American Assets Trust, Inc.
Form 10-Q
May 01, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015
or
o 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.) Maryland (American Assets Trust, L.P.) (State or other jurisdiction of incorporation or organization)	27-3338708 (American Assets Trust, Inc.) 27-3338894 (American Assets Trust, L.P.) (IRS Employer Identification No.)
11455 El Camino Real, Suite 200, San Diego, California (Address of Principal Executive Offices)	92130 (Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

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

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

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

American Assets Trust, Inc.

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

American Assets Trust, L.P.

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

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

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

American Assets Trust, Inc. had 43,821,165 shares of common stock, par value $0.01 per share, outstanding as of May 1, 2015.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended March 31, 2015 of American Assets Trust, Inc., a Maryland corporation, and American Assets Trust, L.P., a Maryland limited partnership, of which American Assets Trust, Inc. is the parent company and sole general partner. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our” or “the company” refer to American Assets Trust, Inc. together with its consolidated subsidiaries, including American Assets Trust, L.P. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “our Operating Partnership” or “the Operating Partnership” refer to American Assets Trust, L.P. together with its consolidated subsidiaries.

American Assets Trust, Inc. operates as a real estate investment trust, or REIT, and is the sole general partner of the Operating Partnership. As of March 31, 2015, American Assets Trust, Inc. owned an approximate 70.9% partnership interest in the Operating Partnership. The remaining 29.1% 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 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 MARCH 31, 2015

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PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
Real estate, at cost		
Operating real estate	$1,938,663	$1,931,698
Construction in progress	232,597	195,736
Held for development	9,413	9,390
	2,180,673	2,136,824
Accumulated depreciation	(373,794)	(361,424)
Net real estate	1,806,879	1,775,400
Cash and cash equivalents	54,639	59,357
Restricted cash	10,252	10,994
Accounts receivable, net	5,772	6,727
Deferred rent receivables, net	36,467	35,883
Other assets, net	52,140	53,401
TOTAL ASSETS	$1,966,149	$1,941,762
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured notes payable	$711,809	$812,811
Unsecured notes payable	350,000	250,000
Unsecured line of credit	20,000	—
Accounts payable and accrued expenses	55,045	50,861
Security deposits payable	5,874	5,521
Other liabilities and deferred credits, net	55,867	55,993
Total liabilities	1,198,595	1,175,186
Commitments and contingencies (Note 11)		
EQUITY:		
American Assets Trust, Inc. stockholders’ equity		
Common stock, $0.01 par value, 490,000,000 shares authorized, 43,821,165 and 43,701,669 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	438	437
Additional paid-in capital	800,081	795,065
Accumulated dividends in excess of net income	(62,409)	(60,291)
Accumulated other comprehensive (loss) income	(618)	92
Total American Assets Trust, Inc. stockholders’ equity	737,492	735,303
Noncontrolling interests	30,062	31,273
Total equity	767,554	766,576
TOTAL LIABILITIES AND EQUITY	$1,966,149	$1,941,762

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 March 31, 2015	2014
REVENUE:		
Rental income	$62,753	$60,482
Other property income	3,282	3,498
Total revenue	66,035	63,980
EXPENSES:		
Rental expenses	16,620	16,620
Real estate taxes	6,048	6,026
General and administrative	5,016	4,612
Depreciation and amortization	15,107	16,341
Total operating expenses	42,791	43,599
OPERATING INCOME	23,244	20,381
Interest expense	(11,795)	(13,632)
Other income (expense), net	(70)	(91)
NET INCOME	11,379	6,658
Net income attributable to restricted shares	(43)	(70)
Net income attributable to unitholders in the Operating Partnership	(3,309)	(1,986)
NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, INC. STOCKHOLDERS	$8,027	$4,602
EARNINGS PER COMMON SHARE		
Earnings per common share, basic	$0.18	$0.11
Weighted average shares of common stock outstanding - basic	43,419,762	40,582,792
Earnings per common share, diluted	$0.18	$0.11
Weighted average shares of common stock outstanding - diluted	61,321,447	58,492,473
DIVIDENDS DECLARED PER COMMON SHARE	$0.2325	$0.2200
COMPREHENSIVE INCOME		
Net income	$11,379	$6,658
Other comprehensive loss - unrealized loss on swap derivative during the period	(943)	(746)
Reclassification of amortization of forward-starting swap included in interest expense	(58)	—
Comprehensive income	10,378	5,912
Comprehensive income attributable to non-controlling interest	(3,018)	(1,761)
Comprehensive income attributable to American Assets Trust, Inc.	$7,360	$4,151

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						
	Common Shares						
	Shares	Amount	Additional Paid-in Capital	Accumulated Dividends in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests - Unitholders in the Operating Partnership	Total
Balance at December 31, 2014	43,701,669	$437	$795,065	$ (60,291)	$ 92	$ 31,273	$766,576
Net income	—	—	—	8,070	—	3,309	11,379
Common shares issued	253,800	2	10,270	—	—	—	10,272
Conversion of operating partnership units	5,741	—	67	—	—	(67)	—
Dividends declared and paid	—	—	—	(10,188)	—	(4,162)	(14,350)
Stock-based compensation	—	—	890	—	—	—	890
Shares withheld for employee taxes	(140,045)	(1)	(6,211)	—	—	—	(6,212)
Other comprehensive loss - change in value of interest rate swap	—	—	—	—	(669)	(274)	(943)
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(41)	(17)	(58)
Balance at March 31, 2015	43,821,165	$438	$800,081	$ (62,409)	$ (618)	$ 30,062	$767,554

