American Assets Trust, Inc.
Form 10-Q
July 31, 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 June 30, 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. x Yes o 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 44,909,061 shares of common stock, par value $0.01 per share, outstanding as of July 31, 2015.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended June 30, 2015 of American Assets Trust, Inc., a Maryland corporation, and American Assets Trust, L.P., a Maryland limited partnership, of which American Assets Trust, Inc. is the parent company and sole general partner. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our” or “the company” refer to American Assets Trust, Inc. together with its consolidated subsidiaries, including American Assets Trust, L.P. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “our Operating Partnership” or “the Operating Partnership” refer to American Assets Trust, L.P. together with its consolidated subsidiaries.

American Assets Trust, Inc. operates as a real estate investment trust, or REIT, and is the sole general partner of the Operating Partnership. As of June 30, 2015, American Assets Trust, Inc. owned an approximate 71.4% partnership interest in the Operating Partnership. The remaining 28.6% 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 JUNE 30, 2015

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PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Real estate, at cost		
Operating real estate	$1,951,039	$1,931,698
Construction in progress	259,879	195,736
Held for development	9,418	9,390
	2,220,336	2,136,824
Accumulated depreciation	(386,622)	(361,424)
Net real estate	1,833,714	1,775,400
Cash and cash equivalents	34,949	59,357
Restricted cash	11,311	10,994
Accounts receivable, net	5,721	6,727
Deferred rent receivables, net	37,008	35,883
Other assets, net	51,610	53,401
TOTAL ASSETS	$1,974,313	$1,941,762
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured notes payable	$579,133	$812,811
Unsecured notes payable	450,000	250,000
Unsecured line of credit	30,000	—
Accounts payable and accrued expenses	45,116	50,861
Security deposits payable	5,900	5,521
Other liabilities and deferred credits, net	53,882	55,993
Total liabilities	1,164,031	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, 44,909,930 and 43,701,669 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	449	437
Additional paid-in capital	844,639	795,065
Accumulated dividends in excess of net income	(64,024)	(60,291)
Accumulated other comprehensive (loss) income	(339)	92
Total American Assets Trust, Inc. stockholders' equity	780,725	735,303
Noncontrolling interests	29,557	31,273
Total equity	810,282	766,576
TOTAL LIABILITIES AND EQUITY	$1,974,313	$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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
REVENUE:				
Rental income	$63,552	$58,793	$126,305	$119,275
Other property income	3,217	3,406	6,499	6,904
Total revenue	66,769	62,199	132,804	126,179
EXPENSES:				
Rental expenses	17,205	16,500	33,825	33,120
Real estate taxes	5,986	5,129	12,034	11,155
General and administrative	4,788	4,635	9,804	9,247
Depreciation and amortization	15,286	18,209	30,393	34,550
Total operating expenses	43,265	44,473	86,056	88,072
OPERATING INCOME	23,504	17,726	46,748	38,107
Interest expense	(11,197)	(13,439)	(22,992)	(27,071)
Other income (expense), net	(23)	1,064	(93)	973
NET INCOME	12,284	5,351	23,663	12,009
Net income attributable to restricted shares	(40)	(94)	(83)	(164)
Net income attributable to unitholders in the Operating Partnership	(3,536)	(1,544)	(6,845)	(3,530)
NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, INC. STOCKHOLDERS	$8,708	$3,713	$16,735	$8,315
EARNINGS PER COMMON SHARE				
Earnings per common share, basic	$0.20	$0.09	$0.38	$0.20
Weighted average shares of common stock outstanding - basic	44,092,631	41,816,379	43,758,055	41,202,993
Earnings per common share, diluted	$0.20	$0.09	$0.38	$0.20
Weighted average shares of common stock outstanding - diluted	61,992,147	59,721,636	61,658,650	59,110,450
DIVIDENDS DECLARED PER COMMON SHARE	$0.2325	$0.2200	$0.4650	$0.4400
COMPREHENSIVE INCOME				
Net income	$12,284	$5,351	$23,663	$12,009
Other comprehensive income (loss) - unrealized gain (loss) on swap derivative during the period	457	(811)	(486)	(1,557)
Reclassification of amortization of forward-starting swap included in interest expense	(58)	—	(116)	—
Comprehensive income	12,683	4,540	23,061	10,452
Comprehensive income attributable to non-controlling interest	(3,656)	(1,305)	(6,674)	(3,066)
Comprehensive income attributable to American Assets Trust, Inc.	$9,027	$3,235	$16,387	$7,386

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	—	—	—	16,818	—	6,845	23,663
Common shares issued	1,345,926	13	53,994	—	—	—	54,007
Issuance of restricted stock	5,044	—	—	—	—	—	—
Forfeiture of restricted stock	(8,405)	—	—	—	—	—	—
Conversion of operating partnership units	5,741	—	67	—	—	(67)	—
Dividends declared and paid	—	—	—	(20,551)	—	(8,323)	(28,874)
Stock-based compensation	—	—	1,724	—	—	—	1,724
Shares withheld for employee taxes	(140,045)	(1)	(6,211)	—	—	—	(6,212)
Other comprehensive loss - change in value of interest rate swap	—	—	—	—	(349)	(137)	(486)
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(82)	(34)	(116)
Balance at June 30, 2015	44,909,930	$449	$844,639	$ (64,024)	$ (339)	$ 29,557	$810,282

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)

	Six Months Ended June 30,	
	2015	2014
OPERATING ACTIVITIES		
Net income	$23,663	$12,009
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	(2,609)	(2,806)
Depreciation and amortization	30,393	34,550
Amortization of debt issuance costs and debt fair value adjustments	2,106	2,031
Stock-based compensation expense	1,724	1,526
Other noncash interest expense	(116)	—
Other, net	(269)	(368)
Changes in operating assets and liabilities		
Change in restricted cash	88	(673)
Change in accounts receivable	919	2,379
Change in other assets	(103)	(377)
Change in accounts payable and accrued expenses	1,168	1,013
Change in security deposits payable	379	160
Change in other liabilities and deferred credits	330	890
Net cash provided by operating activities	57,673	50,334
INVESTING ACTIVITIES		
Capital expenditures	(89,230)	(61,261)
Change in restricted cash	(405)	(969)
Leasing commissions	(2,280)	(1,628)
Deposit on property acquisition	(2,000)	—
Net cash used in investing activities	(93,915)	(63,858)
FINANCING ACTIVITIES		
Repayment of secured notes payable	(235,134)	(784)
Proceeds from term loan	—	100,000
Proceeds from unsecured line of credit	55,000	—
Repayment of unsecured line of credit	(25,000)	(93,000)
Proceeds from issuance of unsecured notes payable	200,000	—
Debt issuance costs	(1,953)	(1,957)
Proceeds from issuance of common stock, net	54,007	69,909
Dividends paid to common stock and unitholders	(28,874)	(26,453)
Shares withheld for employee taxes	(6,212)	(4,319)
Net cash provided by financing activities	11,834	43,396
Net (decrease) increase in cash and cash equivalents	(24,408)	29,872
Cash and cash equivalents, beginning of period	59,357	48,987
Cash and cash equivalents, end of period	$34,949	$78,859

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)

	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Real estate, at cost		
Operating real estate	$1,951,039	$1,931,698
Construction in progress	259,879	195,736
Held for development	9,418	9,390
	2,220,336	2,136,824
Accumulated depreciation	(386,622)	(361,424)
Net real estate	1,833,714	1,775,400
Cash and cash equivalents	34,949	59,357
Restricted cash	11,311	10,994
Accounts receivable, net	5,721	6,727
Deferred rent receivables, net	37,008	35,883
Other assets, net	51,610	53,401
TOTAL ASSETS	$1,974,313	$1,941,762
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured notes payable	$579,133	$812,811
Unsecured notes payable	450,000	250,000
Unsecured line of credit	30,000	—
Accounts payable and accrued expenses	45,116	50,861
Security deposits payable	5,900	5,521
Other liabilities and deferred credits	53,882	55,993
Total liabilities	1,164,031	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 June 30, 2015 and December 31, 2014, respectively	29,690	31,235
General partner's capital, 44,909,930 and 43,701,669 units issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	781,064	735,211
Accumulated other comprehensive (loss) income	(472)	130
Total capital	810,282	766,576
TOTAL LIABILITIES AND CAPITAL	$1,974,313	$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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
REVENUE:				
Rental income	$63,552	$58,793	$126,305	$119,275
Other property income	3,217	3,406	6,499	6,904
Total revenue	66,769	62,199	132,804	126,179
EXPENSES:				
Rental expenses	17,205	16,500	33,825	33,120
Real estate taxes	5,986	5,129	12,034	11,155
General and administrative	4,788	4,635	9,804	9,247
Depreciation and amortization	15,286	18,209	30,393	34,550
Total operating expenses	43,265	44,473	86,056	88,072
OPERATING INCOME	23,504	17,726	46,748	38,107
Interest expense	(11,197)	(13,439)	(22,992)	(27,071)
Other income (expense), net	(23)	1,064	(93)	973
NET INCOME	12,284	5,351	23,663	12,009
Net income attributable to restricted shares	(40)	(94)	(83)	(164)
NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, L.P.	$12,244	$5,257	$23,580	$11,845
EARNINGS PER UNIT - BASIC				
Earnings per unit, basic	$0.20	$0.09	$0.38	$0.20
Weighted average units outstanding - basic	61,992,147	59,721,636	61,658,650	59,110,450
EARNINGS PER UNIT - DILUTED				
Earnings per unit, diluted	$0.20	$0.09	$0.38	$0.20
Weighted average units outstanding - diluted	61,992,147	59,721,636	61,658,650	59,110,450
DISTRIBUTIONS PER UNIT	$0.2325	$0.2200	$0.4650	$0.4400
COMPREHENSIVE INCOME				
Net income	$12,284	$5,351	$23,663	$12,009
Other comprehensive income (loss) - unrealized gain (loss) on swap derivative during the period	457	(811)	(486)	(1,557)
Reclassification of amortization of forward-starting swap included in interest expense	(58)	—	(116)	—
Comprehensive income	12,683	4,540	23,061	10,452
Comprehensive income attributable to Limited Partners	(3,656)	(1,305)	(6,674)	(3,066)
Comprehensive income attributable to General Partner	$9,027	$3,235	$16,387	$7,386

