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Paramount Group, Inc.  
Form 10-Q  
August 04, 2016  
fma

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended: June 30, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-36746

PARAMOUNT GROUP, INC.

(Exact name of registrant as specified in its charter)

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Maryland 32-0439307  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

1633 Broadway, Suite 1801, New York, NY 10019  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (212) 237-3100

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. YES  NO

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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  (Do not check if smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of July 31, 2016, there were 219,490,007 shares of the registrant's common stock outstanding.



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## PART I – FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

## PARAMOUNT GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(Amounts in thousands, except share and per share amounts)

ASSETS	June 30, 2016	December 31, 2015
Rental property, at cost		
Land	\$2,042,071	\$2,042,071
Buildings and improvements	5,668,268	5,610,046
	7,710,339	7,652,117
Accumulated depreciation and amortization	(323,224 )	(243,089 )
Rental property, net	7,387,115	7,409,028
Cash and cash equivalents	224,489	143,884
Restricted cash	29,043	41,823
Real estate fund investments	-	416,438
Investments in unconsolidated real estate funds	25,798	-
Investments in unconsolidated joint ventures	5,800	7,102
Preferred equity investments	54,595	53,941
Marketable securities	21,477	21,521
Deferred rent receivable	122,334	77,792
Accounts and other receivables, net of allowance of \$366 and \$365	10,895	10,844
Deferred charges, net of accumulated amortization of \$17,462 and \$14,204	79,617	74,991
Intangible assets, net of accumulated amortization of \$156,683 and \$143,987	435,450	511,207
Other assets	11,596	6,658
Total assets <sup>(1)</sup>	\$8,408,209	\$8,775,229
<b>LIABILITIES AND EQUITY</b>		
Notes and mortgages payable, net of deferred financing costs of \$23,382 and \$18,914	\$3,012,290	\$2,922,610
Revolving credit facility	20,000	20,000
Due to affiliates	27,299	27,299
Loans payable to noncontrolling interests	-	45,662
Accounts payable and accrued expenses	147,048	102,730
Dividends and distributions payable	25,151	25,067
Deferred income taxes	246	2,533
Interest rate swap liabilities	102,577	93,936
Intangible liabilities, net of accumulated amortization of \$62,363 and \$41,931	154,658	179,741

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Other liabilities	45,997	45,101
<b>Total liabilities <sup>(1)</sup></b>	<b>3,535,266</b>	<b>3,464,679</b>
Commitments and contingencies		
Paramount Group, Inc. equity:		
Common stock \$0.01 par value per share; authorized 900,000,000 shares; issued		
and outstanding 219,490,007 and 212,112,137 shares in 2016 and 2015, respectively	2,195	2,122
Additional paid-in-capital	3,927,872	3,802,858
Earnings less than distributions	(80,496 )	(36,120 )
Accumulated other comprehensive loss	(41,498 )	(7,843 )
<b>Paramount Group, Inc. equity</b>	<b>3,808,073</b>	<b>3,761,017</b>
Noncontrolling interests in:		
Consolidated real estate funds	62,857	414,637
Consolidated joint ventures	240,483	236,849
Operating Partnership (45,035,400 and 51,660,088 units outstanding)	761,530	898,047
<b>Total equity</b>	<b>4,872,943</b>	<b>5,310,550</b>
<b>Total liabilities and equity</b>	<b>\$8,408,209</b>	<b>\$8,775,229</b>

- (1) Represents the consolidated assets and liabilities of Paramount Group Operating Partnership LP, a Delaware limited partnership (the “Operating Partnership”). The Operating Partnership is a consolidated variable interest entity (“VIE”), of which we are the sole general partner and own approximately 83.0%. As of June 30, 2016, the assets and liabilities of the Operating Partnership include \$1,503,938 and \$987,546 of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. See Note 11, Variable Interest Entities.

See notes to consolidated financial statements (unaudited).

## PARAMOUNT GROUP, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Amounts in thousands, except share and per share amounts)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
<b>REVENUES:</b>				
Rental income	\$155,181	\$145,917	\$296,433	\$289,160
Tenant reimbursement income	10,334	12,063	21,123	25,551
Fee and other income	6,788	4,948	27,665	9,443
Total revenues	172,303	162,928	345,221	324,154
<b>EXPENSES:</b>				
Operating	59,994	57,781	122,939	119,665
Depreciation and amortization	67,287	79,421	142,099	153,004
General and administrative	12,139	9,133	26,100	21,746
Acquisition and transaction related costs	508	8,208	1,443	9,347
Total expenses	139,928	154,543	292,581	303,762
Operating income	32,375	8,385	52,640	20,392
Income from real estate fund investments	-	14,072	-	19,293
Loss from unconsolidated real estate funds	(960 )	-	(1,286 )	-
Income from unconsolidated joint ventures	2,003	2,011	3,499	2,986
Interest and other income, net	1,030	512	2,730	1,366
Interest and debt expense	(38,009 )	(42,236 )	(75,128 )	(84,124 )
Unrealized gain on interest rate swaps	10,073	21,747	16,933	33,725
Net income (loss) before income taxes	6,512	4,491	(612 )	(6,362 )
Income tax benefit (expense)	1,398	(1,343 )	1,035	(1,917 )
Net income (loss)	7,910	3,148	423	(8,279 )
Less net (income) loss attributable to noncontrolling interests in:				
Consolidated real estate funds	78	(6,532 )	752	(8,741 )
Consolidated joint ventures	(4,107 )	(2,472 )	(5,359 )	(931 )
Operating Partnership	(693 )	1,147	878	3,511
Net income (loss) attributable to common stockholders	\$3,188	\$(4,709 )	\$(3,306 )	\$(14,440 )
<b>INCOME (LOSS) PER COMMON SHARE - BASIC:</b>				
Income (loss) per common share	\$0.01	\$(0.02 )	\$(0.02 )	\$(0.07 )
Weighted average shares outstanding	217,121,592	212,106,718	214,762,593	212,106,718