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)

	Three Months Ended March 31,	
	2015	2014
OPERATING ACTIVITIES		
Net income	$11,379	$6,658
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	(1,353)	(1,545)
Depreciation and amortization	15,107	16,341
Amortization of debt issuance costs and debt fair value adjustments	1,045	1,015
Stock-based compensation expense	890	519
Other noncash interest expense	(58)	—
Other, net	180	(362)
Changes in operating assets and liabilities		
Change in restricted cash	943	(1,141)
Change in accounts receivable	874	1,022
Change in other assets	(1,143)	(392)
Change in accounts payable and accrued expenses	4,145	4,705
Change in security deposits payable	353	58
Change in other liabilities and deferred credits	148	1,115
Net cash provided by operating activities	32,510	27,993
INVESTING ACTIVITIES		
Capital expenditures	(44,125)	(30,300)
Change in restricted cash	(201)	(303)
Leasing commissions	(843)	(996)
Net cash used in investing activities	(45,169)	(31,599)
FINANCING ACTIVITIES		
Repayment of secured notes payable	(101,729)	(405)
Proceeds from term loan	—	100,000
Proceeds from unsecured line of credit	20,000	—
Repayment of unsecured line of credit	—	(93,000)
Proceeds from issuance of unsecured notes payable	100,000	—
Debt issuance costs	(40)	(1,957)
Proceeds from issuance of common stock, net	10,272	46,926
Dividends paid to common stock and unitholders	(14,350)	(13,140)
Shares withheld for employee taxes	(6,212)	(4,319)
Net cash provided by financing activities	7,941	34,105
Net (decrease) increase in cash and cash equivalents	(4,718)	30,499
Cash and cash equivalents, beginning of period	59,357	48,987
Cash and cash equivalents, end of period	$54,639	$79,486

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 Share Data)

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
Real estate, at cost		
Operating real estate	$1,938,663	$1,931,698
Construction in progress	232,597	195,736
Held for development	9,413	9,390
	2,180,673	2,136,824
Accumulated depreciation	(373,794)	(361,424)
Net real estate	1,806,879	1,775,400
Cash and cash equivalents	54,639	59,357
Restricted cash	10,252	10,994
Accounts receivable, net	5,772	6,727
Deferred rent receivables, net	36,467	35,883
Other assets, net	52,140	53,401
TOTAL ASSETS	$1,966,149	$1,941,762
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured notes payable	$711,809	$812,811
Unsecured notes payable	350,000	250,000
Unsecured line of credit	20,000	—
Accounts payable and accrued expenses	55,045	50,861
Security deposits payable	5,874	5,521
Other liabilities and deferred credits	55,867	55,993
Total liabilities	1,198,595	1,175,186
Commitments and contingencies (Note 11)		
CAPITAL:		
Limited partners' capital, 17,899,516 and 17,905,257 units issued and outstanding as of March 31, 2015 and December 31, 2014, respectively	30,315	31,235
General partner's capital, 43,821,165 and 43,701,669 units issued and outstanding as of March 31, 2015 and December 31, 2014, respectively	738,110	735,211
Accumulated other comprehensive (loss) income	(871)	130
Total capital	767,554	766,576
TOTAL LIABILITIES AND CAPITAL	$1,966,149	$1,941,762

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 Share Data)

	Three Months Ended March 31,	
	2015	2014
REVENUE:		
Rental income	$62,753	$60,482
Other property income	3,282	3,498
Total revenue	66,035	63,980
EXPENSES:		
Rental expenses	16,620	16,620
Real estate taxes	6,048	6,026
General and administrative	5,016	4,612
Depreciation and amortization	15,107	16,341
Total operating expenses	42,791	43,599
OPERATING INCOME	23,244	20,381
Interest expense	(11,795)	(13,632)
Other income (expense), net	(70)	(91)
NET INCOME	11,379	6,658
Net income attributable to restricted shares	(43)	(70)
NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, L.P.	$11,336	$6,588
EARNINGS PER UNIT - BASIC		
Earnings per unit, basic	$0.18	$0.11
Weighted average units outstanding - basic	61,321,447	58,492,473
EARNINGS PER UNIT - DILUTED		
Earnings per unit, diluted	$0.18	$0.11
Weighted average units outstanding - diluted	61,321,447	58,492,473
DISTRIBUTIONS PER UNIT	$0.2325	$0.2200
COMPREHENSIVE INCOME		
Net income	$11,379	$6,658
Other comprehensive loss - unrealized loss on swap derivative during the period	(943)	(746)
Reclassification of amortization of forward-starting swap included in interest expense	(58)	—
Comprehensive income	10,378	5,912
Comprehensive income attributable to Limited Partners	(3,018)	(1,761)
Comprehensive income attributable to General Partner	$7,360	$4,151