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	—	6,845	—	16,818	—	23,663
Contributions from American Assets Trust, Inc.	—	—	1,345,926	54,007	—	54,007
Conversion of operating partnership units	(5,741)	(67)	5,741	67	—	—
Issuance of restricted units	—	—	5,044	—	—	—
Forfeiture of restricted units	—	—	(8,405)	—	—	—
Distributions	—	(8,323)	—	(20,551)	—	(28,874)
Stock-based compensation	—	—	—	1,724	—	1,724
Units withheld for employee taxes	—	—	(140,045)	(6,212)	—	(6,212)
Other comprehensive loss - change in value of interest rate swap	—	—	—	—	(486)	(486)
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(116)	(116)
Balance at June 30, 2015	17,899,516	$29,690	44,909,930	$781,064	$ (472)	$810,282

(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)

	Six Months Ended June 30,	
	2015	2014
OPERATING ACTIVITIES		
Net income	$23,663	$12,009
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	(2,609)	(2,806)
Depreciation and amortization	30,393	34,550
Amortization of debt issuance costs and debt fair value adjustments	2,106	2,031
Stock-based compensation expense	1,724	1,526
Other noncash interest expense	(116)	—
Other, net	(269)	(368)
Changes in operating assets and liabilities		
Change in restricted cash	88	(673)
Change in accounts receivable	919	2,379
Change in other assets	(103)	(377)
Change in accounts payable and accrued expenses	1,168	1,013
Change in security deposits payable	379	160
Change in other liabilities and deferred credits	330	890
Net cash provided by operating activities	57,673	50,334
INVESTING ACTIVITIES		
Capital expenditures	(89,230)	(61,261)
Change in restricted cash	(405)	(969)
Leasing commissions	(2,280)	(1,628)
Deposit on property acquisition	(2,000)	—
Net cash used in investing activities	(93,915)	(63,858)
FINANCING ACTIVITIES		
Repayment of secured notes payable	(235,134)	(784)
Proceeds from term loan	—	100,000
Proceeds from unsecured line of credit	55,000	—
Repayment of unsecured line of credit	(25,000)	(93,000)
Proceeds from issuance of unsecured notes payable	200,000	—
Debt issuance costs	(1,953)	(1,957)
Contributions from American Assets Trust, Inc.	54,007	69,909
Distributions	(28,874)	(26,453)
Shares withheld for employee taxes	(6,212)	(4,319)
Net cash provided by financing activities	11,834	43,396
Net (decrease) increase in cash and cash equivalents	(24,408)	29,872
Cash and cash equivalents, beginning of period	59,357	48,987
Cash and cash equivalents, end of period	$34,949	$78,859

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

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 131 employees providing substantial in-house expertise in asset management, property management, property development, leasing, tenant improvement construction, acquisitions, repositioning, redevelopment and financing.

As of June 30, 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 June 30, 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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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, square footage or percentages of beneficial ownership of our shares are unaudited and outside the scope of our independent registered public accounting firm's review of our financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

Consolidated Statements of Cash Flows—Supplemental Disclosures

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

	Six Months Ended June 30,	
	2015	2014
Supplemental cash flow information		
Total interest costs incurred	$27,768	$29,121
Interest capitalized	$4,776	$2,050
Interest expense	$22,992	$27,071
Cash paid for interest, net of amounts capitalized	$20,480	$25,244
Cash paid for income taxes	$382	$319
Supplemental schedule of noncash investing and financing activities		
Accounts payable and accrued liabilities for construction in progress	$(5,052)	$656
Accrued leasing commissions	$(448)	$154

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 six months ended June 30, 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, 2017, 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 June 30, 2015 and December 31, 2014 (in thousands):

	June 30, 2015	December 31, 2014
In-place leases	$53,302	$53,967
Accumulated amortization	(37,137)	(35,336)
Above market leases	22,267	22,500
Accumulated amortization	(18,064)	(17,397)
Acquired lease intangible assets, net	$20,368	$23,734
Below market leases	$70,013	$70,013
Accumulated accretion	(29,508)	(27,161)
Acquired lease intangible liabilities, net	$40,505	$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 June 30, 2015 was a liability of $1.9 million and is included in "other liabilities and deferred credits" on our consolidated balance sheets. For the three and six months ended June 30, 2015, the change in valuation on our interest rate swap was a gain of $0.5 million and a loss of $0.5 million, respectively. 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 (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.

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 June 30, 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):

	June 30, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Deferred compensation liability	$—	$1,090	$—	$1,090	$—	$981	$—	$981
Interest rate swap	$—	$1,934	$—	$1,934	$—	$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 3.6% to 5.7%.

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):

	June 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Secured notes payable	$579,133	$607,315	$812,811	$850,475
Unsecured term loan	$100,000	$100,000	$100,000	$100,000
Unsecured senior guaranteed notes	$350,000	$354,439	$150,000	$154,560
Unsecured line of credit	$30,000	$30,000	$—	$—

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 June 30, 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	$1,934

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):

	June 30, 2015	December 31, 2014
Leasing commissions, net of accumulated amortization of $22,313 and $20,659 respectively	$19,335	$19,484
Acquired above market leases, net	4,203	5,103
Acquired in-place leases, net	16,165	18,631
Lease incentives, net of accumulated amortization of $3,146 and $2,960, respectively	584	740
Other intangible assets, net of accumulated amortization of $1,646 and $1,590, respectively	370	453
Debt issuance costs, net of accumulated amortization of $3,996 and $4,147, respectively	4,777	5,361
Purchase deposit	2,000	—
Prepaid expenses and other	4,176	3,629
Total other assets	$51,610	$53,401

NOTE 6. OTHER LIABILITIES AND DEFERRED CREDITS

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

	June 30, 2015	December 31, 2014
Acquired below market leases, net	$40,505	$42,852
Prepaid rent and deferred revenue	7,189	7,288
Interest rate swap liability	1,934	1,448
Deferred rent expense and lease intangible	523	584
Deferred compensation	1,090	981
Deferred tax liability	219	219
Straight-line rent liability	2,344	2,533
Other liabilities	78	88
Total other liabilities and deferred credits, net	$53,882	$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. and certain of its subsidiaries have 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 June 30, 2015 and December 31, 2014 (in thousands):

	Principal Balance as of		Stated Interest Rate		
Description of Debt	June 30, 2015	December 31, 2014	as of June 30, 2015		Stated Maturity Date
The Shops at Kalakaua [1][2]	$—	$19,000	—		May 1, 2015
The Landmark at One Market [1][3]	—	133,000	—		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]	36,149	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]	20,915	21,075	7.22	%	June 1, 2019
Torrey Reserve—VCI, VCII, VCIII [5]	7,049	7,101	6.36	%	June 1, 2020
Solana Beach Corporate Centre I-II [5]	11,211	11,302	5.91	%	June 1, 2020
Solana Beach Towne Centre [5]	37,371	37,675	5.91	%	June 1, 2020
City Center Bellevue [1]	111,000	111,000	3.98	%	November 1, 2022
	584,849	819,983			
Unamortized fair value adjustment	(5,716)	(7,172)			
Total Secured Notes Payable Outstanding	$579,133	$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 June 30, 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 June 30, 2015 and December 31, 2014 (in thousands):

Description of Debt	Principal Balance as of June 30, 2015	Principal Balance as of December 31, 2014	Stated Interest Rate as of June 30, 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	
Senior Guaranteed Notes, Series C	100,000	—	4.50	%	April 1, 2025	
Total Unsecured Notes Payable	$450,000	$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 jointly and severally, and fully and unconditionally guaranteed by American Assets Trust, Inc. and certain of our 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 June 30, 2015, $30 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 June 30, 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 28.6% of the ownership interests in our Operating Partnership at June 30, 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.

During the six months ended June 30, 2015, approximately 5,741 common units were converted into shares of our common stock.

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 three month periods ended June 30, 2015 and 2014 does not include the weighted average of 176,767 and 431,059 unvested Operating Partnership units, respectively, as these equity securities are either considered contingently issuable or the effect of including these equity securities was anti-dilutive to income from continuing operations and net income attributable to the unitholders. The calculation of diluted earnings per unit for the six month periods ended June 30, 2015 and 2014 does not include the weighted average of 211,526 and 419,024 unvested Operating Partnership units, respectively.

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 that authorized the sale of up to $150.0 million of shares of our common stock. We completed $150.0 million of issuances under such ATM program on May 21, 2015. On May 27, 2015, we entered into a new ATM equity program with five sales agents in which we may, from time to time, offer and sell shares of our common stock having an aggregate offering price of up to $250.0 million. The sales of shares of our common stock made through the ATM equity programs are made in "at-the-market" offerings as defined in Rule 415 of the Securities Act of 1933, as amended. During the three and six months ended June 30, 2015, the following shares of common stock and related proceeds were sold through the ATM equity programs (in thousands, except per share data):

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Number of shares of common stock issued through ATM programs	1,092,126	1,145,926
Weighted average price per share	$40.65	$40.74
Proceeds, gross	$44,392	$46,681
Sales agent compensation	(444)	(467)
Offering costs	(213)	(315)
Proceeds, net	$43,735	$45,899

We intend to use the net proceeds from the ATM equity programs 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 June 30, 2015, we had the capacity to issue up to an additional $235.7 million in shares of our common stock under our active 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 active ATM equity program.

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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 six months ended June 30, 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
Second Quarter 2015	$0.2325	April 1, 2015 to June 30, 2015	June 26, 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.

