

American Assets Trust, Inc.
Form 10-Q
July 29, 2016
Table of Contents

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 June 30, 2016

or

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

For the transition period from _____ to _____

AMERICAN ASSETS TRUST, INC.
(Exact Name of Registrant as Specified in its Charter)
Commission file number: 001-35030

AMERICAN ASSETS TRUST, L.P.
(Exact Name of Registrant as Specified in its Charter)
Commission file number: 333-202342-01

Maryland (American Assets Trust, Inc.)	27-3338708 (American Assets Trust, Inc.)
Maryland (American Assets Trust, L.P.)	27-3338894 (American Assets Trust, L.P.)
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

11455 El Camino Real, Suite 200, San Diego, California (Address of Principal Executive Offices) (858) 350-2600 (Registrant's Telephone Number, Including Area Code)	92130 (Zip Code)
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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

American Assets Trust, Inc. Yes No
American Assets Trust, L.P. Yes No

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

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

American Assets Trust, Inc. Yes No

American Assets Trust, L.P. Yes No

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

American Assets Trust, Inc.

Large Accelerated Filer Accelerated Filer

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

American Assets Trust, L.P.

Large Accelerated Filer Accelerated Filer

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

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

American Assets Trust, Inc. Yes No

American Assets Trust, L.P. Yes No

American Assets Trust, Inc. had 45,410,806 shares of common stock, par value \$0.01 per share, outstanding as of July 29, 2016.

Table of Contents

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended June 30, 2016 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 June 30, 2016, American Assets Trust, Inc. owned an approximate 71.7% partnership interest in the Operating Partnership. The remaining 28.3% 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 partnership interests in the Operating Partnership that are not owned by American Assets Trust, Inc. are accounted for

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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.

Table of Contents

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.

Table of Contents

AMERICAN ASSETS TRUST, INC. AND AMERICAN ASSETS TRUST, L.P.
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE QUARTER ENDED JUNE 30, 2016

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Financial Statements of American Assets Trust, Inc.:

Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015 1

Consolidated Statements of Comprehensive Income (unaudited) for the three and six months ended June 30, 2016 and 2015 2

Consolidated Statement of Equity (unaudited) for the six months ended June 30, 2016 3

Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2016 and 2015 4

Consolidated Financial Statements of American Assets Trust, L.P.:

Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015 5

Consolidated Statements of Comprehensive Income (unaudited) for the three and six months ended June 30, 2016 and 2015 6

Consolidated Statement of Partners' Capital (unaudited) for the six months ended June 30, 2016 7

Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2016 and 2015 8

Notes to Consolidated Financial Statements (unaudited) 9

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 28

Item 3. Quantitative and Qualitative Disclosures about Market Risk 46

Item 4. Controls and Procedures 47

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 48

Item 1A. Risk Factors 48

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 48

Item 3. Defaults Upon Senior Securities 48

Item 4. Mine Safety Disclosures 48

Item 5. Other Information 48

Item 6. Exhibits 49

SIGNATURES 50

Table of Contents

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Real estate, at cost		
Operating real estate	\$2,214,094	\$2,163,444
Construction in progress	52,044	73,121
Held for development	9,462	9,463
	2,275,600	2,246,028
Accumulated depreciation	(441,080)	(411,166)
Net real estate	1,834,520	1,834,862
Cash and cash equivalents	43,886	39,925
Restricted cash	9,450	11,623
Accounts receivable, net	6,747	7,518
Deferred rent receivables, net	38,875	38,422
Other assets, net	38,435	41,939
TOTAL ASSETS	\$1,971,913	\$1,974,289
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured notes payable, net	\$467,531	\$579,000
Unsecured notes payable, net	595,775	446,613
Unsecured line of credit	—	30,000
Accounts payable and accrued expenses	33,209	31,821
Security deposits payable	6,072	5,956
Other liabilities and deferred credits, net	63,428	51,972
Total liabilities	1,166,015	1,145,362
Commitments and contingencies (Note 11)		
EQUITY:		
American Assets Trust, Inc. stockholders' equity		
Common stock, \$0.01 par value, 490,000,000 shares authorized, 45,410,806 and 45,407,719 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	454	454
Additional paid-in capital	864,675	863,432
Accumulated dividends in excess of net income	(71,433)	(64,066)
Accumulated other comprehensive loss	(10,281)	(258)
Total American Assets Trust, Inc. stockholders' equity	783,415	799,562
Noncontrolling interests	22,483	29,365
Total equity	805,898	828,927
TOTAL LIABILITIES AND EQUITY	\$1,971,913	\$1,974,289