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 Share 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, 2014	17,905,257	$31,235	43,701,669	$735,211	$ 130	$766,576
Net income	—	3,309	—	8,070	—	11,379
Contributions from American Assets Trust, Inc.	—	—	253,800	10,272	—	10,272
Conversion of operating partnership units	(5,741)	(67)	5,741	67	—	—
Distributions	—	(4,162)	—	(10,188)	—	(14,350)
Stock-based compensation	—	—	—	890	—	890
Shares withheld for employee taxes	—	—	(140,045)	(6,212)	—	(6,212)
Other comprehensive loss - change in value of interest rate swap	—	—	—	—	(943)	(943)
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(58)	(58)
Balance at March 31, 2015	17,899,516	$30,315	43,821,165	$738,110	$ (871)	$767,554

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

	Three Months Ended March 31, 2015	2014
OPERATING ACTIVITIES		
Net income	$11,379	$6,658
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	(1,353)	(1,545)
Depreciation and amortization	15,107	16,341
Amortization of debt issuance costs and debt fair value adjustments	1,045	1,015
Stock-based compensation expense	890	519
Other noncash interest expense	(58)	—
Other, net	180	(362)
Changes in operating assets and liabilities		
Change in restricted cash	943	(1,141)
Change in accounts receivable	874	1,022
Change in other assets	(1,143)	(392)
Change in accounts payable and accrued expenses	4,145	4,705
Change in security deposits payable	353	58
Change in other liabilities and deferred credits	148	1,115
Net cash provided by operating activities	32,510	27,993
INVESTING ACTIVITIES		
Capital expenditures	(44,125)	(30,300)
Change in restricted cash	(201)	(303)
Leasing commissions	(843)	(996)
Net cash used in investing activities	(45,169)	(31,599)
FINANCING ACTIVITIES		
Repayment of secured notes payable	(101,729)	(405)
Proceeds from term loan	—	100,000
Proceeds from unsecured line of credit	20,000	—
Repayment of unsecured line of credit	—	(93,000)
Proceeds from issuance of unsecured notes payable	100,000	—
Debt issuance costs	(40)	(1,957)
Contributions from American Assets Trust, Inc.	10,272	46,926
Distributions	(14,350)	(13,140)
Shares withheld for employee taxes	(6,212)	(4,319)
Net cash provided by financing activities	7,941	34,105
Net (decrease) increase in cash and cash equivalents	(4,718)	30,499
Cash and cash equivalents, beginning of period	59,357	48,987
Cash and cash equivalents, end of period	$54,639	$79,486

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

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American Assets Trust, Inc. and American Assets Trust, L.P.
Notes to Consolidated Financial Statements
March 31, 2015
(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 127 employees providing substantial in-house expertise in asset management, property management, property development, leasing, tenant improvement construction, acquisitions, repositioning, redevelopment and financing.

As of March 31, 2015, we owned or had a controlling interest in 23 office, retail, multifamily and mixed-use operating properties, the operations of which we consolidate. Additionally, as of March 31, 2015, we owned land at five of our properties that we classify as held for development and/or construction in progress. A summary of the properties owned by us is as follows:

Retail	
Carmel Country Plaza	Del Monte Center
Carmel Mountain Plaza	Geary Marketplace
South Bay Marketplace	The Shops at Kalakaua
Rancho Carmel Plaza	Waikele Center
Lomas Santa Fe Plaza	Alamo Quarry Market
Solana Beach Towne Centre	
Office	
Torrey Reserve Campus	Lloyd District Portfolio
Solana Beach Corporate Centre	City Center Bellevue
The Landmark at One Market	
One Beach Street	
First & Main	
Multifamily	
Loma Palisades	
Imperial Beach Gardens	
Mariner's Point	
Santa Fe Park RV Resort	
Mixed-Use	
Waikiki Beach Walk Retail and Embassy Suites™ Hotel	
Held for Development and/or Construction in Progress	
Solana Beach Corporate Centre – Land	
Solana Beach – Highway 101 – Land	
Torrey Point (formerly Sorrento Pointe) – Land	
Torrey Reserve – Land	
Lloyd District Portfolio – Land	

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American Assets Trust, Inc. and American Assets Trust, L.P.
Notes to Consolidated Financial Statements—(Continued)
March 31, 2015
(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, 2014.

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

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

Consolidated Statements of Cash Flows—Supplemental Disclosures

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

	Three Months Ended March 31,	
	2015	2014
Supplemental cash flow information		
Total interest costs incurred	$14,128	$14,467
Interest capitalized	$2,333	$835
Interest expense	$11,795	$13,632
Cash paid for interest, net of amounts capitalized	$10,459	$12,724
Cash paid for income taxes	$50	$—
Supplemental schedule of noncash investing and financing activities		
Accounts payable and accrued liabilities for construction in progress	$205	$(890)
Accrued leasing commissions	$(166)	$(630)

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, 2014. There have been no changes to our significant accounting policies during the three months ended March 31, 2015.