In addition, on the date of each annual meeting of our stockholders, each non-employee director who continues to serve on our board of directors (the "Board") following such annual meeting will be granted restricted shares of our common stock pursuant to the 2011 Equity Incentive Award Plan (the "2011 Plan"). On June 16, 2015, we awarded a total of 5,044 shares of restricted common stock pursuant to our 2011 Plan to our non-employee directors. These awards of restricted stock will vest subject to the director's continued service on the Board on the earlier of (i) the one year anniversary of the date of grant or (ii) the date of the next annual meeting of our stockholders, if such non-employee director continues his or her service on the Board until the next annual meeting of stockholders, but not thereafter, pursuant to our independent director compensation policy.

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 six months ended June 30, 2015:

	Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2015	493,539	$22.01
Granted	5,044	39.64
Vested	(316,119)	15.80
Forfeited	(8,405)	33.28
Nonvested at June 30, 2015	174,059	$33.26

We recognize noncash compensation expense ratably over the vesting period, and accordingly, we recognized $0.8 million and $1.0 million, respectively, in noncash compensation expense for the three months ended June 30, 2015 and 2014, which is included in general and administrative expense on the consolidated statements of comprehensive income. We recognized $1.7 million and $1.5 million, respectively, in noncash compensation expense for the six months ended June 30, 2015 and 2014. Unrecognized compensation expense was $3.2 million at June 30, 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 176,767 and 431,059 for the three months ended June 30, 2015 and 2014, respectively, and 211,526 and 419,024 for the six months ended June 30, 2015 and 2014, respectively. Therefore, we have allocated our earnings for basic and diluted EPS between common shares and unvested shares as these unvested shares have nonforfeitable dividend equivalent rights.

Diluted EPS is calculated by dividing the net income applicable to common stockholders for the period by the weighted average number of common and dilutive instruments outstanding during the period using the treasury stock method. For the three and six months ended June 30, 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.

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The computation of basic and diluted EPS is presented below (dollars in thousands, except share and per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
NUMERATOR				
Net income from operations	$12,284	$5,351	$23,663	$12,009
Less: Net income attributable to restricted shares	(40)	(94)	(83)	(164)
Less: Income from operations attributable to unitholders in the Operating Partnership	(3,536)	(1,544)	(6,845)	(3,530)
Net income attributable to common stockholders—basic	$8,708	$3,713	$16,735	$8,315
Income from operations attributable to American Assets Trust, Inc. common stockholders—basic	$8,708	$3,713	$16,735	$8,315
Plus: Income from operations attributable to unitholders in the Operating Partnership	3,536	1,544	6,845	3,530
Net income attributable to common stockholders—diluted	$12,244	$5,257	$23,580	$11,845
DENOMINATOR				
Weighted average common shares outstanding—basic	44,092,631	41,816,379	43,758,055	41,202,993
Effect of dilutive securities—conversion of Operating Partnership units	17,899,516	17,905,257	17,900,595	17,907,457
Weighted average common shares outstanding—diluted	61,992,147	59,721,636	61,658,650	59,110,450
Earnings per common share, basic	$0.20	$0.09	$0.38	$0.20
Earnings per common share, diluted	$0.20	$0.09	$0.38	$0.20

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 June 30, 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 the three and six months ended June 30, 2015, we recorded income tax expense of $0.04 million and $0.12 million, respectively. For the three and six months ended June 30, 2014, we recorded an income tax benefit of $0.28 million and $0.17 million, respectively.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Legal

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

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 June 30, 2015 (in thousands):

Year Ending December 31,		
2015 (six months ending December 31, 2015)	$1,331	
2016	2,682	(1)
2017	2,686	(2)
2018	2,686	
2019	2,686	
Thereafter	23,856	
Total	$35,927	

(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 June 30, 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 36.5% of total revenues for the six months ended June 30, 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 35.9% of total revenues for the six months ended June 30, 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 six months ended June 30, 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 June 30, 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 (six months ending December 31, 2015)	$81,330
2016	158,808
2017	144,029
2018	111,399
2019	76,756
Thereafter	210,212
Total	$782,534

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Minimum rents				
Retail	$18,256	$17,448	$36,467	$34,740
Office	21,533	20,200	42,720	40,436
Multifamily	4,136	3,897	8,170	7,731
Mixed-use	2,577	2,496	5,100	4,966
Cost reimbursement	7,568	6,906	14,605	13,710
Percentage rent	365	391	725	816
Hotel revenue	8,727	7,043	17,735	16,045
Other	390	412	783	831
Total rental income	$63,552	$58,793	$126,305	$119,275

Minimum rents include $0.5 million and $0.6 million for the three months ended June 30, 2015 and 2014, respectively, and $1.2 million and $1.6 million for the six months ended June 30, 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 $0.7 million for the three months ended June 30, 2015 and 2014, respectively, and $1.4 million and $1.2 million for the six months ended June 30, 2015 and 2014, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Rental operating	$6,311	$6,432	$12,592	$12,958
Hotel operating	5,563	4,973	11,208	10,526
Repairs and maintenance	2,834	2,872	5,085	4,994
Marketing	486	392	871	782
Rent	618	614	1,232	1,225
Hawaii excise tax	943	835	1,929	1,800
Management fees	450	382	908	835
Total rental expenses	$17,205	$16,500	$33,825	$33,120

NOTE 14. OTHER INCOME (EXPENSE), NET

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest and investment income	$12	$36	$26	$57
Income tax (expense) benefit	(35)	283	(119)	171
Termination fee income, net	—	745	—	745
Total other income (expense), net	$(23)	$1,064	$(93)	$973

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 $1.1 million for both the six months ended June 30, 2015 and 2014 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. We renewed this policy with ICW on July 1, 2015 and the premium is approximately $0.2 million for the period July 1, 2015 through July 1, 2016.

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 provided 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 June 30, 2015, Mr. Rady and his affiliates owned approximately 10.1% of our outstanding common stock and 23.7% of our outstanding common units, which together represent an approximate 33.7% 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 $0.4 million and $0.5 million were made for the six months ended June 30, 2015 and 2014, respectively, and are included in rental expenses on the statements of comprehensive income.

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Total Retail				
Property revenue	$24,376	$23,570	$48,414	$46,569
Property expense	(6,258)	(6,448)	(12,258)	(12,506)
Segment profit	18,118	17,122	36,156	34,063
Total Office				
Property revenue	24,036	22,447	47,613	45,305
Property expense	(6,988)	(6,085)	(13,809)	(12,978)
Segment profit	17,048	16,362	33,804	32,327
Total Multifamily				
Property revenue	4,445	4,210	8,755	8,340
Property expense	(1,642)	(1,554)	(3,126)	(2,981)
Segment profit	2,803	2,656	5,629	5,359
Total Mixed-Use				
Property revenue	13,912	11,972	28,022	25,965
Property expense	(8,303)	(7,542)	(16,666)	(15,810)
Segment profit	5,609	4,430	11,356	10,155
Total segments’ profit	$43,578	$40,570	$86,945	$81,904

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Total segments' profit	$43,578	$40,570	$86,945	$81,904
General and administrative	(4,788)	(4,635)	(9,804)	(9,247)
Depreciation and amortization	(15,286)	(18,209)	(30,393)	(34,550)
Interest expense	(11,197)	(13,439)	(22,992)	(27,071)
Other income (expense), net	(23)	1,064	(93)	973
Net income	12,284	5,351	23,663	12,009
Net income attributable to restricted shares	(40)	(94)	(83)	(164)
Net income attributable to unitholders in the Operating Partnership	(3,536)	(1,544)	(6,845)	(3,530)
Net income attributable to American Assets Trust, Inc. stockholders	$8,708	$3,713	$16,735	$8,315

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

	June 30, 2015	December 31, 2014
Net Real Estate		
Retail	$631,593	$639,456
Office	771,055	757,854
Multifamily	237,969	182,468
Mixed-Use	193,097	195,622
	$1,833,714	$1,775,400
Secured Notes Payable (1)		
Retail	$60,371	$161,975
Office	292,724	426,254
Multifamily	101,444	101,444
Mixed-Use	130,310	130,310
	$584,849	$819,983

(1) Excludes unamortized fair market value adjustments of $5.7 million and $7.2 million as of June 30, 2015 and December 31, 2014, respectively.

Capital expenditures for each segment for the three and six months ended June 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Capital Expenditures (1)				
Retail	$1,756	$1,125	$2,691	$2,631
Office	14,872	8,590	29,586	15,681
Multifamily (2)	29,748	19,763	58,696	41,640
Mixed-Use	166	2,115	537	2,937
	$46,542	$31,593	$91,510	$62,889

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

(2)

Multifamily capital expenditures include all capital expenditures incurred for the new development project Lloyd District Portfolio - Phase I, which consists of 657 multifamily units and approximately 47,000 square feet of retail space.

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NOTE 17. SUBSEQUENT EVENTS

On June 19, 2015, we entered into an agreement for purchase and sale and joint escrow instructions, as amended, for the disposition of Rancho Carmel Plaza located in San Diego, California for approximately $12.7 million (excluding closing costs and credits). This disposition is subject to due diligence and customary closing conditions and we can offer no assurance that it will close on the terms described herein, or at all. On July 24, 2015, the property was classified as held for sale at the completion of the buyer's due diligence review and acceptance of the terms of the sale.

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

Forward-Looking Statements

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

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

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

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While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes. For a further discussion of these and other factors, see the section entitled "Item 1A. Risk Factors" contained herein and in our annual report on Form 10-K for the year ended December 31, 2014.

Overview

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

We are a full service, vertically integrated and self-administered REIT that owns, operates, acquires and develops high quality retail, office, multifamily and mixed-use properties in attractive, high-barrier-to-entry markets in Southern California, Northern California, Oregon, Washington, Texas and Hawaii. As of June 30, 2015, our portfolio was comprised of eleven retail shopping centers; seven office properties; a mixed-use property consisting of a 369-room all-suite hotel and a retail shopping center; and four multifamily properties. Additionally, as of June 30, 2015, we owned land at five of our properties that we classified as held for development and/or construction in progress. Our core markets include San Diego; the San Francisco Bay Area; Portland, Oregon; Bellevue, Washington; and Oahu, Hawaii. We are a Maryland corporation formed on July 16, 2010 to acquire the entities owning various controlling and noncontrolling interests in real estate assets owned and/or managed by Ernest S. Rady or his affiliates, including the Ernest Rady Trust U/D/T March 13, 1983, or the Rady Trust, and did not have any operating activity until the consummation of our initial public offering on January 19, 2011. Our Company, as the sole general partner of our Operating Partnership, has control of our Operating Partnership and owned 71.4% of our Operating Partnership as of June 30, 2015. Accordingly, we consolidate the assets, liabilities and results of operations of our Operating Partnership.