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

1

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUE:				
Rental income	\$68,221	\$ 63,552	\$135,466	\$126,305
Other property income	3,598	3,217	7,084	6,499
Total revenue	71,819	66,769	142,550	132,804
EXPENSES:				
Rental expenses	19,590	17,205	38,043	33,825
Real estate taxes	6,417	5,986	13,050	12,034
General and administrative	4,394	4,788	8,943	9,804
Depreciation and amortization	17,714	15,286	35,167	30,393
Total operating expenses	48,115	43,265	95,203	86,056
OPERATING INCOME	23,704	23,504	47,347	46,748
Interest expense	(13,153)	(11,197)	(26,099)	(22,992)
Other income (expense), net	99	(23)	123	(93)
NET INCOME	10,650	12,284	21,371	23,663
Net income attributable to restricted shares	(43)	(40)	(86)	(83)
Net income attributable to unitholders in the Operating Partnership	(3,008)	(3,536)	(6,035)	(6,845)
NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, INC. STOCKHOLDERS	\$7,599	\$ 8,708	\$15,250	\$16,735
EARNINGS PER COMMON SHARE				
Earnings per common share, basic	\$0.17	\$ 0.20	\$0.34	\$0.38
Weighted average shares of common stock outstanding - basic	45,235,294	44,092,631	45,234,583	43,758,055
Earnings per common share, diluted	\$0.17	\$ 0.20	\$0.34	\$0.38
Weighted average shares of common stock outstanding - diluted	63,134,808	61,992,147	63,134,099	61,658,650
DIVIDENDS DECLARED PER COMMON SHARE	\$0.2500	\$ 0.2325	\$0.5000	\$0.4650
COMPREHENSIVE INCOME				
Net income	\$10,650	\$12,284	\$21,371	\$23,663
Other comprehensive income (loss) - unrealized gain (loss) on swap derivative during the period	(9,906)	457	(13,875)	(486)
Reclassification of amortization of forward-starting swap included in interest expense	(58)	(58)	(115)	(116)
Comprehensive income	686	12,683	7,381	23,061
Comprehensive income attributable to non-controlling interest	(182)	(3,656)	(2,068)	(6,674)
Comprehensive income attributable to American Assets Trust, Inc.	\$504	\$ 9,027	\$5,313	\$16,387

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

Table of Contents

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

	American Assets Trust, Inc. Stockholders' Equity							Noncontrolling Interests - Unitholders in the Operating Partnership	Total
	Common Shares		Additional Paid-in Capital	Accumulated Dividends in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Shares	Amount		
Balance at December 31, 2015	45,407,719	\$ 454						\$ 863,432	\$ (64,066)
Net income	—	—	—	15,336	—	6,035	21,371		
Issuance of restricted stock	4,900	—	—	—	—	—	—		
Forfeiture of restricted stock	(1,496)	—	—	—	—	—	—		
Dividends declared and paid	—	—	—	(22,703)	—	(8,950)	(31,653)		
Stock-based compensation	—	—	1,255	—	—	—	1,255		
Shares withheld for employee taxes	(317)	—	(12)	—	—	—	(12)		
Other comprehensive loss - change in value of interest rate swaps	—	—	—	—	(9,941)	(3,934)	(13,875)		