$148.4 million for the nine months ended September 30, 2017. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended		Change	%	Nine Months Ended		Change	%
	September 30, 2018	September 30, 2017			2018	2017		
Retail	\$57,486	\$55,873	\$1,613	3 %	\$46,097	\$44,494	\$1,603	4 %
Office	60,475	55,282	5,193	9	59,420	55,788	3,632	7
Multifamily	22,720	18,750	3,970	21	14,982	14,851	131	1
Mixed-Use	18,935	18,480	455	2	18,935	18,480	455	2
	\$159,616	\$148,385	\$11,231	8 %	\$139,434	\$133,613	\$5,821	4 %

Total retail property operating income increased \$1.6 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to the acquisition of Gateway Marketplace on July 6, 2017, offset by a decrease in rental income at Waialele Center attributed to the expiration of the Kmart lease. Same-store property operating income increased \$1.6 million during the nine months ended September 30, 2018 primarily due to higher annualized base rents during the period.

Total office property operating income increased \$5.2 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to lease termination fees at Lloyd District Portfolio and Torrey Point and higher annualized base rents at The Landmark at One Market and One Beach Street. Total multifamily property operating income increased \$4.0 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to the acquisition of the Pacific Ridge Apartments on April 28, 2017.

Mixed-use property operating income increased \$0.5 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The increase was primarily due to an increase in annualized base rents at the retail portion of our mixed-use property and a decrease in bad debt expense at the hotel portion of our mixed-use property.

Other

General and Administrative. General and administrative expenses increased \$1.0 million, or 6%, to \$16.1 million for the nine months ended September 30, 2018, compared to \$15.2 million for the nine months ended September 30, 2017. This increase was primarily due to an increase in employee-related costs.

Depreciation and Amortization. Depreciation and amortization expense increased \$22.7 million, or 36%, to \$86.0 million for the nine months ended September 30, 2018, compared to \$63.4 million for the nine months ended September 30, 2017. This increase was primarily due to an increase in depreciation expense at Waialele Center attributed to the redevelopment of the Kmart space and Lloyd District Portfolio attributed to acceleration of depreciation related to lease terminations.

Interest Expense. Interest expense decreased \$0.5 million, or 1%, to \$39.4 million for the nine months ended September 30, 2018 compared to \$39.9 million for the nine months ended September 30, 2017. This decrease was

primarily due to the payoff of property mortgages for Waikiki Beach Walk - Retail during the first quarter of 2017, Solana Beach Corporate Center

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III-IV during the second quarter of 2017, and Loma Palisades during the first quarter of 2018, offset by the closing of our offerings of Series D Notes on March 1, 2017, Series E Notes on May 23, 2017 and Series F Notes on July 19, 2017.

Other Income (Expense), Net. Other (Expense) income, net decreased \$0.5 million or 116%, to other expense, net of \$0.1 million for the nine months ended September 30, 2018, compared to other income, net of \$0.4 million for the nine months ended September 30, 2017, primarily due to a decrease in income tax expense during the period attributed to a valuation allowance on our deferred tax asset for our taxable REIT subsidiary and a decrease in the 2018 corporate tax rate. The decrease is also due to a decrease in interest and investment income attributed to lower cash balances during the period.

Liquidity and Capital Resources of American Assets Trust, Inc.

In this “Liquidity and Capital Resources of American Assets Trust, Inc.” section, the term the “company” refers only to American Assets Trust, Inc. on an unconsolidated basis, and excludes the Operating Partnership and all other subsidiaries.

The company’s business is operated primarily through the Operating Partnership, of which the company is the parent company and sole general partner, and which it consolidates for financial reporting purposes. Because the company operates on a consolidated basis with the Operating Partnership, the section entitled “Liquidity and Capital Resources of American Assets Trust, L.P.” should be read in conjunction with this section to understand the liquidity and capital resources of the company on a consolidated basis and how the company is operated as a whole.

The company issues public equity from time to time, but does not otherwise generate any capital itself or conduct any business itself, other than incurring certain expenses in operating as a public company which are fully reimbursed by the Operating Partnership. The company itself does not have any indebtedness, and its only material asset is its ownership of partnership interests of the Operating Partnership. Therefore, the consolidated assets and liabilities and the consolidated revenues and expenses of the company and the Operating Partnership are the same on their respective financial statements. However, all debt is held directly or indirectly by the Operating Partnership. The company’s principal funding requirement is the payment of dividends on its common stock. The company’s principal source of funding for its dividend payments is distributions it receives from the Operating Partnership.