INCOME (LOSS) PER COMMON SHARE -

DILUTED:

Income (loss) per common share	\$0.01	\$(0.02	) \$(0.02	) \$(0.07	)
Weighted average shares outstanding	217,137,557	212,106,718	214,762,593	212,106,718	
<b>DIVIDENDS PER COMMON SHARE</b>	<b>\$0.095</b>	<b>\$0.095</b>	<b>\$0.190</b>	<b>\$0.229</b>	<b>(1)</b>

<sup>(1)</sup>Includes the \$0.039 cash dividend for the 38 day period following the completion of our initial public offering and related formation transactions and ending on December 31, 2014.

See notes to consolidated financial statements (unaudited).



## PARAMOUNT GROUP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(Amounts in thousands, except per share amounts)	Common Shares			Earnings (Less than) In Excess of Distributions	Accumulated Other Comprehensive Loss	Noncontrolling Interests in			Total Equity
	Shares	Amount	Additional Paid in Capital			Consolidated Real Estate Funds	Consolidated Joint Ventures	Consolidated Operating Partnership	
Balance as of December 31, 2014	212,107	\$2,122	\$3,851,432	\$57,308	\$-	\$338,070	\$347,818	\$958,203	\$5,554,953
Net (loss) income	-	-	-	(14,440)	-	8,741	931	(3,511)	(8,279)
Common shares and units issued under									
Omnibus share plan	5	-	(2,131)	-	-	-	-	2,131	-
Dividends and distributions (\$0.229 per share and unit)	-	-	-	(48,573)	-	-	-	(11,819)	(60,392)
Contributions from noncontrolling interests	-	-	-	-	-	11,501	2,530	-	14,031
Distributions to noncontrolling interests	-	-	-	-	-	(4,957)	(716)	-	(5,673)
Pro rata share of other comprehensive loss of unconsolidated joint ventures	-	-	-	-	(493)	-	-	(120)	(613)

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Adjustments to noncontrolling interests	-	-	43,981	-	-	-	-	(43,981 )	-
Amortization of equity awards	-	-	885	-	-	-	-	3,780	4,665
Other	-	-	(411 )	(138 )	-	(322 )	-	-	(871 )
Balance as of June 30, 2015	212,112	\$2,122	\$3,893,756	\$(5,843 )	\$(493 )	\$353,033	\$350,563	\$904,683	\$5,497,821
Balance as of December 31, 2015	212,112	\$2,122	\$3,802,858	\$(36,120)	\$(7,843 )	\$414,637	\$236,849	\$898,047	\$5,310,550
Deconsolidation of real estate fund									
investments	-	-	-	-	-	(351,035)	-	-	(351,035 )
Balance as of January 1, 2016	212,112	\$2,122	\$3,802,858	\$(36,120)	\$(7,843 )	\$63,602	\$236,849	\$898,047	\$4,959,515
Net (loss) income	-	-	-	(3,306 )	-	(752 )	5,359	(878 )	423
Common shares issued upon redemption of									
common units	7,277	73	124,006	-	-	-	-	(124,079)	-
Common shares and units issued under									
Omnibus share plan	101	-	-	-	-	-	-	-	-
Dividends and distributions (\$0.190 per share and unit)	-	-	-	(41,090)	-	-	-	(9,208 )	(50,298 )
Distributions to noncontrolling interests	-	-	-	-	-	-	(1,740 )	-	(1,740 )
Change in value of interest rate swaps	-	-	-	-	(33,705)	-	-	(7,909 )	(41,614 )
Pro rata share of other comprehensive	-	-	-	-	50	-	-	13	63

income of  
unconsolidated  
joint ventures

Amortization of equity awards	-	-	1,175	-	-	-	-	5,544	6,719
Other	-	-	(167 )	20	-	7	15	-	(125 )
Balance as of June 30, 2016	219,490	\$2,195	\$3,927,872	\$(80,496)	\$(41,498)	\$62,857	\$240,483	\$761,530	\$4,872,943

See notes to consolidated financial statements (unaudited).

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## PARAMOUNT GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)	For the Six Months Ended June 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$423	\$(8,279 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	142,099	153,004
Amortization of deferred financing costs	2,663	1,170
Straight-lining of rental income	(44,542 )	(32,042 )
Amortization of above and below-market leases, net	(3,481 )	(1,762 )
Unrealized gain on interest rate swaps	(16,933 )	(33,725 )
Transfer taxes due in connection with the sale of shares by a former joint venture partner	-	5,872
Realized and unrealized losses (gains) on marketable securities	312	(924 )
Realized and unrealized gains, net, on real estate fund investments	-	(12,136 )
Income from unconsolidated joint ventures	(3,499 )	(2,986 )
Loss from unconsolidated real estate funds	1,286	-
Distributions of income from unconsolidated real estate funds	84	-
Distributions of income from unconsolidated joint ventures	4,838	1,993
Amortization of stock-based compensation expense	6,183	4,405
Other non-cash adjustments	957	3,686
Changes in operating assets and liabilities:		
Real estate fund investments		