Critical Accounting Policies

We identified certain critical accounting policies that affect certain of our more significant estimates and assumptions used in preparing our consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2014. We have not made any material changes to these policies during the periods covered by this report.

Same-store

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

While there is judgment surrounding changes in designations, we typically reclassify significant development, redevelopment or expansion properties into same-store properties once they are stabilized. Properties are deemed stabilized typically at the earlier of (i), reaching 90% occupancy or (ii) four quarters following a property's inclusion in operating real estate. We typically remove properties from same-store properties when the development, redevelopment or expansion has or is expected to have a significant impact on the property's annualized base rent, occupancy and operating income within the calendar year. Our evaluation of significant impact related to development, redevelopment or expansion activity is based on quantitative and qualitative measures including, but not limited to the following: the total budgeted cost of planned construction activity compared to the property's annualized base rent, occupancy and property operating income within the calendar year; percentage of development, redevelopment or expansion square footage to total property square footage; and the ability to maintain historic occupancy and rental rates. In consideration of these measures, we generally remove properties from same-store properties when we see a decline in a property's annualized base rent, occupancy and operating income within the calendar year as a direct result of ongoing redevelopment, development or expansion activity. Acquired properties are classified

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

In our determination of same-store and redevelopment same-store properties, Lloyd District Portfolio and Torrey Reserve Campus have been identified as same-store redevelopment properties due to the significant construction activity noted above. Office same-store net operating income increased approximately 8.9% and 9.3%, respectively, for the three and six months ended June 30, 2015 compared to the same periods in 2014. Office redevelopment same-store net operating income increased approximately 4.2% and 4.6%, respectively, for the three and six months ended June 30, 2015 compared to the same period in 2014.

Below is a summary of our same-store composition for the three and six months ended June 30, 2015 and 2014. There were no changes in the designations of same-store properties and redevelopment same-store properties for the three and six months ended June 30, 2015 when compared to the designations for the three and six months ended June 30, 2014.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Same-Store	21	21	21	21
Non-Same Store	2	2	2	2
Total Properties	23	23	23	23
Redevelopment Same-Store	23	23	23	23
Total Development Properties	5	5	5	5

Outlook

We seek growth in earnings, funds from operations and cash flows primarily through a combination of the following: growth in our same-store portfolio, growth in our portfolio from property development and redevelopments and expansion of our portfolio through property acquisitions. Our properties are located in some of the nation's most dynamic, high-barrier-to-entry markets primarily in Southern California, Northern California, Oregon, Washington and Hawaii, which allow us to take advantage of redevelopment opportunities that enhance our operating performance through renovation, expansion, reconfiguration and/or retenanting. We evaluate our properties on an ongoing basis to identify these types of opportunities.

We continue our ongoing redevelopment efforts at Lloyd District Portfolio and are currently under construction to include approximately 47,000 square feet of retail space and 657 multi-family units in addition to the existing 582,000 square feet of office space. Construction of the project is expected to be complete in 2015. Projected costs of the development are approximately $192 million, of which approximately $184 million has been incurred to date. We expect the Lloyd District Portfolio redevelopment to be stabilized in 2017 with an estimated stabilized yield of approximately 6.25% to 7.25% based on initial estimates.

We continue our development efforts at Torrey Point (previously Sorrento Pointe) with planned construction to increase rentable office space by approximately 88,000 square feet. Construction of the project is expected to be complete in 2016, with an expected stabilization date in 2017. Projected costs of the development are approximately $50 million, of which approximately $8 million has been incurred to date. We expect the Torrey Point redevelopment to be stabilized in 2017 with an estimated stabilized yield of approximately 8.25% to 9.25%, based on initial estimates.

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

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

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

Leasing

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

During the three months ended June 30, 2015, we signed 19 retail leases for a total of 71,656 square feet of retail space including 67,570 square feet of comparable space leases (leases for which there was a prior tenant), at an average rental rate increase of 19.0% on a cash basis and an increase of 16.3% on a straight-line basis. New retail leases for comparable spaces were signed for 5,742 square feet at an average rental rate increase of 17.1% on a cash basis and 26.6% on a straight-line basis. Renewals for comparable retail spaces were signed for 61,828 square feet at an average rental rate increase of 19.2% on a cash basis and 14.9% on a straight-line basis. Tenant improvements and incentives were $15.78 per square foot of retail space for comparable new leases for the three months ended June 30, 2015. Tenant improvements and incentives for comparable new leases is mainly attributed to tenants at Carmel Mountain Plaza.

During the three months ended June 30, 2015, we signed 22 office leases for a total of 153,839 square feet of office space including 129,173 square feet of comparable space leases, at an average rental rate increase of 40.1% on a cash basis and average rental increase of 50.0% on a straight-line basis. New office leases for comparable spaces were signed for 35,716 square feet at an average rental rate increase of 2.5% on a cash basis and 21.1% on a straight-line basis. Renewals for comparable office spaces were signed for 93,457 square feet at an average rental rate increase of 53.1% on a cash basis and 59.5% on a straight-line basis. Tenant improvements and incentives were $17.84 per square foot of office space for comparable new leases for the three months ended June 30, 2015. Tenant improvements and incentives for comparable new leases is mainly attributed to tenants at Solana Beach Corporate Center and Torrey Reserve Campus

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

The leases signed in 2015 generally become effective over the following year, though some may not become effective until 2016 and beyond. Further, there is risk that some new tenants will not ultimately take possession of their space and that tenants for both new and renewal leases may not pay all of their contractual rent due to operating, financing or other matters. However, we believe that these increases do provide information about the tenant/landlord relationship and the potential fluctuations we may achieve in rental income over time.

Through the remainder of 2015, we believe our leasing volume will be in-line with our historical averages and result in overall positive increases in rental income. However, changes in rental income associated with individual signed leases on comparable spaces may be positive or negative, and we can provide no assurance that the rents on new leases will continue to increase at the above disclosed levels, if at all.

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Capitalized Costs

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

We capitalized external and internal costs related to both development and redevelopment activities combined of $31.7 million and $25.1 million for the three months ended June 30, 2015 and 2014, respectively. We capitalized external and internal costs related to both development and redevelopment activities combined of $70.9 million and $49.6 million for the six months ended June 30, 2015 and 2014, respectively.

We capitalized external and internal costs related to other property improvements combined of $8.2 million and $7.4 million for the three months ended June 30, 2015 and 2014, respectively. We capitalized external and internal costs related to other property improvements combined of $13.3 million and $12.4 million for the six months ended June 30, 2015 and 2014, respectively.

We capitalized internal costs for salaries and related benefits for development and redevelopment activities and other property improvements of $0.08 million and $0.03 million for the three months ended June 30, 2015 and 2014, respectively. We capitalized internal costs for salaries and related benefits for development and redevelopment activities and other property improvements of $0.14 million and $0.06 million for the six months ended June 30, 2015 and 2014, respectively.

Interest costs on developments and major redevelopments are capitalized as part of developments and redevelopments not yet placed in service. Capitalization of interest commences when development activities and expenditures begin and end upon completion, which is when the asset is ready for its intended use as noted above. We make judgments as to the time period over which to capitalize such costs and these assumptions have a direct impact on net income because capitalized costs are not subtracted in calculating net income. If the time period for capitalizing interest is extended, however, more interest is capitalized, thereby decreasing interest expense and increasing net income during that period. We capitalized interest costs related to both development and redevelopment activities combined of $2.4 million and $1.2 million for the three months ended June 30, 2015 and 2014, respectively. We capitalized interest costs related to both development and redevelopment activities combined of $4.8 million and $2.0 million for the six months ended June 30, 2015 and 2014, respectively.

Results of Operations

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

Comparison of the three months ended June 30, 2015 to the three months ended June 30, 2014

The following summarizes our consolidated results of operations for the three months ended June 30, 2015 compared to our consolidated results of operations for the three months ended June 30, 2014. As of June 30, 2015 and 2014, our operating portfolio was comprised of 23 retail, office, multifamily and mixed-use properties with an aggregate of approximately 5.8 million rentable square feet of retail and office space, including the retail portion of our mixed-use property, 922 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of June 30, 2015 and 2014, we owned land at five of our properties that we classified as held for development and/or construction in progress.

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The following table sets forth selected data from our unaudited consolidated statements of comprehensive income for the three months ended June 30, 2015 and 2014 (dollars in thousands):

	Three Months Ended June 30, 2015	2014	Change	%
Revenues				
Rental income	$63,552	$58,793	$4,759	8 %
Other property income	3,217	3,406	(189)	(6)
Total property revenues	66,769	62,199	4,570	7
Expenses				
Rental expenses	17,205	16,500	705	4
Real estate taxes	5,986	5,129	857	17
Total property expenses	23,191	21,629	1,562	7
Total property income	43,578	40,570	3,008	7
General and administrative	(4,788)	(4,635)	(153)	3
Depreciation and amortization	(15,286)	(18,209)	2,923	(16)
Interest expense	(11,197)	(13,439)	2,242	(17)
Other income (expense), net	(23)	1,064	(1,087)	(102)
Total other, net	(31,294)	(35,219)	3,925	(11)
Net income	12,284	5,351	6,933	130
Net income attributable to restricted shares	(40)	(94)	54	(57)
Net income attributable to unitholders in the Operating Partnership	(3,536)	(1,544)	(1,992)	129
Net income attributable to American Assets Trust, Inc. stockholders	$8,708	$3,713	$4,995	135 %

Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased $4.6 million, or 7%, to $66.8 million for the three months ended June 30, 2015 compared to $62.2 million for the three months ended June 30, 2014. The percentage leased was as follows for each segment as of June 30, 2015 and 2014:

	Percentage Leased [1] June 30, 2015	2014
Retail	98.5 %	98.8 %
Office	92.9 %	88.5 %
Multifamily	95.7 %	98.8 %
Mixed-Use [2]	100.0 %	99.5 %

(1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of June 30, 2015 or June 30, 2014, as applicable.
(2) Includes the retail portion of the mixed-use property only.