As of September 30, 2018, the company owned an approximate 73.2% partnership interest in the Operating Partnership. The remaining 26.8% are owned by non-affiliated investors and certain of the company's directors and executive officers. As the sole general partner of the Operating Partnership, American Assets Trust, Inc. has the 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 causes the Operating Partnership to distribute such portion of its available cash as the company may in its discretion determine, in the manner provided in the Operating Partnership’s partnership agreement.

The liquidity of the company is dependent on the Operating Partnership’s ability to make sufficient distributions to the company. The primary cash requirement of the company is its payment of dividends to its stockholders. The company also guarantees some of the Operating Partnership’s debt, as discussed further in Note 7 of the Notes to Consolidated Financial Statements included elsewhere herein. If the Operating Partnership fails to fulfill certain of its debt requirements, which trigger the company’s guarantee obligations, then the company will be required to fulfill its cash payment commitments under such guarantees. However, the company’s only significant asset is its investment in the Operating Partnership.

We believe the Operating Partnership’s sources of working capital, specifically its cash flow from operations, and borrowings available under its unsecured line of credit, are adequate for it to make its distribution payments to the

company and, in turn, for the company to make its dividend payments to its stockholders. As of September 30, 2018, the company has determined that it has adequate working capital to meet its dividend funding obligations for the next 12 months. However, we cannot assure you that the Operating Partnership's sources of capital will continue to be available at all or in amounts sufficient to meet its needs, including its ability to make distribution payments to the company. The unavailability of capital could adversely affect the Operating Partnership's ability to pay its distributions to the company, which would in turn, adversely affect the company's ability to pay cash dividends to its stockholders.

Our short-term liquidity requirements consist primarily of funds to pay for future dividends expected to be paid to the company's stockholders, operating expenses and other expenditures directly associated with our properties, interest expense and scheduled principal payments on outstanding indebtedness, general and administrative expenses, funding construction projects, capital expenditures, tenant improvements and leasing commissions.

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The company may from time to time seek to repurchase or redeem the Operating Partnership's outstanding debt, the company's shares of common stock or other securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases or redemptions, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

For the company to maintain its qualification as a REIT, it must pay dividends to its stockholders aggregating annually at least 90% of its REIT taxable income, excluding net capital gains. While historically the company has satisfied this distribution requirement by making cash distributions to American Assets Trust, Inc.'s stockholders or American Assets Trust, L.P.'s unitholders, it may choose to satisfy this requirement by making distributions of cash or other property, including, in limited circumstances, the company's own stock. As a result of this distribution requirement, the Operating Partnership cannot rely on retained earnings to fund its ongoing operations to the same extent that other companies whose parent companies are not REITs can. The company may need to continue to raise capital in the equity markets to fund the operating partnership's working capital needs, acquisitions and developments. Although there is no intent at this time, if market conditions deteriorate, the company may also delay the timing of future development and redevelopment projects as well as limit future acquisitions, reduce the Operating Partnership's operating expenditures, or re-evaluate its dividend policy.

The company is a well-known seasoned issuer. As circumstances warrant, the company may issue equity from time to time on an opportunistic basis, dependent upon market conditions and available pricing. When the company receives proceeds from preferred or common equity issuances, it is required by the Operating Partnership's partnership agreement to contribute the proceeds from its equity issuances to the Operating Partnership in exchange for partnership units of the Operating Partnership. The Operating Partnership may use the proceeds to repay debt, to develop new or existing properties, to acquire properties or for general corporate purposes.

In February 2018, the company filed a universal shelf registration statement on Form S-3ASR with the SEC, which became effective upon filing and which replaced the prior Form S-3ASR that was filed with the SEC in February 2015. The universal shelf registration statement may permit the company from time to time to offer and sell equity securities of the company. However, there can be no assurance that the company will be able to complete any such offerings of securities. Factors influencing the availability of additional financing include investor perception of our prospects and the general condition of the financial markets, among others.