Segment Information

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

Reclassification

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

Recent Accounting Pronouncements

In April 2014, the FASB issued Accounting Standards Update (ASU) 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 revises the definition of a discontinued operation to a disposal, sale or held-for-sale component or group of components that represents a strategic shift that will have a major effect on an entity's operations and financial results. This pronouncement is effective in 2015, however, calendar year-end companies may early adopt during the first quarter of 2014. We have chosen to early adopt this pronouncement and it became effective for us in the first quarter of 2014. This pronouncement did not have a significant impact on our consolidated financial statements.

In May 2014, the FASB issued Update No. 2014-09, Revenue from Contracts with Customers. Update No. 2014-09 establishes that companies may recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This pronouncement is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period; early adoption is not permitted. We are in the process of evaluating the impact this pronouncement will have on our consolidated financial statements.

In February 2015, the FASB issued an ASU that requires reporting entities to evaluate whether they should consolidate certain legal entities. The ASU modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities and eliminates the presumption that a general partner should consolidate a limited partnership. This affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. The ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. A reporting entity may apply the amendments in the ASU using: (i) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption; or (ii) by applying the amendments retrospectively. We are in the process of evaluating the impact of adopting this ASU and currently do not expect that the adoption will have a material impact on our consolidated financial statements.

In April 2015, the FASB issued an ASU that requires reporting entities to present debt issuance cost related to a note as a direct deduction from the face amount of that note presented in the balance sheet. The ASU requires the amortization of debt issuance costs presented as interest expense. The ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. A reporting entity may apply the amendments in the ASU retrospectively to all prior periods. We do not expect that the adoption of this ASU will have a material impact on our consolidated financial statements.

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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 March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015	December 31, 2014
In-place leases	$53,383	$53,967
Accumulated amortization	(36,001)	(35,336)
Above market leases	22,291	22,500
Accumulated amortization	(17,644)	(17,397)
Acquired lease intangible assets, net	$22,029	$23,734
Below market leases	$70,013	$70,013
Accumulated accretion	(28,344)	(27,161)
Acquired lease intangible liabilities, net	$41,669	$42,852

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 agreement on our term loan of $100 million is 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 fair value of our swap at March 31, 2015 was a liability of $2.4 million and is included in "other liabilities and deferred credits" on our consolidated balance sheets. For the three months ended March 31, 2015, the change in valuation on our interest rate swap was a decrease of $0.9 million. 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 loss 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 contract 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.

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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 March 31, 2015 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.

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):

	March 31, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Deferred compensation liability	$—	$1,042	$—	$1,042	$—	$981	$—	$981
Interest rate swap	$—	$2,391	$—	$2,391	$—	$1,448	$—	$1,448

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 3.4% to 5.5%.

Considerable judgment is necessary to estimate the fair value of financial instruments. The estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. 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):

	March 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Secured notes payable	$711,809	$750,138	$812,811	$850,475
Unsecured term loan	$100,000	$100,000	$100,000	$100,000
Unsecured senior guaranteed notes	$250,000	$260,019	$150,000	$154,560
Unsecured line of credit	$20,000	$20,000	$—	$—

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.

Concurrent with the closing of our amended and restated credit facility, we entered into an interest rate swap agreement that is intended to fix the interest rate associated with the term loan at approximately 3.08% through its maturity date and extension options, subject to adjustments based on our consolidated leverage ratio. The following is a summary of the terms of the interest rate swap as of March 31, 2015 (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	$2,391

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.

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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, 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.

NOTE 5. OTHER ASSETS

Other assets consist of the following (in thousands):

	March 31, 2015	December 31, 2014
Leasing commissions, net of accumulated amortization of $21,392 and $20,659 respectively	$19,197	$19,484
Acquired above market leases, net	4,647	5,103
Acquired in-place leases, net	17,382	18,631
Lease incentives, net of accumulated amortization of $3,053 and $2,960, respectively	647	740
Other intangible assets, net of accumulated amortization of $1,612 and $1,590, respectively	411	453
Debt issuance costs, net of accumulated amortization of $4,416 and $4,147, respectively	5,083	5,361
Prepaid expenses and other	4,773	3,629
Total other assets	$52,140	$53,401

NOTE 6. OTHER LIABILITIES AND DEFERRED CREDITS

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

	March 31, 2015	December 31, 2014
Acquired below market leases, net	$41,669	$42,852
Prepaid rent and deferred revenue	7,538	7,288
Interest rate swap liability	2,391	1,448
Deferred rent expense and lease intangible	511	584
Deferred compensation	1,042	981
Deferred tax liability	219	219
Straight-line rent liability	2,410	2,533
Other liabilities	87	88
Total other liabilities and deferred credits, net	$55,867	$55,993

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 loan and (iii) senior guaranteed notes. Additionally, American Assets Trust, Inc. has provided carve-out guarantees on certain property-level debt.

Debt of American Assets Trust, L.P.