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

Rental revenues. Rental revenue includes minimum base rent, cost reimbursements, percentage rents and other rents. Rental revenue increased $4.8 million, or 8%, to $63.6 million for the three months ended June 30, 2015 compared to $58.8 million for the three months ended June 30, 2014. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio[1]			
	Three Months Ended June 30,		Change	%	Three Months Ended June 30,		Change	%
	2015	2014			2015	2014		
Retail	$24,094	$23,287	$807	3 %	$24,087	$23,272	$815	4 %
Office	22,889	20,923	1,966	9	16,323	14,764	1,559	11
Multifamily	4,138	3,899	239	6	4,138	3,899	239	6
Mixed-Use	12,431	10,684	1,747	16	12,431	10,684	1,747	16
	$63,552	$58,793	$4,759	8 %	$56,979	$52,619	$4,360	8 %

(1) For this table and tables following, the same-store portfolio excludes: Torrey Reserve Campus and Lloyd District Portfolio due to significant redevelopment activity during the period and land held for development.

Same-store retail rental revenue increased $0.8 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 due to higher annual base rents and additional cost reimbursements during the three months ended June 30, 2015. The increase in annual base rents was primarily at Lomas Santa Fe Plaza which increased from $22.73 to $26.36, or by approximately 16%.

Office rental revenue increased $2.0 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 due to an increase in the percentage leased during the three months ended June 30, 2015, primarily at First & Main where percentage leased increased from 80.4% to 92.9%.

Multifamily rental revenue increased $0.2 million primarily due to higher average base rent per unit of $1,574 during the three months ended June 30, 2015 compared to $1,455 during the three months ended June 30, 2014.

Mixed-use rental revenue increased $1.7 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to the completion of the 2014 hotel room refresh resulting in higher occupancy during the three months ended June 30, 2015 of 87.8% compared to 71.3% for the three months ended June 30, 2014 and higher revenue per available room of $260 for the three months ended June 30, 2015 compared to $210 for the three months ended June 30, 2014.

Other property income. Other property income decreased $0.2 million, or 6%, to $3.2 million for the three months ended June 30, 2015 compared to $3.4 million for the three months ended June 30, 2014. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended June 30,		Change	%	Three Months Ended June 30,		Change	%
	2015	2014			2015	2014		
Retail	$282	$283	$(1)	— %	$282	$283	$(1)	— %
Office	1,147	1,524	(377)	(25)	850	761	89	12
Multifamily	307	311	(4)	(1)	307	311	(4)	(1)
Mixed-Use	1,481	1,288	193	15	1,481	1,288	193	15
	$3,217	$3,406	$(189)	(6)%	$2,920	$2,643	$277	10 %

Office other property income decreased $0.4 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to lease termination fees from tenants at Torrey Reserve Campus received during 2014. Same-store office other property income increased $0.1 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to an increase in parking income at City Center Bellevue and First & Main during the period.

Mixed-use other property income increased $0.2 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to higher occupancy at the hotel portion of our mixed-use property, which was attributed to the completion of the 2014 hotel room refresh.

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Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased $1.6 million, or 7%, to $23.2 million, for the three months ended June 30, 2015 compared to $21.6 million for the three months ended June 30, 2014.

Rental Expenses. Rental expenses increased $0.7 million, or 4%, to $17.2 million for the three months ended June 30, 2015 compared to $16.5 million for the three months ended June 30, 2014. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio Three Months Ended June 30,				Same-Store Portfolio Three Months Ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Retail	$3,452	$3,746	$(294)	(8)%	$3,432	$3,742	$(310)	(8)%
Office	4,761	4,565	196	4	3,095	3,031	64	2
Multifamily	1,222	1,132	90	8	1,222	1,132	90	8
Mixed-Use	7,770	7,057	713	10	7,770	7,057	713	10
	$17,205	$16,500	$705	4 %	$15,519	$14,962	$557	4 %

Retail rental expenses decreased $0.3 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to a decrease in litigation expense at Lomas Santa Fe Plaza during the period. The decrease is also attributed to a decrease in facilities expenses and parking lot repairs during the three months ended June 30, 2015.

Office rental expenses increased $0.2 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to an increase in repair and maintenance expenses at our office properties during the period.

Multifamily rental expenses increased $0.1 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to an increase in repair and maintenance expenses at our multifamily properties during the period.

Mixed-use rental expenses increased $0.7 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to an increase in food and beverage and room expenses, which was attributed to the increase in occupancy at the hotel portion of our mixed-use property.

Real Estate Taxes. Real estate taxes increased $0.9 million, or 17%, to $6.0 million for the three months ended June 30, 2015 compared to $5.1 million for the three months ended June 30, 2014. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio Three Months Ended June 30,				Same-Store Portfolio Three Months Ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Retail	$2,806	$2,702	$104	4 %	$2,785	$2,677	$108	4 %
Office	2,227	1,520	707	47	1,491	933	558	60
Multifamily	420	422	(2)	—	420	422	(2)	—
Mixed-Use	533	485	48	10	533	485	48	10
	$5,986	$5,129	$857	17 %	$5,229	$4,517	$712	16 %

Retail real estate taxes increased $0.1 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to higher assessments at Alamo Quarry Market.

Office real estate taxes increased $0.7 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to property tax refunds at Torrey Reserve Campus and The Landmark at One Market for prior years which were received during the second quarter of 2014.

Mixed-use real estate taxes increased $0.1 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to an increase in real estate taxes for the hotel portion of our mixed-use property that are assessed annually based on the hotel's room rates, which have increased from the prior year.

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Property Operating Income

Property operating income increased $3.0 million, or 7%, to $43.6 million for the three months ended June 30, 2015, compared to $40.6 million for the three months ended June 30, 2014. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended June 30,		Change	%	Three Months Ended June 30,		Change	%
	2015	2014			2015	2014		
Retail	$18,118	$17,122	$996	6 %	$18,152	$17,136	$1,016	6 %
Office	17,048	16,362	686	4	12,587	11,561	1,026	9
Multifamily	2,803	2,656	147	6	2,803	2,656	147	6
Mixed-Use	5,609	4,430	1,179	27	5,609	4,430	1,179	27
	$43,578	$40,570	$3,008	7 %	$39,151	$35,783	$3,368	9 %

Retail property operating income increased $1.0 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. This increase was primarily due to higher base rents and a decrease in rental expenses during the three months ended June 30, 2015.

Office property operating income increased $0.7 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to an increase in the percentage leased and higher annual base rents during the three months ended June 30, 2015 offset by termination fees that were received during 2014 and an increase in real estate taxes during the period. Same-store office property operating income increased $1.0 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 primarily due to an increase in the percentage leased and higher annual base rents during the three months ended June 30, 2015 offset by an increase in real estate taxes.

Multifamily property operating income increased $0.1 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. The increase was primarily due to higher average base rent for the three months ended June 30, 2015 compared to the three months ended June 30, 2014.

Mixed-use property operating income increased $1.2 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. The increase was primarily due to an increase in occupancy and higher revenue per available room for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 attributed to the completion of the 2014 hotel room refresh.

Other

Depreciation and Amortization. Depreciation and amortization expense decreased $2.9 million, or 16%, to $15.3 million for the three months ended June 30, 2015, compared to $18.2 million for the three months ended June 30, 2014. This decrease was primarily due to accelerated depreciation of furniture and fixtures at the hotel portion of our mixed-use property in connection with the completion of the 2014 hotel room refresh.

Interest Expense. Interest expense decreased $2.2 million, or 17%, to $11.2 million for the three months ended June 30, 2015, compared to $13.4 million for the three months ended June 30, 2014. This decrease was primarily due to the payment of the outstanding mortgages encumbering Waikele Center during the fourth quarter of 2014, The Shops at Kalakaua and Del Monte Center during the first quarter of 2015, The Landmark at One Market during the second quarter of 2015 and an increase in capitalized interest related to our redevelopment properties.

Other Income (Expense), Net. Other income (expense), net decreased $1.09 million, or 102%, to other expense, net of $0.02 million for the three months ended June 30, 2015, compared to other income, net of $1.06 million for the three months ended June 30, 2014, primarily due to a net termination fee earned on a canceled acquisition during the second quarter of 2014 and an increase in income tax expense attributed to an increase in hotel revenue during the three months ended June 30, 2015.

Comparison of the Six Months Ended June 30, 2015 to the Six Months Ended June 30, 2014

The following summarizes our consolidated results of operations for the six months ended June 30, 2015 compared to our consolidated results of operations for the six months ended June 30, 2014.

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The following table sets forth selected data from our unaudited consolidated statements of income for the six months ended June 30, 2015 and 2014 (dollars in thousands):

	Six Months Ended June 30, 2015	2014	Change	%
Revenues				
Rental income	$126,305	$119,275	$7,030	6 %
Other property income	6,499	6,904	(405)	(6)
Total property revenues	132,804	126,179	6,625	5
Expenses				
Rental expenses	33,825	33,120	705	2
Real estate taxes	12,034	11,155	879	8
Total property expenses	45,859	44,275	1,584	4
Total property income	86,945	81,904	5,041	6
General and administrative	(9,804)	(9,247)	(557)	6
Depreciation and amortization	(30,393)	(34,550)	4,157	(12)
Interest expense	(22,992)	(27,071)	4,079	(15)
Other income (expense), net	(93)	973	(1,066)	(110)
Total other, net	(63,282)	(69,895)	6,613	(9)
Net income	23,663	12,009	11,654	97
Net income attributable to restricted shares	(83)	(164)	81	(49)
Net income attributable to unitholders in the Operating Partnership	(6,845)	(3,530)	(3,315)	94
Net income (loss) attributable to American Assets Trust, Inc. stockholders	$16,735	$8,315	$8,420	101 %

Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased $6.6 million, or 5%, to $132.8 million for the six months ended June 30, 2015 compared to $126.2 million for the six months ended June 30, 2014. The percentage leased was as follows for each segment as of June 30, 2015 and 2014:

	Percentage Leased [1] June 30, 2015	2014
Retail	98.5 %	98.8 %
Office	92.9 %	88.5 %
Multifamily	95.7 %	98.8 %
Mixed-Use [2]	100.0 %	99.5 %

(1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of June 30, 2015 or June 30, 2014, as applicable.