In May 2015, we entered into an ATM equity program with five 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 \$250.0 million. On March 2, 2018, we amended certain of these equity programs, terminated one such program and entered into a new equity program with one new sales agent. The sales of shares of the company's common stock made through the ATM equity program, as amended, are made in "at-the-market" offerings as defined in Rule 415 of the Securities Act. As of September 30, 2018, we had the capacity to issue up to an additional \$176.2 million in shares of common stock under the ATM equity program. We intend to use the net proceeds to fund development or redevelopment activities, repay amounts outstanding from time to time under our amended and restated credit facility or other debt financing obligations, fund potential acquisition opportunities and/or for general corporate purposes. Actual future sales will depend on a variety of factors including, but not limited to, market conditions, the trading price of the company's common stock and the company's capital needs. We have no obligation to sell the remaining shares available for sale under the ATM equity program.

Liquidity and Capital Resources of American Assets Trust, L.P.

In this "Liquidity and Capital Resources of American Assets Trust, L.P." section, the terms "we," "our" and "us" refer to the Operating Partnership together with its consolidated subsidiaries, or the Operating Partnership and American Assets Trust, Inc. together with their consolidated subsidiaries, as the context requires. American Assets Trust, Inc. is our sole general partner and consolidates our results of operations for financial reporting purposes. Because we operate on a consolidated basis with American Assets Trust, Inc., the section entitled "Liquidity and Capital Resources of

American Assets Trust, Inc.” should be read in conjunction with this section to understand our liquidity and capital resources on a consolidated basis.

Due to the nature of our business, we typically generate significant amounts of cash from operations. The cash generated from operations is used for the payment of operating expenses, capital expenditures, debt service and dividends to American Assets Trust, Inc.'s stockholders and our unitholders. As a REIT, American Assets Trust, Inc. must generally make annual distributions to its stockholders of at least 90% of its net taxable income. As of September 30, 2018, we held \$56.2 million in cash and cash equivalents.

Our short-term liquidity requirements consist primarily of operating expenses and other expenditures associated with our properties, regular debt service requirements, dividend payments to American Assets Trust, Inc.'s stockholders required to maintain its REIT status, distributions to our unitholders, capital expenditures and, potentially, acquisitions. We expect to meet

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our short-term liquidity requirements through net cash provided by operations, reserves established from existing cash and, if necessary, borrowings available under our credit facility.

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

Our overall capital requirements for the remainder of 2018 and first quarter 2019 will depend upon acquisition opportunities and the level of improvements and redevelopments on existing properties. Our capital investments will be funded on a short-term basis with cash on hand, cash flow from operations and/or our revolving line of credit. On a long-term basis, our capital investments may be funded with additional long-term debt. Our ability to incur additional debt will be dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our capital investments may also be funded by additional equity including shares issued by American Assets Trust, Inc. under its ATM equity program. Although there is no intent at this time, if market conditions deteriorate, we may also delay the timing of future development and redevelopment projects as well as limit future acquisitions, reduce our operating expenditures, or re-evaluate our dividend policy.

In February 2018, the Operating Partnership filed a universal shelf registration on Form S-3 ASR with the SEC which provided for the registration of an unspecified amount of debt securities by the Operating Partnership. However, there can be no assurance that the Operating Partnership will be able to complete any such offerings of debt securities. Factors influencing the availability of additional financing include investor perception of our prospects and the general condition of the financial markets, among others.

Off-Balance Sheet Arrangements

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

Cash Flows

Comparison of the nine months ended September 30, 2018 to the nine months ended September 30, 2017

Cash, cash equivalents, and restricted cash were \$66.1 million and \$104.3 million at September 30, 2018 and 2017, respectively.

Net cash provided by operating activities decreased \$6.7 million to \$118.9 million for the nine months ended September 30, 2018 compared to \$125.7 million for the nine months ended September 30, 2017. The decrease in cash from operations was due to the settlements of the forward-starting interest rate swaps during the nine months ended September 30, 2017 in connection with the Series D Notes issued on March 1, 2017.

Net cash used in investing activities decreased \$279.8 million to \$36.8 million for the nine months ended September 30, 2018 compared to \$316.6 million for the nine months ended September 30, 2017. The decrease was primarily due to the acquisition of Pacific Ridge Apartments on April 28, 2017.

Net cash provided by financing activities decreased \$348.5 million to cash used of \$107.9 million for the nine months ended September 30, 2018 compared to cash provided of \$240.6 million for the nine months ended September 30, 2017. The decrease in cash provided by financing activities was primarily due to the closing of Series D Notes issued on March 1, 2017 and Series E Notes issued on May 23, 2017.