Secured notes payable

The following is a summary of our total secured notes payable outstanding as of March 31, 2015 and December 31, 2014 (in thousands):

Description of Debt	Principal Balance as of March 31, 2015	December 31, 2014	Stated Interest Rate as of March 31, 2015		Stated Maturity Date
The Shops at Kalakaua [1][2]	$—	$19,000	—		May 1, 2015
The Landmark at One Market [1][3]	133,000	133,000	5.61	%	July 5, 2015
Del Monte Center [1][4]	—	82,300	—		July 8, 2015
First & Main [1]	84,500	84,500	3.97	%	July 1, 2016
Imperial Beach Gardens [1]	20,000	20,000	6.16	%	September 1, 2016
Mariner's Point [1]	7,700	7,700	6.09	%	September 1, 2016
South Bay Marketplace [1]	23,000	23,000	5.48	%	February 10, 2017
Waikiki Beach Walk—Retail [1]	130,310	130,310	5.39	%	July 1, 2017
Solana Beach Corporate Centre III-IV [5]	36,257	36,376	6.39	%	August 1, 2017
Loma Palisades [1]	73,744	73,744	6.09	%	July 1, 2018
One Beach Street [1]	21,900	21,900	3.94	%	April 1, 2019
Torrey Reserve—North Court [5]	20,995	21,075	7.22	%	June 1, 2019
Torrey Reserve—VCI, VCII, VCIII [5]	7,074	7,101	6.36	%	June 1, 2020
Solana Beach Corporate Centre I-II [5]	11,255	11,302	5.91	%	June 1, 2020
Solana Beach Towne Centre [5]	37,518	37,675	5.91	%	June 1, 2020
City Center Bellevue [1]	111,000	111,000	3.98	%	November 1, 2022
	718,253	819,983			
Unamortized fair value adjustment	(6,444)	(7,172)			
Total Secured Notes Payable Outstanding	$711,809	$812,811			

(1) Interest only.

(2) Loan repaid in full, without premium or penalty, on February 2, 2015.

(3) Loan repaid in full, without premium or penalty, on April 6, 2015.

(4) Loan repaid in full, without premium or penalty, on February 6, 2015.

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

Certain loans require us to comply with various financial covenants. As of March 31, 2015, the Operating Partnership was in compliance with these financial covenants.

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Unsecured notes payable
The following is a summary of the Operating Partnership's total unsecured notes payable outstanding as of March 31, 2015 and December 31, 2014 (in thousands):

Description of Debt	Principal Balance as of March 31, 2015	December 31, 2014	Stated Interest Rate as of March 31, 2015	Stated Maturity Date
Term Loan	$100,000	$100,000	Variable (1)	January 9, 2019 (2)
Senior Guaranteed Notes, Series A	150,000	150,000	4.04% (3)	October 31, 2021
Senior Guaranteed Notes, Series B	100,000	—	4.45%	February 2, 2025
Total Unsecured Notes Payable	$350,000	$250,000		

(1) The Operating Partnership has entered into an interest rate swap agreement that is intended to fix the interest rate associated with the loan term at approximately 3.08% through its maturity date and extension options, subject to adjustments based on our consolidated leverage ratio.
(2) The Operating Partnership has an option to extend the term loan up to three times, with each such extension for a 12-month period. The foregoing extension options are exercisable by us subject to the satisfaction of certain conditions.
(3) The Operating Partnership entered into a one-month forward-starting seven-year 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.

On October 31, 2014, the Operating Partnership entered into a Note Purchase Agreement with a group of institutional purchasers that provided for the private placement of an aggregate of $350 million of senior guaranteed notes, of which (i) $150 million are designated as 4.04% Senior Guaranteed Notes, Series A, due October 31, 2021 (the "Series A Notes"), (ii) $100 million are designated as 4.45% Senior Guaranteed Notes, Series B, due February 2, 2025 (the "Series B Notes") and (iii) $100 million are designated as 4.50% Senior Guaranteed Notes, Series C, due April 1, 2025 (the "Series C Notes", and collectively with the Series A Notes and Series B Notes, are referred to herein as, the "Notes"). The Series A Notes were issued on October 31, 2014, the Series B Notes were issued on February 2, 2015 and the Series C Notes were issued on April 2, 2015. The Notes pay interest quarterly on the last day of January, April, July and October until their respective maturities.
The Operating Partnership may prepay at any time all, or from time to time any part of, the Notes, in an amount not less than 5% of the aggregate principal amount of any series of the Notes then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid plus a Make-Whole Amount (as defined in the Note Purchase Agreement).

The Note Purchase Agreement contains a number of customary financial covenants, including, without limitation, tangible net worth thresholds, secured and unsecured leverage ratios and fixed charge coverage ratios. Subject to the terms of the Note Purchase Agreement and the Notes, upon certain events of default, including, but not limited to, (i) a default in the payment of any principal, Make-Whole Amount or interest under the Notes, and (ii) a default in the payment of certain other indebtedness by us or our subsidiaries, the principal, accrued and unpaid interest, and the Make-Whole Amount on the outstanding Notes will become due and payable at the option of the purchasers.
The Operating Partnership's obligations under the Notes are fully and unconditionally guaranteed by the Operating Partnership and certain of the Operating Partnership's subsidiaries.