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

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The increase in total property revenue was attributable primarily to the factors discussed below.
Rental revenues. Rental revenue includes minimum base rent, cost reimbursements, percentage rents and other rents. Rental revenue increased $7.0 million, or 6%, to $126.3 million for the six months ended June 30, 2015 compared to $119.3 million for the six months ended June 30, 2014. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio[1]			
	Six Months Ended June 30,		Change	%	Six Months Ended June 30,		Change	%
	2015	2014			2015	2014		
Retail	$47,799	$45,972	1,827	4 %	$47,786	$45,938	$1,848	4 %
Office	45,286	42,310	2,976	7	32,344	29,786	2,558	9
Multifamily	8,173	7,733	440	6	8,173	7,733	440	6
Mixed-Use	25,047	23,260	1,787	8	25,047	23,260	1,787	8
	$126,305	$119,275	$7,030	6 %	$113,350	$106,717	$6,633	6 %

(1) For this table and tables following, the same-store portfolio excludes: Torrey Reserve Campus and Lloyd District Portfolio due to significant redevelopment activity during the period and land held for development.

Retail rental revenue increased $1.8 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 due to higher annual base rents and additional cost reimbursements during the six months ended June 30, 2015. The increase in annual base rents was primarily due to leases at Lomas Santa Fe Plaza. The increase is also attributable to higher base rents for tenants at Carmel Mountain Plaza, Alamo Quarry Market and Waikele Center.
Office rental revenue increased $3.0 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 due to an increase in the percentage leased during the three months ended June 30, 2015, primarily at First & Main where percentage leased increased from 80.4% to 92.9%.
Multifamily rental revenue increased $0.4 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increase is attributed to higher average base rent per unit of $1,546 during the six months ended June 30, 2015 compared to $1,446 during the six months ended June 30, 2014.
Mixed-use rental revenue increased $1.8 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 due to the completion of the 2014 hotel room refresh resulting in higher occupancy during the six months ended June 30, 2015 of 88.4% compared to 80.7% for the six months ended June 30, 2014 and higher revenue per available room of $266 for the six months ended June 30, 2015 compared to $240 during the six months ended June 30, 2014.
Other property income. Other property income decreased $0.4 million, or 6%, to $6.5 million for the six months ended June 30, 2015 compared to $6.9 million for the six months ended June 30, 2014. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Six Months Ended June 30,		Change	%	Six Months Ended June 30,		Change	%
	2015	2014			2015	2014		
Retail	$615	$597	$18	3 %	$615	$597	$18	3 %
Office	2,327	2,995	(668)	(22)	1,741	1,593	148	9
Multifamily	582	607	(25)	(4)	582	607	(25)	(4)
Mixed-Use	2,975	2,705	270	10	2,975	2,705	270	10
	$6,499	$6,904	$(405)	(6)%	$5,913	$5,502	$411	7 %

Office other property income decreased $0.7 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to lease termination fees from tenants at Torrey Reserve Campus received during the second quarter of 2014. Same-store office other property income increased $0.1 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 due an increase in parking revenue at First & Main and City Center Bellevue.
Mixed-use other property income increased $0.3 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to higher occupancy at the hotel portion of our mixed-use property, which

was attributed to the completion of the 2014 hotel room refresh.

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Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased by $1.6 million, or 4%, to $45.9 million for the six months ended June 30, 2015, compared to $44.3 million for the six months ended June 30, 2014. This increase in total property expenses was attributable primarily to the factors discussed below.

Rental Expenses. Rental expenses increased $0.7 million, or 2%, to $33.8 million for the six months ended June 30, 2015, compared to $33.1 million for the six months ended June 30, 2014. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Six Months Ended June 30,		Change	%	Six Months Ended June 30,		Change	%
	2015	2014			2015	2014		
Retail	$6,655	$7,038	$(383)	(5)%	$6,611	$7,033	$(422)	(6)%
Office	9,283	9,105	178	2	6,064	5,992	72	1
Multifamily	2,286	2,136	150	7	2,286	2,136	150	7
Mixed-Use	15,601	14,841	760	5	15,601	14,841	760	5
	$33,825	$33,120	$705	2 %	$30,562	$30,002	$560	2 %

Retail rental expenses decreased $0.4 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to a decrease in litigation expense at Lomas Santa Fe Plaza during the period. The decrease is also attributed to a decrease in facilities expense during the period.

Office rental expenses increased $0.2 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to an increase in litigation expense for a tenant at Torrey Reserve Campus during the period. Same-store office rental expenses increased $0.1 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to an increase in repairs and maintenance expense during the period.

Multifamily rental expenses increased $0.2 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to an increase in facility and maintenance expenses at the multifamily properties during the period.

Mixed-use rental expenses increased $0.8 million during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to an increase in food and beverage and room expenses, which was attributed to the increase in occupancy at the hotel portion of our mixed-use property.

Real Estate Taxes. Real estate tax expense increased $0.9 million, or 8%, to $12.0 million for the six months ended June 30, 2015 compared to $11.2 million for the six months ended June 30, 2014. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Six Months Ended June 30,		Change	%	Six Months Ended June 30,		Change	%
	2015	2014			2015	2014		
Retail	$5,603	$5,468	$135	2 %	$5,559	$5,430	$129	2 %
Office	4,526	3,873	653	17	3,063	2,546	517	20
Multifamily	840	845	(5)	(1)	840	845	(5)	(1)
Mixed-Use	1,065	969	96	10	1,065	969	96	10
	$12,034	$11,155	$879	8 %	$10,527	$9,790	$737	8 %

Retail real estate taxes increased $0.1 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to higher assessments at Alamo Quarry Market.

Office real estate taxes increased $0.7 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to property tax refunds received at Torrey Reserve Campus and The Landmark at One Market for prior years which were received during the second quarter of 2014.

Mixed-use real estate taxes increased $0.1 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to an increase in real estate taxes for the hotel portion of our mixed-use property that are assessed annually based on the hotel's room rates, which have increased from the prior year.

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Property Operating Income

Property operating income increased $5.0 million, or 6%, to $86.9 million for the six months ended June 30, 2015, compared to $81.9 million for the six months ended June 30, 2014. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio					Same-Store Portfolio				
	Six Months Ended June 30,		Change	%		Six Months Ended June 30,		Change	%	
	2015	2014				2015	2014			
Retail	$36,156	$34,063	$2,093	6	%	$36,231	$34,072	$2,159	6	%
Office	33,804	32,327	1,477	5		24,958	22,841	2,117	9	
Multifamily	5,629	5,359	270	5		5,629	5,359	270	5	
Mixed-Use	11,356	10,155	1,201	12		11,356	10,155	1,201	12	
	$86,945	$81,904	$5,041	6	%	$78,174	$72,427	$5,747	8	%

Retail property operating income increased $2.1 million during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to higher base rents and a decrease in rental expenses during the period.

Office property operating income increased $1.5 million during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to an increase in the percentage leased and higher annual base rents during the six months ended June 30, 2015 offset by a decrease in termination fees received during the period and an increase in real estate taxes during the period. Same-store office property operating income increased $2.1 million during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to an increase in the percentage leased and higher annual base rents during the period offset by an increase in real estate taxes during the period.

Multifamily property operating income increased $0.3 million during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increase was primarily caused by higher average base rent during the six months ended June 30, 2015 compared to the six months ended June 30, 2014.

Mixed-use property operating income increased $1.2 million during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increase was primarily due to an increase in occupancy and higher revenue per available room for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 attributed to the completion of the 2014 hotel room refresh.

Other

General and Administrative. General and administrative expenses increased $0.6 million, or 6%, to $9.8 million for the six months ended June 30, 2015, compared to $9.2 million for the six months ended June 30, 2014. This increase was primarily due to an increase in employee-related costs.

Depreciation and Amortization. Depreciation and amortization expense decreased $4.2 million, or 12%, to $30.4 million for the six months ended June 30, 2015, compared to $34.6 million for the six months ended June 30, 2014. This decrease was primarily due to accelerated depreciation of furniture and fixtures at the hotel portion of our mixed-use property in connection with the completion of the 2014 hotel room refresh.

Interest Expense. Interest expense decreased $4.1 million, or 15%, to $23.0 million for the six months ended June 30, 2015 compared to $27.1 million for the six months ended June 30, 2014. This decrease was primarily due to the payments of the outstanding mortgages encumbering Waikele Center during the fourth quarter of 2014, The Shops at Kalakaua and Del Monte Center during the first quarter of 2015, The Landmark at One Market during the second quarter of 2015 and an increase in capitalized interest related to our redevelopment properties.

Other Income (Expense), Net. Other income (expense), net decreased $1.1 million, or 110%, to other expense, net of $0.1 million for the six months ended June 30, 2015 compared to other income, net of $1.0 million for the six months ended June 30, 2014, primarily due to a net termination fee earned on a canceled acquisition during the second quarter of 2014 and an increase in income tax expense attributed to an increase in hotel revenue during the three months ended June 30, 2015.

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Liquidity and Capital Resources of American Assets Trust, Inc.