Table of Contents**Net Operating Income**

Net Operating Income, or NOI, is a non-GAAP financial measure of performance. We define NOI as operating revenues (rental income, tenant reimbursements, lease termination fees, ground lease rental income and other property income) less property and related expenses (property expenses, ground lease expense, property marketing costs, real estate taxes and insurance). NOI excludes general and administrative expenses, interest expense, depreciation and amortization, acquisition-related expense, other nonproperty income and losses, gains and losses from property dispositions, extraordinary items, tenant improvements, and leasing commissions. Other REITs may use different methodologies for calculating NOI, and accordingly, our NOI may not be comparable to the NOIs of other REITs. NOI is used by investors and our management to evaluate and compare the performance of our properties and to determine trends in earnings and to compute the fair value of our properties as it is not affected by (1) the cost of funds of the property owner, (2) the impact of depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets that are included in net income computed in accordance with GAAP or (3) general and administrative expenses and other gains and losses that are specific to the property owner. The cost of funds is eliminated from net income because it is specific to the particular financing capabilities and constraints of the owner. The cost of funds is also eliminated because it is dependent on historical interest rates and other costs of capital as well as past decisions made by us regarding the appropriate mix of capital, which may have changed or may change in the future. Depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets are eliminated because they may not accurately represent the actual change in value in our retail, office, multifamily or mixed-use properties that result from use of the properties or changes in market conditions. While certain aspects of real property do decline in value over time in a manner that is intended to be captured by depreciation and amortization, the value of the properties as a whole have historically increased or decreased as a result of changes in overall economic conditions instead of from actual use of the property or the passage of time. Gains and losses from the sale of real property vary from property to property and are affected by market conditions at the time of sale which will usually change from period to period. These gains and losses can create distortions when comparing one period to another or when comparing our operating results to the operating results of other real estate companies that have not made similarly timed purchases or sales. We believe that eliminating these costs from net income is useful because the resulting measure captures the actual revenue generated and actual expenses incurred in operating our properties as well as trends in occupancy rates, rental rates and operating costs. However, the usefulness of NOI is limited because it excludes general and administrative costs, interest expense, interest income and other expense, depreciation and amortization expense and gains or losses from the sale of properties, and other gains and losses as stipulated by GAAP, the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, all of which are significant economic costs. NOI may fail to capture significant trends in these components of net income which further limits its usefulness. NOI is a measure of the operating performance of our properties but does not measure our performance as a whole. NOI is therefore not a substitute for net income as computed in accordance with GAAP. This measure should be analyzed in conjunction with net income computed in accordance with GAAP and discussions elsewhere in “Management's Discussion and Analysis of Financial Condition and Results of Operations” regarding the components of net income that are eliminated in the calculation of NOI. Other companies may use different methods for calculating NOI or similarly entitled measures and, accordingly, our NOI may not be comparable to similarly entitled measures reported by other companies that do not define the measure exactly as we do. The following is a reconciliation of our NOI to net income for the three and nine months ended September 30, 2018 and 2017 computed in accordance with GAAP (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net operating income	\$52,337	\$52,627	\$159,616	\$148,385
General and administrative	(5,176)	(4,958)	(16,139)	(15,171)
Depreciation and amortization	(19,886)	(21,192)	(86,033)	(63,360)

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Interest expense	(12,879)	(13,873)	(39,387)	(39,856)
Other income, net	(125)	(99)	(64)	403
Net income	\$14,271	\$12,505	\$17,993	\$30,401

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Table of Contents**Funds from Operations**

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

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

The following table sets forth a reconciliation of our FFO for the three and nine months ended September 30, 2018 to net income, the nearest GAAP equivalent (in thousands, except per share and share data):

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Funds from Operations (FFO)		
Net income	\$ 14,271	\$ 17,993
Plus: Real estate depreciation and amortization	19,886	86,033
Funds from operations	34,157	104,026
Less: Nonforfeitable dividends on incentive restricted stock awards	(70)	(211)
FFO attributable to common stock and units	\$ 34,087	\$ 103,815
FFO per diluted share/unit	\$ 0.53	\$ 1.62
Weighted average number of common shares and units, diluted ⁽¹⁾	64,137,727	64,133,629

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We manage our market risk by attempting to match anticipated inflow of cash from our operating, investing and financing activities with anticipated outflow of cash to fund debt payments, dividends to our stockholders and Operating Partnership unitholders, investments, capital expenditures and other cash requirements.