Credit Facility

On January 9, 2014, Operating Partnership entered into an amended and restated credit agreement (the "Amended and Restated Credit Facility") which amended and restated the then in-place credit facility. The Amended and Restated Credit Facility provides for aggregate, unsecured borrowing of $350 million, consisting of a revolving line of credit of $250 million (the "Revolver Loan") and a term loan of $100 million (the "Term Loan"). The Amended and Restated Credit Facility has an accordion feature that may allow the Operating Partnership to increase the availability thereunder up to an additional $250 million, subject to meeting specified requirements and obtaining additional commitments from lenders. At March 31, 2015, $20 million was outstanding under the Revolver Loan.

Borrowings under the Amended and Restated Credit Facility initially bear interest at floating rates equal to, at our option, either (1) LIBOR, plus a spread which ranges from (a) 1.35%-1.95% (with respect to the Revolver Loan) and (b) 1.30% to 1.90% (with respect to the Term Loan), 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) the Eurodollar rate plus 100 bps, plus a spread which ranges from (i) 0.35%-0.95% (with respect to the Revolver Loan) and (ii) 0.30% to 0.90% (with respect to the Term Loan), in each case based on our consolidated leverage ratio. If American Assets Trust, Inc. obtains an investment-grade debt rating, under the terms set forth in the Amended and Restated Credit Facility, the spreads will further improve.

The Revolver Loan initially matures on January 9, 2018, subject to the Operating Partnership's option to extend the Revolver Loan up to two times, with each such extension for a six-month period. The Term Loan initially matures on January 9, 2016, subject to the Operating Partnership's option to extend the Term Loan up to three times, with each such extension for a 12-month period. The foregoing extension options are exercisable by the Operating Partnership's subject to the satisfaction of certain conditions.

Concurrent with the closing of the Amended and Restated Credit Facility, the Operating Partnership's drew down on the entirety of the $100 million Term Loan and entered into an interest rate swap agreement that is intended to fix the interest rate associated with the Term Loan at approximately 3.08% through its maturity date and extension options, subject to adjustments based on our consolidated leverage ratio.

Additionally, the 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 45% at any time prior to December 31, 2015, and 40% thereafter,
- 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%,
- A minimum tangible net worth of $721.16 million, and 75% of the net proceeds of any additional equity issuances (other than additional equity issuances in connection with any dividend reinvestment program), and
- Recourse indebtedness at any time cannot exceed 15% of total asset value.

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

As of March 31, 2015, the Operating Partnership was in compliance with the Amended and Restated Credit Facility financial covenants.

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 17,899,516 common units (the “noncontrolling common units”), and represented approximately 29.1% of the ownership interests in our Operating Partnership at March 31, 2015. 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 three months ended March 31, 2015, approximately 5,741 common units were converted into shares of our common stock.

NOTE 9. EQUITY OF AMERICAN ASSETS TRUST, INC.

Stockholders' Equity

On May 6, 2013, we entered into an at-the-market ("ATM") equity program with four sales agents in which we may, from time to time, offer and sell shares of our common stock having an aggregate offering price of up to $150.0 million. The sales of shares of our common stock made through the ATM equity program are made in "at-the-market" offerings as defined in Rule 415 of the Securities Act of 1933, as amended. During the three months ended March 31, 2015, the following shares of common stock and related proceeds were sold through the ATM equity program (in thousands, except per share data):

	Three Months Ended March 31, 2015	
Number of shares of common stock issued through ATM program	53,800	
Weighted average price per share	$42.54	
Proceeds, gross	$2,288	
Sales agent compensation	(23	)
Offering costs	(101	)
Proceeds, net	$2,164	

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 March 31, 2015, we had the capacity to issue up to an additional $30.1 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.

On March 9, 2015, we entered into a common stock purchase agreement (the "Purchase Agreement") with Explorer Insurance Company, a California corporation ("EIC"), an entity owned and controlled by Ernest Rady, the Executive Chairman of our board of directors. The Purchase Agreement provided for the sale by us to EIC, in a private placement, of 200,000 shares of our common stock at a purchase price of $40.54 per share, resulting in gross proceeds to us of approximately $8.1 million. The price per share paid by EIC was equal to the closing price of a share of our common stock on the New York Stock Exchange on the date of the Purchase Agreement. These shares were registered on March 27, 2015 by virtue of our filing of a prospectus supplement to our universal shelf registration statement on Form S-3 filed on February 6, 2015.

Dividends

The following table lists the dividends declared and paid on our shares of common stock and noncontrolling common units during the three months ended March 31, 2015:

Period	Amount per Share/Unit	Period Covered	Dividend Paid Date
First Quarter 2015	$0.2325	January 1, 2015 to March 31, 2015	March 27, 2015

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.

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, or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. The guidance also defines a fair value-based method of accounting for an employee stock option or similar equity instrument.

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

The following table summarizes the activity of restricted stock awards during the three months ended March 31, 2015:

	Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2015	493,539	$22.01
Granted	—	—
Vested	(308,587)	15.36
Forfeited	—	—
Nonvested at March 31, 2015	184,952	$33.10

We recognize noncash compensation expense ratably over the vesting period, and accordingly, we recognized $0.9 million and $0.5 million, respectively, in noncash compensation expense for the three months ended March 31, 2015 and 2014, which is included in general and administrative expense on the consolidated statements of comprehensive income. Unrecognized compensation expense was $3.9 million at March 31, 2015.