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

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

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

As of June 30, 2015, the company owned an approximate 71.4% partnership interest in the Operating Partnership. The remaining 28.6% are owned by non-affiliated investors and certain of the company's directors and executive officers. As the sole general partner of the Operating Partnership, American Assets Trust, Inc. has the full, exclusive and complete authority and control over the Operating Partnership’s day-to-day management and business, can cause it to enter into certain major transactions, including acquisitions, dispositions and refinancings, and can cause changes in its line of business, capital structure and distribution policies. The company causes the Operating Partnership to distribute such portion of its available cash as the company may in its discretion determine, in the manner provided in the Operating Partnership’s partnership agreement.

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

We believe the Operating Partnership’s sources of working capital, specifically its cash flow from operations, and borrowings available under its unsecured line of credit, are adequate for it to make its distribution payments to the company and, in turn, for the company to make its dividend payments to its stockholders. As of June 30, 2015, the company has determined that it has adequate working capital to meet its dividend funding obligations for the next 12 months. However, we cannot assure you that the Operating Partnership’s sources of capital will continue to be available at all or in amounts sufficient to meet its needs, including its ability to make distribution payments to the company. The unavailability of capital could adversely affect the Operating Partnership’s ability to pay its distributions to the company, which would in turn, adversely affect the company’s ability to pay cash dividends to its stockholders.

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

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

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

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

In February 2012, the company filed a universal shelf registration statement on Form S-3 with the SEC, which was declared effective in February 2012. The universal shelf registration statement permitted the company, from time to time, to offer and sell up to approximately $500.0 million of equity securities. Additionally, in February 2015, the company filed a universal shelf registration statement on Form S-3 with the SEC, which replaced the prior Form S-3 and provides for the registration of unspecified amounts of securities. However, there can be no assurance that the company will be able to complete any such offerings of securities. Factors influencing the availability of additional financing include investor perception of our prospects and the general condition of the financial markets, among others.

On May 6, 2013, we entered into an at-the-market, or ATM, equity program with four sales agents that authorized the sale of up to $150.0 million of shares of our common stock. We completed $150.0 million of issuances under such ATM program on May 21, 2015. On May 27, 2015, we entered into a new ATM equity program with five sales agents in which we may, from time to time, offer and sell shares of our common stock having an aggregate offering price of up to $250.0 million.

The sales of shares of the company's common stock made through the ATM equity program are made in "at-the-market" offerings as defined in Rule 415 of the Securities Act. As of June 30, 2015, the company has issued 4,597,445 shares of common stock at a weighted average price per share of $35.75 for gross cash proceeds of $164.3 million under the ATM programs. The company intends to use the net proceeds to fund development or redevelopment activities, repay amounts outstanding from time to time under our amended and restated credit facility or other debt financing obligations, fund potential acquisition opportunities and/or for general corporate purposes. As of June 30, 2015, the company had the capacity to issue up to an additional $235.7 million in shares of common stock under the active ATM equity program. Actual future sales will depend on a variety of factors including, but not limited to, market conditions, the trading price of the company's common stock and the company's capital needs. The company has no obligation to sell the remaining shares available for sale under the active ATM equity program.

On September 12, 2014, the company entered into a common stock purchase agreement with Insurance Company of the West, or ICW, a California corporation which is an insurance company majority owned and controlled by Ernest Rady, the Executive Chairman of the company's board of directors. The purchase agreement provided for the sale by the company to ICW, in a private placement, of 400,000 shares of its common stock at a purchase price of $33.76 per share, resulting in gross proceeds to the company of approximately $13.5 million. The price per share paid by ICW was equal to the closing price of a share of the company's common stock on the New York Stock Exchange on the date of the purchase agreement. These shares were registered on February 6, 2015 by virtue of the company's filing of a prospectus supplement to its universal shelf registration statement on Form S-3 filed on February 6, 2015.

On March 9, 2015, the company entered into a common stock purchase agreement with Explorer Insurance Company, a California corporation, or EIC, an entity owned and controlled by Ernest Rady. The purchase agreement provided for the sale by the company 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 the company of approximately $8.1 million. The price per share paid by EIC was equal to the closing price of a share of the company's 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 the company's filing of a prospectus supplement to its universal shelf registration statement on Form S-3 filed on February 6, 2015. As of June 30, 2015, Mr. Rady and his affiliates owned an approximately 33.7% beneficial interest of the Company on a fully diluted basis (includes common units of our operating partnership), which is an approximately 2.1% decrease from January 19, 2011, the closing date of the Company's initial public offering.

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

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

Due to the nature of our business, we typically generate significant amounts of cash from operations. The cash generated from operations is used for the payment of operating expenses, capital expenditures, debt service and dividends to American Assets Trust, Inc.'s stockholders and our unitholders. As a REIT, American Assets Trust, Inc. must generally make annual distributions to its stockholders of at least 90% of our net taxable income. As of June 30, 2015, we held $34.9 million in cash and cash equivalents.

Our short-term liquidity requirements consist primarily of operating expenses and other expenditures associated with our properties, regular debt service requirements, dividend payments to American Assets Trust, Inc.'s stockholders required to maintain its REIT status, distributions to our unitholders, capital expenditures and, potentially, acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations, reserves established from existing cash and, if necessary, borrowings available under our credit facility.

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

Our overall capital requirements for the remainder of 2015 will depend upon acquisition opportunities, the level of improvements and redevelopments on existing properties and the timing and cost of development of the Lloyd District Portfolio and Torrey Point. While the amount of future expenditures will depend on numerous factors, we expect to continue to see higher levels of capital investments in our properties under development and redevelopment in 2015, partly as a result of an additional 47,000 additional square feet of retail space and 657 multi-family units under development at Lloyd District Portfolio, which we expect to complete during 2015. We expect to invest approximately $192 million related to the Lloyd District Portfolio, of which $184 million has been incurred as of June 30, 2015. Additionally, construction at Torrey Point is in process and is expected to be complete in 2016, which will result in approximately 88,000 additional square feet of office space. We expect to invest approximately $50 million related to Torrey Point, of which $8 million has been incurred as of June 30, 2015. Our capital investments will be funded on a short-term basis with cash on hand, cash flow from operations and/or our revolving line of credit. On a long-term basis, our capital investments may be funded with additional long-term debt. Our ability to incur additional debt will be dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our capital investments may also be funded by additional equity including shares issued by American Assets Trust, Inc. under its ATM equity program. Although there is no intent at this time, if market conditions deteriorate, we may also delay the timing of future development and redevelopment projects as well as limit future acquisitions, reduce our operating expenditures, or re-evaluate our dividend policy.

On February 27, 2015, the Operating Partnership filed a universal shelf registration on Form S-3 with the SEC which provided for the registration of an unspecified amount of debt securities by the Operating Partnership. However, there can be no assurance that the Operating Partnership will be able to complete any such offerings of debt securities. Factors influencing the availability of additional financing include investor perception of our prospects and the general condition of the financial markets, among others.

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Indebtedness Outstanding

The following table sets forth information as of June 30, 2015 with respect to our secured notes payable (dollars in thousands):

Debt	Principal Balance at June 30, 2015	Interest Rate		Annual Debt Service	Maturity Date	Balance at Maturity
First & Main [1]	84,500	3.97	%	87,618	July 1, 2016	84,500
Imperial Beach Gardens [1]	20,000	6.16	%	1,253	September 1, 2016	20,000
Mariner's Point [1]	7,700	6.09	%	477	September 1, 2016	7,700
South Bay Marketplace [1]	23,000	5.48	%	1,281	February 10, 2017	23,000
Waikiki Beach Walk—Retail [1]	130,310	5.39	%	7,137	July 1, 2017	130,310
Solana Beach Corporate Centre III-IV [2]	36,149	6.39	%	2,798	August 1, 2017	35,136
Loma Palisades [1]	73,744	6.09	%	4,566	July 1, 2018	73,744
One Beach Street [1]	21,900	3.94	%	877	April 1, 2019	21,900
Torrey Reserve—North Court [2]	20,915	7.22	%	1,836	June 1, 2019	19,443
Torrey Reserve—VCI, VCII, VCIII [2]	7,049	6.36	%	560	June 1, 2020	6,439
Solana Beach Corporate Centre I-II [2]	11,211	5.91	%	855	June 1, 2020	10,169
Solana Beach Towne Centre [2]	37,371	5.91	%	2,849	June 1, 2020	33,898
City Center Bellevue [1]	111,000	3.98	%	4,491	November 1, 2022	111,000
Total	584,849			$116,598		$577,239
Unamortized fair value adjustment	(5,716	)				
Total Secured Notes Payable Balance	$579,133					

(1) Interest only.
(2) Principal payments based on a 30-year amortization schedule.

Certain loans require us to comply with various financial covenants. As of June 30, 2015, we were in compliance with these financial covenants.

On October 31, 2014, we 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 will pay interest quarterly on the last day of January, April, July and October until their respective maturities.

We 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.

Our obligations under the Notes are jointly and severally, and fully and unconditionally guaranteed by American Assets Trust, Inc. and certain of our subsidiaries.

The proceeds from the issuance of the Notes will be used by us to refinance existing secured indebtedness and for general corporate purposes. The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States absent registration or an applicable exemption from the

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registration requirements. Our Operating Partnership offered and sold the Notes in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act.

Credit Facility

On January 9, 2014, we entered into an amended and restated credit agreement, or 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 borrowings of $350 million, consisting of a revolving line of credit of $250 million, or the revolver loan, and a term loan of $100 million, or the term loan. The amended and restated credit facility has an accordion feature that may allow us to increase the availability thereunder up to an additional $250 million, subject to meeting specified requirements and obtaining additional commitments from lenders. At June 30, 2015, $30 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. The foregoing rates are more favorable than previously contained in the credit agreement. 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 our 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 our 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.

Concurrent with the closing of the amended and restated credit facility, we 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 its 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.

We expect to use our Amended and Restated Credit Facility in the future for general corporate purposes, including working capital, the payment of capital expenses, acquisitions and development and redevelopment of properties in our portfolio.