Interest Rate Risk

Outstanding Debt

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

Fixed Interest Rate Debt

Our outstanding notes payable obligations (maturing at various times through May 2029) have fixed interest rates which limit the risk of fluctuating interest rates. However, interest rate fluctuations may affect the fair value of our fixed rate debt instruments. At September 30, 2018, we had \$1,005.0 million of fixed rate debt outstanding with an estimated fair value of \$979.8 million. The carrying values of our revolving line of credit and term loan are deemed to be at fair value since the outstanding debt is directly tied to monthly LIBOR contracts. Additionally, we consider our \$250.0 million term loan outstanding as of September 30, 2018 to be fixed rate debt as the rate is effectively fixed by an interest rate swap agreement. If interest rates at September 30, 2018 had been 1.0% higher, the fair value of those debt instruments on that date would have decreased by approximately \$21.1 million. If interest rates at September 30, 2018 had been 1.0% lower, the fair value of those debt instruments on that date would have increased by approximately \$46.9 million.

Variable Interest Rate Debt

At September 30, 2018, we had \$272.0 million of variable rate debt outstanding. We have entered into forward starting interest rate swaps in order to economically hedge against the risk of rising interest rates that would affect our interest expense related to our future anticipated debt issuances as part of its overall borrowing program. See the discussion under Note 4 to the accompanying consolidated financial statements for certain quantitative details related to the interest rate swaps and for a discussion on how we value derivative financial instruments.

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ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures (American Assets Trust, Inc.)

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

American Assets Trust, Inc. has carried out an evaluation, under the supervision and with the participation of management, including American Assets Trust, Inc.'s Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of its disclosure controls and procedures as of September 30, 2018, the end of the period covered by this report. Based on the foregoing, its Chief Executive Officer and Chief Financial Officer have concluded, as of September 30, 2018, that American Assets Trust, Inc.'s disclosure controls and procedures were effective in ensuring that information required to be disclosed by it in reports filed or submitted under the Exchange Act (1) is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and (2) is accumulated and communicated to its management, including American Assets Trust, Inc.'s Chief Executive Officer and its Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

No changes to American Assets Trust, Inc.'s internal control over financial reporting were identified in connection with the evaluation referenced above that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, American Assets Trust, Inc.'s internal control over financial reporting.

Controls and Procedures (American Assets Trust, L.P.)

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

The Operating Partnership has carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of its disclosure controls and procedures as of September 30, 2018, the end of the period covered by this report. Based on the foregoing, its Chief Executive Officer and Chief Financial Officer have concluded, as of September 30, 2018, that the Operating Partnership's disclosure controls and procedures were effective in ensuring that information required to be disclosed by it in reports filed or submitted under the Exchange Act (1) is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and (2) is accumulated and communicated to its management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

No changes to the Operating Partnership's internal control over financial reporting were identified in connection with the evaluation referenced above that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

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PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in Item 1A. “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2017.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit No. Description

<u>31.1*</u>	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of American Assets Trust, Inc.</u>
<u>31.2*</u>	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of American Assets Trust, L.P.</u>
<u>31.3*</u>	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of American Assets Trust, Inc.</u>
<u>31.4*</u>	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of American Assets L.P.</u>
<u>32.1*</u>	<u>Certification of Chief Executive Officer and Chief Financial Officer of American Assets Trust, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>32.2*</u>	<u>Certification of Chief Executive Officer and Chief Financial Officer of American Assets Trust, L.P. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.

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SIGNATURES

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

American Assets Trust, Inc.	American Assets Trust, L.P. By: American Assets Trust, Inc. Its: General Partner
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/s/ ERNEST RADY Ernest Rady Chairman, President and Chief Executive Officer (Principal Executive Officer)	/s/ ERNEST RADY Ernest Rady Chairman, President and Chief Executive Officer (Principal Executive Officer)
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/s/ ROBERT F. BARTON Robert F. Barton Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	/s/ ROBERT F. BARTON Robert F. Barton Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)
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Date: November 2, 2018	Date: November 2, 2018
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