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 246,672 and 406,856 for the three months ended March 31, 2015 and 2014. 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 March 31, 2015 and 2014, 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.

Earnings Per Unit of the Operating Partnership

Basic earnings (loss) per unit (“EPU”) of the Operating Partnership is computed by dividing income (loss) 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 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 (losses).

The calculation of diluted earnings per unit for the year ended March 31, 2015 and 2014 does not include the weighted average of 246,672, and 406,856 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 computation of basic and diluted EPS is presented below (dollars in thousands, except share and per share amounts):

	Three Months Ended March 31,	
	2015	2014
NUMERATOR		
Net income from operations	$11,379	$6,658
Less: Net income attributable to restricted shares	(43)	(70)
Less: Income from operations attributable to unitholders in the Operating Partnership	(3,309)	(1,986)
Net income attributable to common stockholders—basic	$8,027	$4,602
Income from operations attributable to American Assets Trust, Inc. common stockholders—basic	$8,027	$4,602
Plus: Income from operations attributable to unitholders in the Operating Partnership	3,309	1,986
Net income attributable to common stockholders—diluted	$11,336	$6,588
DENOMINATOR		
Weighted average common shares outstanding—basic	43,419,762	40,582,792
Effect of dilutive securities—conversion of Operating Partnership units	17,901,685	17,909,681
Weighted average common shares outstanding—diluted	61,321,447	58,492,473
Earnings per common share, basic	$0.18	$0.11
Earnings per common share, diluted	$0.18	$0.11

NOTE 10. INCOME TAXES

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

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

A deferred tax liability of $0.2 million as of March 31, 2015 and December 31, 2014 is included in our consolidated balance sheets in relation to real estate asset basis differences of property subject to the Texas margin tax and certain prepaid expenses of our TRS.

Income tax expense is recorded in other income (expense), net in our consolidated statements of comprehensive income. For each of the three months ended March 31, 2015 and 2014 we recorded an income tax expense of $0.1 million.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Legal

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

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

Commitments

At The Landmark at One Market, we lease, as lessee, a building adjacent to The Landmark under an operating lease effective through June 30, 2016, which we have the option to extend until 2031 by way of three five-year extension options.

At Waikiki Beach Walk, we sublease a portion of the building of which Quiksilver is currently in possession, under an operating lease effective through December 31, 2021, which we have the option to extend at fair rental value in the event the sublessor extends its lease for the space with the master landlord. The lease payments under the lease will increase by approximately 3.4% annually through 2017 and, thereafter, will be equal to fair rental value, as defined in the lease, through lease expiration.

Current minimum annual payments under the leases are as follows, as of March 31, 2015 (in thousands):

Year Ending December 31,		
2015 (nine months ending December 31, 2015)	$1,986	
2016	2,682	(1)
2017	2,686	(2)
2018	2,686	
2019	2,686	
Thereafter	23,856	
Total	$36,582	

(1) Lease payments on The Landmark at One Market lease will be equal to fair rental value from July 2016 through the end of the options lease term. In the table, we have shown the option lease payments for this period based on the stated rate for the month of June 2016 of $162,140.

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

We have management agreements with Outrigger Hotels & Resorts or an affiliate thereof (“Outrigger”) pursuant to which Outrigger manages each of the retail and hotel portions of the Waikiki Beach Walk property. Under the management agreement with Outrigger relating to the retail portion of Waikiki Beach Walk (the “retail management agreement”), we pay Outrigger a monthly management fee of 3.0% of net revenues from the retail portion of Waikiki Beach Walk. Pursuant to the terms of the retail management agreement, if the agreement is terminated in certain instances, including our election not to repair damage or destruction at the property, a condemnation or our failure to make required working capital infusions, we would be obligated to pay Outrigger a termination fee equal to the sum of the management fees paid for the two calendar months immediately preceding the termination date. The retail management agreement may not be terminated by us or by Outrigger without cause. Under our management agreement with Outrigger relating to the hotel portion of Waikiki Beach Walk (the “hotel management agreement”), we pay Outrigger a monthly management fee of 6.0% of the hotel's gross operating profit, as well as 3.0% of the hotel's gross revenues; provided that the aggregate management fee payable to Outrigger for any year shall not exceed 3.5% of the hotel's gross revenues for such fiscal year. Pursuant to the terms of the hotel management agreement, if the agreement is terminated in certain instances, including upon a transfer by us of the hotel or upon a default by us under the hotel management agreement, we would be required to pay a cancellation fee calculated by multiplying (1) the management fees for the previous 12 months by (2) (a) eight, if the agreement is terminated in the first 11 years of its term, or (b) four, three, two or one, if the agreement is terminated in the twelfth, thirteenth, fourteenth or fifteenth year, respectively, of its term. The hotel management agreement may not be terminated by us or by Outrigger without cause.

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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 $6.6 million based on operating performance through March 31, 2015.

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 two to nine 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.

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

Concentrations of Credit Risk

Our properties are located in Southern California, Northern California, Hawaii, Oregon, Texas, and Washington. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social factors affecting the markets in which the tenants operate. Twelve of our consolidated properties are located in Southern California, which exposes us to greater economic risks than if we owned a more geographically diverse portfolio. Tenants in the retail industry accounted for 36.4% of total revenues for the three months ended March 31, 2015. 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 35.7% of total revenues for the three months ended March 31, 2015. 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 three months ended March 31, 2015 and 2014, no tenant accounted for more than 10% of our total rental revenue.