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American Assets Trust, Inc. and certain of its subsidiaries guarantee the obligations under the Amended and Restated Credit Facility, and certain of its subsidiaries pledged specified equity interests in our subsidiaries as collateral for our obligations under the amended and restated credit facility.
As of June 30, 2015, we were in compliance with the financial covenants contained in the Amended and Restated Credit Facility.

Off-Balance Sheet Arrangements
We currently do not have any off-balance sheet arrangements.
Cash Flows
Comparison of the six months ended June 30, 2015 to the six months ended June 30, 2014
Cash and cash equivalents were $34.9 million and $78.9 million at June 30, 2015 and 2014, respectively.
Net cash provided by operating activities increased $7.4 million to $57.7 million for the six months ended June 30, 2015 compared to $50.3 million for the six months ended June 30, 2014. The increase in cash from operations was primarily due to higher net income before certain non-cash items.
Net cash used in investing activities increased $30.0 million to $93.9 million for the six months ended June 30, 2015 compared to $63.9 million for the six months ended June 30, 2014. The increase was primarily due to redevelopment construction activity at Torrey Reserve Campus, Lloyd District Portfolio and Torrey Point.
Net cash provided by financing activities decreased $31.6 million to $11.8 million for the six months ended June 30, 2015 compared to $43.4 million for the six months ended June 30, 2014. The decrease of cash provided by financing activities was primarily due to less proceeds received from the sale of shares of our common stock under our ATM program during the six months ended June 30, 2015. The decrease was also attributed to the repayment of our secured notes payable at The Shops at Kalakaua, The Landmark at One Market and Del Monte Center offset by proceeds from Senior Guaranteed Notes, Series B and Series C.
Net Operating Income
Net Operating Income, or NOI, is a non-GAAP financial measure of performance. We define NOI as operating revenues (rental income, tenant reimbursements, lease termination fees, ground lease rental income and other property income) less property and related expenses (property expenses, ground lease expense, property marketing costs, real estate taxes and insurance). NOI excludes general and administrative expenses, interest expense, depreciation and amortization, acquisition-related expense, other nonproperty income and losses, gains and losses from property dispositions, extraordinary items, tenant improvements, and leasing commissions. Other REITs may use different methodologies for calculating NOI, and accordingly, our NOI may not be comparable to the NOIs of other REITs.
NOI is used by investors and our management to evaluate and compare the performance of our properties and to determine trends in earnings and to compute the fair value of our properties as it is not affected by (1) the cost of funds of the property owner, (2) the impact of depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets that are included in net income computed in accordance with GAAP or (3) general and administrative expenses and other gains and losses that are specific to the property owner. The cost of funds is eliminated from net income because it is specific to the particular financing capabilities and constraints of the owner. The cost of funds is also eliminated because it is dependent on historical interest rates and other costs of capital as well as past decisions made by us regarding the appropriate mix of capital, which may have changed or may change in the future. Depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets are eliminated because they may not accurately represent the actual change in value in our retail, office, multifamily or mixed-use properties that result from use of the properties or changes in market conditions. While certain aspects of real property do decline in value over time in a manner that is intended to be captured by depreciation and amortization, the value of the properties as a whole have historically increased or decreased as a result of changes in overall economic conditions instead of from actual use of the property or the passage of time. Gains and losses from the sale of real property vary from property to property and are affected by market conditions at the time of sale which will usually change from period to period. These gains and losses can create distortions when comparing one period to another or when comparing our operating results to the operating results of other real estate companies that have not made similarly timed purchases or sales. We believe that eliminating these costs from net

income is useful because the resulting

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measure captures the actual revenue generated and actual expenses incurred in operating our properties as well as trends in occupancy rates, rental rates and operating costs.

However, the usefulness of NOI is limited because it excludes general and administrative costs, interest expense, interest income and other expense, depreciation and amortization expense and gains or losses from the sale of properties, and other gains and losses as stipulated by GAAP, the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, all of which are significant economic costs. NOI may fail to capture significant trends in these components of net income which further limits its usefulness.

NOI is a measure of the operating performance of our properties but does not measure our performance as a whole. NOI is therefore not a substitute for net income as computed in accordance with GAAP. This measure should be analyzed in conjunction with net income computed in accordance with GAAP and discussions elsewhere in “Management's Discussion and Analysis of Financial Condition and Results of Operations” regarding the components of net income that are eliminated in the calculation of NOI. Other companies may use different methods for calculating NOI or similarly entitled measures and, accordingly, our NOI may not be comparable to similarly entitled measures reported by other companies that do not define the measure exactly as we do.

The following is a reconciliation of our NOI to net income for the three and six months ended June 30, 2015 and 2014 computed in accordance with GAAP (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net operating income	$43,578	$40,570	$86,945	$81,904
General and administrative	(4,788)	(4,635)	(9,804)	(9,247)
Depreciation and amortization	(15,286)	(18,209)	(30,393)	(34,550)
Interest expense	(11,197)	(13,439)	(22,992)	(27,071)
Other income (expense), net	(23)	1,064	(93)	973
Net income	$12,284	$5,351	$23,663	$12,009

Funds from Operations

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

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

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The following table sets forth a reconciliation of our FFO for the three and six months ended June 30, 2015 to net income, the nearest GAAP equivalent (in thousands, except per share and share data):

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Funds from Operations (FFO)		
Net income	$12,284	$23,663
Plus: Real estate depreciation and amortization	15,286	30,393
Funds from operations	27,570	54,056
Less: Nonforfeitable dividends on incentive restricted stock awards	(38)	(78)
FFO attributable to common stock and units	$27,532	$53,978
FFO per diluted share/unit	$0.44	$0.88
Weighted average number of common shares and units, diluted (1)	61,995,268	61,661,946

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We manage our market risk by attempting to match anticipated inflow of cash from our operating, investing and financing activities with anticipated outflow of cash to fund debt payments, dividends to our stockholders and Operating Partnership unitholders, investments, capital expenditures and other cash requirements.
Interest Rate Risk
Outstanding Debt
The following discusses the effect of hypothetical changes in market rates of interest on the fair value of our total outstanding debt. Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on our debt. Discounted cash flow analysis is generally used to estimate the fair value of our mortgages payable. Considerable judgment is necessary to estimate the fair value of financial instruments. This analysis does not purport to take into account all of the factors that may affect our debt, such as the effect that a changing interest rate environment could have on the overall level of economic activity or the action that our management might take to reduce our exposure to the change. This analysis assumes no change in our financial structure.
Fixed Interest Rate Debt
Our outstanding notes payable obligations (maturing at various times through April 2025) have fixed interest rates which limit the risk of fluctuating interest rates. However, interest rate fluctuations may affect the fair value of our fixed rate debt instruments. At June 30, 2015, we had $934.8 million of fixed rate debt outstanding with an estimated fair value of $961.8 million. The carrying values of our revolving line of credit and term loan are deemed to be at fair value since the outstanding debt is directly tied to monthly LIBOR contracts. Additionally, we consider our $100.0 million term loan outstanding as of June 30, 2015 to be fixed rate debt as the rate is effectively fixed by an interest rate swap agreement. If interest rates at June 30, 2015 had been 1.0% higher, the fair value of those debt instruments on that date would have decreased by approximately $39.2 million. If interest rates at June 30, 2015 had been 1.0% lower, the fair value of those debt instruments on that date would have increased by approximately $42.1 million.
Variable Interest Rate Debt
At June 30, 2015, our only variable interest rate debt is the revolver loan under our amended and restated credit facility, of which $30.0 million was outstanding at June 30, 2015.
We may enter into certain types of derivative financial instruments to reduce interest rate risk. We use interest rate swap agreements, for example, to convert some of our variable rate debt to a fixed-rate basis. We use derivatives for hedging purposes rather than speculation and do not enter into financial instruments for trading purposes. As of June 30, 2015, we were party to an interest rate swap agreement that effectively fixed the rate on the $100.0 million term loan at 3.08%.

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ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures (American Assets Trust, Inc.)

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

American Assets Trust, Inc. has carried out an evaluation, under the supervision and with the participation of management, including American Assets Trust, Inc.'s Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of its disclosure controls and procedures as of June 30, 2015, the end of the period covered by this report. Based on the foregoing, its Chief Executive Officer and Chief Financial Officer have concluded, as of June 30, 2015, that American Assets Trust, Inc.'s disclosure controls and procedures were effective in ensuring that information required to be disclosed by it in reports filed or submitted under the Exchange Act (1) is processed, recorded, summarized and reported within the time periods specified in the SEC’s rules and forms and (2) is accumulated and communicated to its management, including American Assets Trust, Inc.'s Chief Executive Officer and its Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

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

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

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

The Operating Partnership has carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of its disclosure controls and procedures as of June 30, 2015, the end of the period covered by this report. Based on the foregoing, its Chief Executive Officer and Chief Financial Officer have concluded, as of June 30, 2015, that the Operating Partnership's disclosure controls and procedures were effective in ensuring that information required to be disclosed by it in reports filed or submitted under the Exchange Act (1) is processed, recorded, summarized and reported within the time periods specified in the SEC’s rules and forms and (2) is accumulated and communicated to its management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

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

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PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in Item 1A. “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2014.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit No.	Description
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of American Assets Trust, Inc.
31.2*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of American Assets Trust, L.P.
31.3*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of American Assets Trust, Inc.
31.4*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of American Assets L.P.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer of American Assets Trust, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Executive Officer and Chief Financial Officer of American Assets Trust, L.P. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statement of Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements that have been detail tagged.

* Filed herewith.

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SIGNATURES

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

American Assets Trust, Inc.	American Assets Trust, L.P. By: American Assets Trust, Inc. Its: General Partner
/s/ JOHN W. CHAMBERLAIN John W. Chamberlain President and Chief Executive Officer (Principal Executive Officer)	/s/ JOHN W. CHAMBERLAIN John W. Chamberlain President and Chief Executive Officer (Principal Executive Officer)
/s/ ROBERT F. BARTON Robert F. Barton Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	/s/ ROBERT F. BARTON Robert F. Barton Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)
Date: July 31, 2015	Date: July 31, 2015