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NOTE 12. OPERATING LEASES

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

As of March 31, 2015, 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,	
2015 (nine months ending December 31, 2015)	$121,921
2016	149,336
2017	133,727
2018	101,180
2019	72,885
Thereafter	197,835
Total	$776,884

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 March 31,	
	2015	2014
Minimum rents		
Retail	$18,211	$17,292
Office	21,187	20,236
Multifamily	4,034	3,834
Mixed-use	2,523	2,470
Cost reimbursement	7,037	6,804
Percentage rent	360	425
Hotel revenue	9,008	9,002
Other	393	419
Total rental income	$62,753	$60,482

Minimum rents include $0.7 million and $1.0 million for the three months ended March 31, 2015 and 2014, 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 $0.7 million and $0.6 million for the three months ended March 31, 2015 and 2014, respectively.

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

	Three Months Ended March 31,	
	2015	2014
Rental operating	$6,281	$6,526
Hotel operating	5,645	5,553
Repairs and maintenance	2,251	2,122
Marketing	385	390
Rent	614	611
Hawaii excise tax	986	965
Management fees	458	453
Total rental expenses	$16,620	$16,620

NOTE 14. OTHER INCOME (EXPENSE), NET

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

	Three Months Ended March 31,	
	2015	2014
Interest and investment income	$14	$21
Income tax benefit (expense)	(84)	(112)
Total other income (expense), net	$(70)	$(91)

NOTE 15. RELATED PARTY TRANSACTIONS

At ICW Plaza, we lease space to Insurance Company of the West, a California corporation ("ICW") which is an insurance company majority owned and controlled by Ernest Rady, our Executive Chairman of the Board. Rental revenue recognized on the leases of $0.6 million and $0.5 million for the three months ended March 31, 2015 and 2014, respectively, is included in rental income. Additionally, on July 1, 2014, we entered into a workers' compensation insurance policy with ICW. The policy premium is approximately $0.4 million for the period July 1, 2014 through July 1, 2015.

On September 12, 2014, we entered into a common stock Purchase Agreement with ICW. The Purchase Agreement provides for the sale by us to ICW, in a private placement, of 400,000 shares of common stock at a price of $33.76 per share, resulting in gross proceeds to us of approximately $13.5 million. The price per share paid by ICW was equal to the closing price of a share of our common stock on the New York Stock Exchange on the date of the Purchase Agreement.

On March 9, 2015, we entered into a common stock Purchase Agreement with Explorer Insurance Company ("EIC"), an entity owned and controlled by Ernest Rady. The Purchase Agreement provides for the sale by us to EIC, in a private placement, of 200,000 shares of common stock at a price of $40.54 per share, resulting in gross proceeds to us of approximately $8.1 million. The price per share paid by EIC was equal to the closing price of a share of our common stock on the New York Stock Exchange on the date of the Purchase Agreement.

As of March 31, 2015, Mr. Rady and his affiliates owned approximately 10.1% of our outstanding common stock and 24.1% of our outstanding common units, which together represent an approximate 34.1% beneficial interest in our company on a fully diluted basis.

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 $0.2 million were made for both the three months ended March 31, 2015 and 2014 and are included in rental expenses on the statements of comprehensive income.

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NOTE 16. SEGMENT REPORTING
Segment information is prepared on the same basis that our management reviews information for operational decision-making purposes. We operate in four business segments: the acquisition, redevelopment, ownership and management of retail real estate, office real estate, multifamily real estate and mixed-use real estate. The products for our retail segment primarily include rental of retail space and other tenant services, including tenant reimbursements, parking and storage space rental. The products for our office segment primarily include rental of office space and other tenant services, including tenant reimbursements, parking and storage space rental. The products for our multifamily segment include rental of apartments and other tenant services. The products of our mixed-use segment include rental of retail space and other tenant services, including tenant reimbursements, parking and storage space rental and operation of a 369-room all-suite hotel.
We evaluate the performance of our segments based on segment profit, which is defined as property revenue less property expenses. We do not use asset information as a measure to assess performance and make decisions to allocate resources. Therefore, depreciation and amortization expense is not allocated among segments. General and administrative expenses, interest expense, depreciation and amortization expense and other income and expense are not included in segment profit as our internal reporting addresses these items on a corporate level.
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 March 31,	
	2015	2014
Total Retail		
Property revenue	$24,038	$22,999
Property expense	(6,000)	(6,058)
Segment profit	18,038	16,941
Total Office		
Property revenue	23,577	22,858
Property expense	(6,821)	(6,893)
Segment profit	16,756	15,965
Total Multifamily		
Property revenue	4,310	4,130
Property expense	(1,484)	(1,427)
Segment profit	2,826	2,703
Total Mixed-Use		
Property revenue	14,110	13,993
Property expense	(8,363)	(8,268)
Segment profit	5,747	5,725
Total segments’ profit	$43,367	$41,334

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